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## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface (V. Voronov)</td>
<td>4</td>
</tr>
<tr>
<td><strong>ANALYSIS AND ASSESSMENT OF INEQUALITIES IN REGIONAL DEVELOPMENT</strong></td>
<td></td>
</tr>
<tr>
<td>M. El-Hodiri, T. Kudasheva, S. Kunitsa</td>
<td>7</td>
</tr>
<tr>
<td>Methods of Measurement of Socio-Geographical Inequality in Kazakhstan, a Consequence to the Distribution of Oil Development?</td>
<td></td>
</tr>
<tr>
<td><strong>THE EMPLOYMENT ISSUES IN THE NORTH-EASTERN CITIES IN POLAND</strong></td>
<td></td>
</tr>
<tr>
<td>W. Matwiejczuk, P. Wiśniewska</td>
<td>24</td>
</tr>
<tr>
<td>Problems of Unemployment in Polish Medium-Sized Towns – Diagnosis and Proposed Solutions Using Elk as a Case Study</td>
<td></td>
</tr>
<tr>
<td><strong>VALUES AND STANDARDS OF BEHAVIOUR UNDER THE RUSSIAN CONDITIONS</strong></td>
<td></td>
</tr>
<tr>
<td>S. Mareeva</td>
<td>39</td>
</tr>
<tr>
<td>Middle Class: System of Values and Perceptions on Country’s Development Vector</td>
<td></td>
</tr>
<tr>
<td><strong>PECULIARITIES OF TRANSFORMATION OF RUSSIA’S STATE POLICY IN THE SPHERE OF SOCIAL AND PHYSICAL HEALTH OF THE POPULATION</strong></td>
<td></td>
</tr>
<tr>
<td>Y. Dashina, V. Davydenko</td>
<td>55</td>
</tr>
<tr>
<td>Youth Narcotism in Russia: Renewed Approaches to the Empirical Research</td>
<td></td>
</tr>
<tr>
<td>I. Arbitailo, V. Davydenko</td>
<td>70</td>
</tr>
<tr>
<td>The Situation on the Market of Medical Services in Russia</td>
<td></td>
</tr>
<tr>
<td><strong>KNOWLEDGE MANAGEMENT AS A FACTOR OF BUSINESS COMPETITIVENESS</strong></td>
<td></td>
</tr>
<tr>
<td>V. Voronov, O. Lavrinenko</td>
<td>83</td>
</tr>
<tr>
<td>The Role of Knowledge Management in the Growth of Competitiveness of Business in the Region of Latvia</td>
<td></td>
</tr>
<tr>
<td><strong>Authors</strong></td>
<td>95</td>
</tr>
</tbody>
</table>
We are presenting a new issue of the journal which is devoted to several important and urgent aspects of economic sociology. Economic sociology includes the study of society (sociology), the study of its industrial world (economics), and the study of material and symbolic events which are preserved in society’s memory (history). It is like the “gadfly” of Athens – the Ancient Greek philosopher Socrates – tries to disturb people’s mind and conscience. The strive for fair transformation of society’s structure is usually typical for a young and inquisitive mind. Therefore, the present issue presents the articles by young qualified researchers (mainly written in cooperation with their eminent colleagues) from different countries and regions on various aspects of economic-social behaviour of some social groups with an attempt for elaborating proposals for fairer organization of the institutions of modern society under analysis.

The section “Analysis and Assessment of Inequalities in Regional Development” examines reasons and consequences of unbalanced development of spatial economy in the regions, using the Republic of Kazakhstan as a case study, and its influence on the inequality of household income depending on industrial specialization of the state’s regions.

M. El-Hodiri, T. Kudasheva, S. Kunitsa in their article justify and propose a new tool for measurement and assessment of regional differences in the standard of living (income) – the indicator for socio-economic development of the regions and the state in general. According to the authors, by means of such tool, it is possible to adequately assess the efficiency of regional socio-economic policy of the state and propose well-founded measures for decreasing inequality in the regional development.

The possibilities for decreasing the high level of unemployment by the suggested system of means aimed at balancing the supply and demand on the labour market in a specific region of the country are observed in the section “The Employment Issues in the North-Eastern Cities in Poland”.

W. Matwiejczuk and P. Wiśniewska in their article prove the organizational and managerial, legal, economic-financial, marketing and other means for encouragement and growth of the output efficiency for all development resources
on this territory: labour, investment, material, managerial with the aim of creation of new competitive work places.

Peculiarities of formation and development of Russia’s middle class as a significant social group under the modern market conditions are studied in the section “Values and Standards of Behaviour under the Russian Conditions”.

A comprehensive analysis of Russia’s middle class is presented in the article by S. Mareeva: its share within the structure of population, values, standards, a vector of development and other peculiarities. The author draws a conclusion that the middle class supports the idea of Russia’s independent way in accordance with its socio-cultural codes (orientation to social justice and equality in relations between people, a special role of the state in resource and territory consolidation, etc.).

In the section “Peculiarities of Transformation of Russia’s State Policy in the Sphere of Social and Physical Health of the Population” there are two articles which review theoretical and applied approaches towards physical and social health of various groups of population as an urgent market and state discourse.

Y. Dashina and V. Davydenko in their article substantiate a new approach to the research into youth narcotism in Russia. According to the authors, the experience of developed states demonstrates that the effective state antidrug policy can be neither repressive nor liberal, but it can only be complex and differentially preventive. The important condition for implementation of such policy is an urgent transition to a restrictive model of social control over drugs in Russia which the authors demonstrate analysing the youth narcotism in the economically significant region of the state.

I. Arbitailo and V. Davydenko in their article analyse the current situation on the market of medical services in Russia. The authors note that there is an active transformation of the healthcare system by means of the exchange of the old approach to social justice to the new approach of economic efficiency (paid medical services) in Russia. Such a transformation leads to the breach of equal availability of qualitative medical service for the citizens. According to the data obtained by the sociological research into the situation in the system of healthcare in one of the developed region in Russia, the authors draw a conclusion that 80% of the region population are not satisfied with medical service and they propose various socio-economic and institutional measures to improve the situation.

The last section of the issue is “Knowledge Management as a Factor of Business Competitiveness” where the theoretical and applied assessment of
the processes of knowledge management and the degree of their influence on competitiveness of small and medium-sized enterprises taking into account sociocultural peculiarities of business environment in Latvia – the eastern country of the European Union is presented.

V. Voronov and O. Lavrinenko in their article written on the basis of the outcomes of the applied research into the competitiveness of small and medium-sized enterprises in one of Latvia’s regions draw a conclusion that the processes of creation of new knowledge by personnel as well as the processes of personnel’s awareness of the enterprise’s strategic development have the most significant influence on all indicators of competitiveness at the analysed enterprises.
ANALYSIS AND ASSESSMENT OF INEQUALITIES IN REGIONAL DEVELOPMENT

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Methods of Measurement of Socio-Geographical Inequality in Kazakhstan, a Consequence to the Distribution of Oil Development?

Abstract
Kazakhstan has pronounced variations in regional development and in the standard of living of the population. But standard measures of inequality do not reflect the strong regional differences nor do they expose the spatial inequality in Kazakhstan. In this paper, we illustrate this inadequacy and call for a new measure to be developed in order to capture inequality in vast countries where the component regions are themselves, vast. Statistically, the situation is analogous to “sampling from different universes” and pretend that we are and, hence, have a basis for drawing inference. We apply, still defective, measure to the Kazakh data and argue that this gives a more correct assessment of inequality than what is provided in official data. We call for the development of a better mouse trap. In addition to posing an open question, the paper provides a lot of statistical information not available elsewhere. It further provides exposition of the, much neglected, Eurasian authored economics literature.

Key words: Statistical methodology of measuring socio-economic inequality, spatial inequality, intra-country regional differences, Eurasian Economics literature.
Introduction

This paper is concerned with the way governments in the NIS measure and report regional disparities in the quality of living. It is not a paper connected to comparative economic systems nor do the authors pretend to be experts in post-Soviet economics. All we are doing is making a comment, based on direct observation (field work performed by us as participant-observers) and calling for improvement in statistical methodology.

The Eurasian literature on economics in general and on transition economics has been largely ignored by adherents to the American School of economics.1 The reader will not encounter any his/her-master’s-voice economic theorization nor will the reader find us volunteering advice regarding how the physical world should be so that it would fit the received wisdom! All we do is describe the methods used in measurement and suggest possible reforms in these methods and call for the development of new measuring method base on the experience that can only be gained from field work as opposed to reprocessed information. Our observations are relevant to countries with vast territories such as Kazakhstan which is the focus of our studies. Kazakhstan history of development, since it voluntarily joined the Russian empire and the nonstandard political geography warrant our attention to facts on the ground rather than on elegant pseudo-scientific pretences.

We further note that the style of the writing is rather alive and conversational as opposed to sterile and non-communicative. We aim to present a problem and advocate a solution rather than act as faculty members at departmental meetings.

While we do not judge the pronounced disparity in wealth and income in all of the NIS, we are satisfied with reporting their existence. NIS, with very few exceptions, have experienced a sharp increase of economic and social inequality. In the early 1990s, after the attempted capitalist restoration (often referred to by ardent triumphalists as the collapse of the Soviet Union), the inequality rate in Russia, Kazakhstan and other countries experienced sharp arousal (Zubarevich 2010). This fact may explain the sustained interest in orthodox academic circles in the study of economic and social inequality in Post-Soviet counties. Apart from economic inequality per say, usually measured in GRP per capita, one has to note the inequality of socio-economic nature manifested in the differences among the regions in income the composition of income (as an array NOT as a scalar). Kazakhstan and Russia both stand out as being blessed with palpable economic (GRP) inequality and socio-economic inequality.

1 See note iv below. Most guilty among those are the unemployed “Kremlinologists” who dream of past wealth and glory gone never to come back.
Over the past decade, Kazakhstan has had rapid economic growth. According to the World Bank (WB, 2013), GDP per capita at PPP in US dollars grew 8.1 fold since 2001 until 2012), however it is mainly due to the extractive industries, namely gas, metals, and oil in particular. In the meantime, there developed extremely high disparity among the regions in the trajectory of economic development. A major cause of the growing socio-economic inequality may be attributed to the fact that oil and gas appear to be leading the sectors of the economy in economic growth. If we note that the oil-producing regions have the highest poverty rate and highest income gap ratio then we can see the degree to which aggregate single number measures paper over the factual disparities. Looking at what could have occurred over the last decade elsewhere in Kazakhstan, if there has been a gradual reduction of inequality among the regions, the picture would have been much different. Instead, according to the official statistics, the Gini index declined from 0.366 in 2001 to 0.284 in 2012 (ASRK, n. d.).

Clearly, it can be seen that there are pronounced differences in development among the regions of Kazakhstan. For instance, Mangystau (Маньгысту) region, with the highest GRP per capita of $42,025 in 2012, had the lowest Gini coefficient of 0.174 and the poverty rate of 3.3%. We could see, thus, these commonly applied methods of economic measurement fully reveal the regional issues within the country.

With the issue of inequality commanding more of the public attention, a new honest and transparent measurement methodology is needed,\(^2\) at least as a way to inform the development of effective social programs and government policies.

The Gini Index or R/P 10, while measuring inequality, show only the disparity between the poorest and the richest. This paper offers an alternative approach that takes into account second step distribution of income among individuals the presence of the regional inequality. The Coefficient of Regional Inequality described in this paper allows us to capture the regional effect of wealth distribution and income disparities in due to the differences in the costs of living.\(^3\) We start this paper with a brief review of literature followed by a description of geographic inequalities in Kazakhstan. We then present statistical analysis of the regional differences. Finally, we present our conclusions and recommendations for improving the methods of measurement and analysis.

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\(^2\) Even if it sacrifices frigid economic theoretic orthodoxy sensibilities at the altar of clarity and being true to the phenomena analyzed.

\(^3\) Some may not like this mingling of first blush intraregional with feedback interregional measure. We rejoice in their discomfort and persist in exposing facts on the ground.
Literature Review

As mentioned in the introduction, we do not pay attention to much of the verbiage of the heavily politicized American School of Economics. Instead we review serious writers who made forthright attempts to reform the dysfunctional mays in which the present phenomena were observed, measured and analyzed regardless of the objections of paymasters on the left, centre and on the right.

In the past few decades, socio-economic inequality has been a subject of vigorous debate in the research community. The relationship between income distribution and economic growth was analyzed by (Galor & Zeira 1993; Bertola 2007; Alesina & Rodrik 1994; Persson & Tabellini 1994; Aghion, Caroli, & Garcia-Penalosa 1999; Deininger & Squire 1996; Li & Zou 1998; Caroli, & Garcia-Penalosa 1999) who argued that the countries they studied exhibit a negative correlation between income inequality and economic growth. Deininger and Squire (1998), Li and Zou (1998), (Forbes, 2000), on the other hand, stated that income inequality might provide a stimulus for economies to growth, especially in richer countries.

At the onset of economic integration of the EU markets, the issue of inequality became of interest to academics as it became necessary for policy makers to take into account the fact that the level of income inequality varied considerably across countries that joined the EU (Petrakos 2008). Indeed, though economic integration provides more opportunities for economic development, it can trigger inequality (Nijkamp & Wang 1999; Martin 2005).

So, there is a considerable pile of literature on income inequality; however the issue of income distribution among regions within a country has hardly been touched and, we believe, is worthy of further exploration. The need for further and deeper study probably stems from the fact that most empirical studies have focused either at the country (national) level (Campos 2001), (Amplatz 2003), (Workie 2005), (Vojinović & Próchniak 2009) or regions that include several countries (Herz & Vogel 2003), (Ezcurra, Pascual, & Rapún 2007).

Preciously few studies addressed our issue with focus on regional perspective within a country’s borders. For example, Lackenbauer in Hungary (Lackenbauer 2004); Iara in Romania (Iara 2008); Totev in Bulgaria (Totev 2008); Martin in France (Martin 2005).

---

4 As established by Francis Amasia Walker (Head master of MIT). See “Francis Amasia Walker: Political Economy, Holt, New York, 1888, and currently claiming to be all of Economics.

5 Once again serious, transparent and non-coerced analysis is what we call for.
Martin (2005), studying the issues of regional inequality in France, found that inequality of per capita income reduced in the context of economic growth as a result of effective targeted state policies of redistributive nature to support low-income groups of population. However, the tendency to socio-economic inequality reduction is not a common phenomenon. Perhaps because of the activity level of these policies, one can see that redistributive social policies do not have as much of a significant impact in the UK and USA as they do in France.

Russia and Kazakhstan face the problem of regional disparities within their borders and the issue is extremely serious. The problem with measures of distribution of income is aggravated by factors such as vastness of territories, dramatic differences in density of population, and unevenness of regional economic development trajectories. Therefore, serious creative research based on field-work evidence was needed. Bobkov V. proposed a measurement methodology through the use of multiple measures of consumption, namely cost of living, socially acceptable low consumption budgets, consumption standard for middle-income households, consumer budget for households of high income (Bobkov 2007). Kolmakov basing on household studies, developed a method to forecast inequality given the values of some macroeconomic indicators (Kolmakov 2006). He calculated some new prognostic Gini and R/P10 indices and developed prognostic indicators of possible future stratification of population in terms of income distribution. His newly suggested indicators of income differentiation are: the cluster of polarization of peoples’ incomes (the ratio of population with incomes below the average and population with incomes above the average), the differentiation coefficient of specific extreme incomes (similar to R/P10 Ratio).

N. Zubarevich (Zubarevich 2010) analyzed socio-economic inequality using a modified Gini index; it was modified accordant to the size of population of each region. This indicator allowed Zubarevich (2010) to conclude that economic inequality among the regions within Kazakhstan is higher than in Russia or Ukraine due to considerable disproportion in economic development towards the oil industry when GDP per capita of the two oil-producing regions, namely Atyrau (Атыррау) and Mangystau (Маньгысту), is considerably higher than elsewhere in the country.

For the comfort of the followers of orthodox economic dogma we note that (fictional) utility functions are often assumed to be monotone increasing in consumption, so a rise in per capita consumption of the poorest region, will be a Pareto improvement.
(O’Hara & Gentile 2009) studied geographical inequality in Kazakhstan. The studies reveal not only sharp inequality between the rural and urban areas throughout the country, but geographical inequality among the regions themselves (oil-producing regions in particular), more importantly, it has a distinguished ethnic character. (Berentayev 2008) and (Kunitsa 2006) argue that the structure of regional economies is the major reason for regional differentiation in GRP and leads to inequality in incomes, particularly in the rural areas of Kazakhstan. (Dzhandosova 2009) suggests that inequality of incomes causes a number of problems in the oil-producing regions. People living in the oil-producing regions of Kazakhstan are extremely poor, moreover, they do not have access to quality healthcare, vocational training, culture, social and physical infrastructure, roads, water and gas supply, information and communication technologies. Mass labour migration increases unemployment among local population.

According the Statistics Agency of Kazakhstan there is a significant proportion of households in both urban and rural areas in Mangystau (Маньгысту), East Kazakhstan, and South Kazakhstan regions where income does not exceed the minimum wage (ASRK, 2012).

(Ursulenko 2010), in his study, came to the similar conclusions: uneven economic development of the regions, rural poverty, poor performance of social services, and environmental pollution are still the challenges facing the current government. (Gaysina 2010) also finds a strong inequality in Kazakhstan: in 2008, the decile coefficient was 6.2. At the same time, the decile coefficient of non-foods of the extreme decile income groups was 9. For services it was 8.5. Gaysina urges the introduction of new improved standards of living and changed social policies in order to reduce income inequality.

A number of authors, who studied income inequality in Kazakhstan, believe that the official statistics do not fully reflect real situation on the ground. This paper is aimed at developing a new coefficient of geographical differences to measure income inequality of population living in different regions based on the factual cost of living which may vary considerably from region to region.

Geographic Inequality in Kazakhstan

It probably is harmless to point out that Kazakhstan is a vast country in Central Asia wedged between China, Russia and the other less ominous countries

7 Based on serious NOT hypothetical evidence!

8 Please see map since region name were forcibly transliterated from Arabic script to Cyrillic and then modified to hybrid Kazakh script (see map on next page):
of Central Asia. It is the ninth biggest country in the world in terms of its territory (2727300 square kilometres), it comprises fourteen provinces and two metropolises. Ever since the collapse of the Soviet Union, Kazakhstan economy has been rapidly developing. GDP per capita at PPP in 2012 amounted to $12116. GDP per capita has increased by 8.1 during the last twelve years (WB, 2013). Kazakhstan has succeeded in increasing and diversification of the transport of hydrocarbons and export capacity in the recent years.

Kazakhstan differs from the other former Soviet republics in Central Asia due to its achievements in terms of economic growth (Ursuleenko 2010). However, there are substantial geographical differences in economic growth, income distribution, unemployment and poverty in the country.

The major concern is that economy of Kazakhstan is increasingly dependent on raw materials, particularly oil and gas. According to the Statistics Agency of Kazakhstan in 1990 only 0.5% of GDP was resulted from the oil and gas industry whereas in 2000 the figure was already 10.7% and in 2010 it was 21.2% (Ursuleenko 2010). Further development in along this trajectory means that economic security of Kazakhstan as well as its sustainable economic development are under threat. On the socio-economic side, geographic inequality is painfully prominently visible as the following table and graph illustrate.
### Table 1

**Key living standards indicators in the regions of Kazakhstan in 2012**

<table>
<thead>
<tr>
<th>Region, city</th>
<th>GRP per capita in US</th>
<th>Average per capita income spent on consumption, in US Dollars</th>
<th>Average salary in US Dollars</th>
<th>Gini Index for decile groups</th>
<th>R/P Ratio</th>
<th>Cost of living (minimum wage) in US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Kazakhstan</td>
<td>12036</td>
<td>239,14</td>
<td>679,12</td>
<td>0.284</td>
<td>5.86</td>
<td>226,31</td>
</tr>
<tr>
<td>Akmola</td>
<td>7358</td>
<td>235,68</td>
<td>500,87</td>
<td>0.276</td>
<td>6.97</td>
<td>223,04</td>
</tr>
<tr>
<td>Aktobe</td>
<td>14113</td>
<td>245,26</td>
<td>605,20</td>
<td>0.275</td>
<td>5.59</td>
<td>232,10</td>
</tr>
<tr>
<td>Almaty</td>
<td>5010</td>
<td>268,73</td>
<td>518,54</td>
<td>0.254</td>
<td>5.48</td>
<td>254,31</td>
</tr>
<tr>
<td>Atyrau</td>
<td>39770</td>
<td>228,25</td>
<td>1209,89</td>
<td>0.213</td>
<td>3.90</td>
<td>216,01</td>
</tr>
<tr>
<td>West Kazakhstan</td>
<td>18583</td>
<td>209,27</td>
<td>608,46</td>
<td>0.283</td>
<td>6.27</td>
<td>198,04</td>
</tr>
<tr>
<td>Jambyl</td>
<td>4788</td>
<td>169,92</td>
<td>484,85</td>
<td>0.236</td>
<td>4.44</td>
<td>160,81</td>
</tr>
<tr>
<td>Karagandy</td>
<td>12101</td>
<td>295,46</td>
<td>619,56</td>
<td>0.307</td>
<td>8.23</td>
<td>279,61</td>
</tr>
<tr>
<td>Kostanay</td>
<td>8812</td>
<td>225,07</td>
<td>514,03</td>
<td>0.260</td>
<td>5.43</td>
<td>212,99</td>
</tr>
<tr>
<td>Kyzylorda</td>
<td>10858</td>
<td>220,98</td>
<td>626,12</td>
<td>0.240</td>
<td>4.57</td>
<td>209,12</td>
</tr>
<tr>
<td>Mangistau</td>
<td>19374</td>
<td>211,74</td>
<td>1055,31</td>
<td>0.174</td>
<td>2.95</td>
<td>200,38</td>
</tr>
<tr>
<td>South Kazakhstan</td>
<td>4683</td>
<td>154,86</td>
<td>499,41</td>
<td>0.203</td>
<td>3.65</td>
<td>146,55</td>
</tr>
<tr>
<td>Pavlodar</td>
<td>13684</td>
<td>234,54</td>
<td>575,71</td>
<td>0.257</td>
<td>5.02</td>
<td>221,96</td>
</tr>
<tr>
<td>North Kazakhstan</td>
<td>7905</td>
<td>239,59</td>
<td>462,22</td>
<td>0.296</td>
<td>6.93</td>
<td>226,74</td>
</tr>
<tr>
<td>East Kazakhstan</td>
<td>8756</td>
<td>253,39</td>
<td>569,19</td>
<td>0.279</td>
<td>5.34</td>
<td>239,80</td>
</tr>
<tr>
<td>City of Astana</td>
<td>22259</td>
<td>295,12</td>
<td>994,48</td>
<td>0.238</td>
<td>4.53</td>
<td>279,29</td>
</tr>
<tr>
<td>City of Almaty</td>
<td>26045</td>
<td>352,87</td>
<td>901,20</td>
<td>0.246</td>
<td>4.89</td>
<td>333,93</td>
</tr>
<tr>
<td>Maximum</td>
<td>39770</td>
<td>352,87</td>
<td>1209,89</td>
<td>0.307</td>
<td>8.23</td>
<td>333,93</td>
</tr>
<tr>
<td>Minimum</td>
<td>4683</td>
<td>154,86</td>
<td>462,22</td>
<td>0.174</td>
<td>2.95</td>
<td>146,55</td>
</tr>
<tr>
<td>Maximum / minimum Ratio</td>
<td>8.49</td>
<td>2.28</td>
<td>2.62</td>
<td>2.28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Done by the authors using the data provided by the Statistics Agency of Kazakhstan and the National Bank of Kazakhstan on the average annual rate of US Dollar.
Geographical disparity in economic development can be mainly explained by climatic differences, sectoral composition of each economy (i.e. its economic structure), and by institutional differences between regions.

DRP per capita in the regions reveals these differences. The regions with bigger shares of agricultural industry in their economic structure have lower GRP per capita, while in the industrial regions GRP is usually higher: per capita correlation coefficient between the GRP in US dollars at PPP and the share of agriculture in the economy of the region amounted to $r = -0.6$ (strong negative degree of association).
Economies of Mangistau (Маньгыстау), Atyrau (Атыру), Kyzylorda (Кызпорда) regions depend strongly on the mining sector, while South-Kazakhstan, Jambyl (Жамбыл), East-Kazakhstan, Almaty, Akmola, North Kazakhstan are predominately agrarian. The highest level of GRP per capita is in Atyrau region ($39,770 U.S.) while GRP in South-Kazakhstan region is only $4,683 at PPP.

Regional differences can be seen in distribution of income among the population. For example, in the oil rich Mangistau region the average monthly wage is the highest ($ 1209.9 per month) at the same time, that region has the highest level of poverty in the country of 5.7%. For comparison, the agrarian Akmola region has the average monthly wage of $ 500.9 and the poverty level of 4.3% respectively. Massive labor migration from the agricultural regions of Kazakhstan to the oil-producing ones creates a situation where the local population of the oil-producing regions is in disadvantageous situation despite higher wages in the region.

Uneven distribution of income is a major cause of the following problems in the oil-producing regions (Dzhandosova 2010).

(a) Wages in the mining sector are 4–7 times higher than in the other sectors of economy, the result is distinctive stratification of population. High wages in the mining sector with a limited supply of goods and services in the region increase consumer prices and, consequently, the cost of living in these regions.

(b) Intensive migration to the oil-producing regions of Kazakhstan (Atyrau, Mangystau, West Kazakhstan) from the agricultural regions (East Kazakhstan, Zhambyl, South Kazakhstan, Almaty) escalates social tensions, local labour force has to compete with both foreign workers and those from the other regions of Kazakhstan.

(c) High wages in the oil and mining sector make budgetary sphere (education, healthcare, public service) non-competitive. In the result, these sectors experience considerable labour outflow and professional staff shortages.

(d) Poverty in the oil-producing regions of Kazakhstan is aggravated by inaccessibility of quality healthcare and education.

The agricultural regions of Kazakhstan also face several challenges:

(a) There is a high concentration of poverty in these regions: about 50% of the poor live in the three regions, namely the city of Almaty, South Kazakhstan and East Kazakhstan. These regions have the highest proportion of the self-employed with unstable incomes;

(b) Food processing industry is not developed; the economies of these regions have low added value and, subsequently, the wages there are low too.
Study Objective

Currently, the statistics uses R/P 10 and Gini index to measure income inequality. Difference in the cost of living in regions within a country often causes inequality. It can be described by minimum subsistence income in a particular region that is a living wage or a minimum set of foods, goods and services necessary for physiological survival. Minimum wage is a money equivalent of the abovementioned minimum set of goods, and services. It is calculated upon the average per capita at current prices in the region adjusted for inflation and can be an indicator of the cost of living.

In Kazakhstan, due to the strong geographical differences, the cost of living is calculated both at national and regional levels. For example, there is a 47% difference in the cost of living in the oil producing Mangistau and agricultural Zhambyl ($117.1 in Mangistau region and $79.8 in Zhambyl region respectively).

This paper proposes a new index to measure the regional (geographical) inequality. It is the Coefficient of Regional Differences (K_r).

Method

The K_r shows the average proportion of population within an income-quintile group that is there exclusively due to the differences in the costs of living. For example, in terms of their income, a group may fall into a higher quintile (decile), but, given the high cost of living in a particular region, taking into account the minimum wage there, these people are included into the lower quintile (decile). On the other hand, those with low incomes who live in a region where the cost of living is also low may shift from low-income quintiles (deciles) in high-yielding quintiles (deciles).

The Coefficient of Regional Differences may be used to estimate the effect of different costs of living in regions and the division of population by quintile (decile) income groups. It can vary from zero (no regional differences) to 100 (absolute regional differences).

Data Sources: The calculations were carried out using the database on Household Survey conducted by the Statistics Agency of Kazakhstan in 2005, 2006 and 2009. The Household Budget Survey (12,000 households) includes

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9 The minimum is calculated by the Academy of Nutrition of Kazakhstan and does not include drinking water and beverages.

10 Calculated in accordance with the average annual rate of the National Bank of Kazakhstan.
the indicators on income, expenditure and consumption, socio-demographic characteristics, labor market and living conditions on the basis of annual, quarterly and daily surveys.

**K. Calculation.** To calculate the Coefficient of Regional Differences the following indicators are needed: (1) monthly per capita income\(^{11}\) (2) minimum wage (cost of living in the region).

**Stage I.** Calculation of the income for each individual taking into account the regional cost of living (the income divided by the cost of living is the purchasing power of income).

\[
CI_j = \frac{I_j}{SM_r},
\]

where \(CI_j\) is the adjusted income of individual given the cost of living in the region/minimum wage \(j = 1, N\).

\(I_j\) is monthly per capita income in KZT.

\(SM_r\) is the cost of living in the region/minimum wage in \(r\) e.g. region.

**Stage II.** Ranking of individuals according to their income and adjusted income indexes and their division into the quintile groups. As a result, we have two quintile groups: (1) individual income, (2) individual income adjusted to the cost of living in the region.

Then we shall draw a crosstab of the quintile distributions and see that some individuals, after their income being adjusted, shift to the different quintile. This part may be called “floating” or redistributed number of individuals. These “floating” individuals help us to measure the regional differences. It can be expressed in terms of arithmetic mean value of those individuals who switched to another quintile (decile) of the total number of people in the quintile. The share of households in each quintile (decile) is \(100-X_{ii}\), where \(X_{ii}\) is the share of households in the i-th quintile (decile) that remains there after the cost of living was taking into account. In the case of no regional differences in the cost of living, this matrix is diagonal.

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\(^{11}\) In Kazakhstan, the term of income means consumption of food, goods and services. It includes cash expenditure on food, industrial goods and services as well as products of private farming.
Table 2  

Division of population by income quintile (adjusted/ unadjusted), in %

<table>
<thead>
<tr>
<th>Quintile of $I_j$</th>
<th>Quintiles of $CI_i$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X_{i1} X_{i2} X_{i3} X_{i4} X_{i5}</td>
</tr>
<tr>
<td>2</td>
<td>X_{i2} X_{i2} X_{i3} X_{i4} X_{i5}</td>
</tr>
<tr>
<td>3</td>
<td>X_{i3} X_{i3} X_{i3} X_{i4} X_{i5}</td>
</tr>
<tr>
<td>4</td>
<td>X_{i4} X_{i4} X_{i4} X_{i4} X_{i5}</td>
</tr>
<tr>
<td>5</td>
<td>X_{i5} X_{i5} X_{i5} X_{i5} X_{i5}</td>
</tr>
</tbody>
</table>

"Floating" 100-X_{i1} 100-X_{i2} 100-X_{i3} 100-X_{i4} 100-X_{i5}

Stage III. Calculation of the Coefficient of Regional Differences ($K_r$) as arithmetic mean of individuals, shifted to other quintile groups due to the regional disparities in the living costs. The $K_r$, closer to zero means that geographical inequality within the country is low.

$$K_r = \frac{\sum_{i=1}^{n} (100 - X_{ii})}{n},$$

where $X_{ii}$ is the proportion of individuals of i-th quintile shifted into the i-th quintile after their income being adjusting to the cost of living, $n = 5$, $p = \overline{i,m}$, $m$ is the number of the regions (oblasts). The Coefficient of Regional Differences can be calculated both for individuals and households.

Results

The calculations have been made on the basis of the data of the Statistical Agency of Kazakhstan for 2005, 2006 and 2009. Table 3 is an example of the calculations for 2009. It shows that some households (11.1%) having been in the 1st quintile moved into the 2nd quintile after their income being recalculated taking into account the cost of living in the region. 26.7% of the households that had been initially in the 2nd quintile after the similar adjustments shifted into the 1st, 3rd and 4th quintiles. The share of these "floating" households was 13.27%, 28.86%, 30.79%, 25.6% and 10.85% in each quintile respectively.
Table 3

Division of population by income quintile (adjusted/unadjusted) in Kazakhstan in 2009, in %

<table>
<thead>
<tr>
<th>2009 Quintile of $I_j$</th>
<th>Quintiles of $C_{I_j}$</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>86,7</td>
<td>13,3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>12,5</td>
<td>71,1</td>
<td>16,3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0,7</td>
<td>15,3</td>
<td>69,2</td>
<td>14,8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0,3</td>
<td>14,4</td>
<td>74,4</td>
<td>10,9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;Floating&quot; (100- $X_{10}$)</td>
<td>13,27</td>
<td>28,86</td>
<td>30,79</td>
<td>25,60</td>
<td>10,84</td>
</tr>
</tbody>
</table>

Thus, the Coefficient of Regional Differences (Kr) in 2009 was 21.5%:

$$K_{r,2009} = \frac{\sum_{i=1}^{n} (100 - X_{i,10})}{n} = 21.5,$$

Similarly, the Coefficients of Regional Differences was calculated using the household survey data for 2005 and 2006; they amounted to 21.6% and 15.0% respectively. According to the Agency Statistics of Kazakhstan, over the past five years the R/P 10 ratio has decreased. At the same time, geographical income inequality in Kazakhstan has increased, as it is shown when the Coefficient Regional Differences is used (Figure 3).

Fig. 3. R/P Ratio and Coefficient Regional Differences in 2005, 2006, 2009

Conclusion

Kazakhstan differs considerably from other Central Asian former Soviet republics; in the past decade it has had rapid economic growth, (K. Ursulenko, 2010) originated mainly from the oil sector. More importantly, lop-sided development of Kazakhstan economy is only increasing. At the same time, there
is a clear specialization of the regions by economic orientation: agricultural and mining (oil, gas, metals). According to S. O’Hara and M. Gentile (2009), Berentayev K. (2008), Marten S. (2009), Dzhandosova J. (2010) it leads to considerable geographical income inequality between the regions of these two classes and within the regions themselves. Oil-producing Atyrau with its highest GRP per capita has the highest level of poverty.

According to official statistics, over the past decade, Kazakhstan has succeeded in fighting poverty and income inequality: since 2001 until 2012, the Gini index declined from 0.307 to 0.284, the poverty rate for this period decreased from 46.7% to 3.8%. However, the author argues that the indicators used to assess effectiveness of the social policies aimed at addressing income inequality in Kazakhstan do not adequately reflect the situation, especially in terms of geographical differences.

The authors propose a new indicator of regional differences in living standards basing on the Household Survey data base of the Statistics Agency of Kazakhstan. The Coefficient of Regional Differences is an arithmetic average proportion of individuals (households) shifting from one income quintile (deciles) to another exclusively due the differences in income and cost of living in a region.

The Coefficient of Regional Differences enables to measure the effect of the cost of living on income distribution among individuals of a region, their inclusion in a particular income group: the closer it is to 100%, the bigger are the regional disparities, and vice versa, a coefficient closer to zero means that the regional disparities are not significant or even absent. This Coefficient could be applied by statistical services as an indicator of socio-economic development of a country as a whole and its regions.

We believe that we have provided enough evidence to illustrate the need for a new measure of economic inequality that does not paper over facts by assuming homogeneity within regions, And which is based on actual field work.

References


Problems of Unemployment in Polish Medium-Sized Towns – Diagnosis and Proposed Solutions Using Ełk as a Case Study

Abstract

The problem of the lack of balance between supply and demand in the labour market and occurrence of excessive unemployment affects particularly small and medium-sized towns in many countries. Although action on the issue of unemployment has been a priority at different levels of government and the current science of management, the problem is still growing and still many research questions in this area are open. The paper presents results of research on high unemployment using Ełk, a town in north-eastern Poland, as a case study. Conclusions and proposals to reduce unemployment in the town have been formulated and are outlined in this paper.

Key words: labour market, unemployment, combating unemployment.

Introduction

One of the most difficult problems that today’s society has to face is the phenomenon of unemployment. Unemployment is characterized by negative economic impact of a large scale, although apart from the decreasing production in the economy and decreasing state budget due to lower tax revenues, it is advisable to notice the social aspect of this phenomenon. Nowadays, the term unemployment is no longer regarded as lack of employment only, but as a complicated phenomenon that hinders interpersonal processes. For example, limiting the access of people with no work to full participation in society leads to their marginalization and exclusion.
Central government authorities, in cooperation with local authorities, have attempted to combat the phenomenon of unemployment, which, despite the efforts, is still progressing and becoming more and more noticeable. The feeling of helplessness intensifies in Polish society and drives to frequent exile, as the homeland is not able to provide basic living conditions. Labour offices, as institutions set up to provide support and assistance to the unemployed, operate not only in a rigid and limited way, but also quite mechanically, which does not allow the building of an atmosphere of trust and friendliness. Therefore, constantly searching for new ways and taking actions to reduce the scale and negative effects of unemployment is an important issue.

The phenomenon of unemployment, its causes, effects and ways to counter it using the example of the medium-sized town Elk, in Warmińsko-Mazurskie Province is discussed in this publication. Located close to the border with the Polish province of Podlasie and the international borders with the Kaliningrad Oblast of the Russian Federation, Belarus and Lithuania, with a population of 59.9 thousand inhabitants, the district town Elk (Supel, Skawiński 2008: 6) has favourable conditions for interregional and international co-operation. It implements numerous projects with partner cities of Kaliningrad and Lithuania (Elk Strategy for Sustainable Development 2013: 9, 47–48) co-financed by EU funds. Two planned routes, the Via Baltica linking Poland with the Baltic countries, and the Rail Baltica, a trans-European railway line linking Poland with the Baltic countries and Finland, are important for the development of the town.

Despite this, the town faces the problem of unemployment and Elk is characterized by one of the highest unemployment rates in Poland. It should be noted that this problem requires special care and attention in small and medium-size towns because the existing poor infrastructure hinders sustainable economic development. Progressing migration of inhabitants, mostly young and educated people, to the major cities, makes it impossible to maintain the human potential needed for the development of small towns. These are just a few reasons why taking a close look at the problem of unemployment is advisable as well as undertaking measures aimed at sustainable economic development of the whole country.

Methods of State Influence on the Labour Market

Unemployment is a growing problem of the modern world, causing destruction of the basic principles of the social agreement, which results in psychological discomfort of the society (Czarny 2006: 231) and financial burden for the state (Kwiatkowski, 2006, pp. 82–83). This problem calls for measures to combat unemployment, as a properly functioning labour market results in economic balance, an enhanced sense of stabilization of the population, and provides a
sense of security to each sphere of the population as an essential factor in the maintenance of social order (Lipieta 2008: 16).

The literature distinguishes two types of aid to the unemployed offered by the state – passive and active labour market policies. The concept of the general labour market policy is commonly understood as an element of state intervention in market mechanisms, leading to negative effects on the labour market (Wiśniewski 1999: 11–12). Passive labour market policy focuses on the income support for the unemployed, limited mainly to granting benefits and financing health care to persons deprived of employment (Mierzejewska-Majcherek 2012: 74). Although needed, these policies will always bring negative effects. People who benefit from passive labour market policies are eager to use the privileges offered them; they become accustomed to them and do not want to give them up. Then, the status of an unemployed person becomes a way of life, thereby dismissing potential employees from the labour market and demotivating them to actively seek employment.

Within the state policy on the labour market, the Eurostat database distinguishes nine categories of aid for the unemployed (Fig. 1.).

| Passive labour market policy | • unemployment benefits  
|                            | • early retirement       |
| Active labour market policy | • labour market services  
|                            | • trainings              
|                            | • employment rotation and dividing jobs  
|                            | • encouragement aimed at employment  
|                            | • help in employing disabled people  
|                            | • direct creation of jobs  
|                            | • help in starting private companies |

Fig. 1. Categories of aid under the state policy, acc. to Eurostat


On the other hand, the active policy uses instruments that help to improve the functioning of the labour market and reduces unemployment in the different groups of the labour force (Milewski, Kwiatkowski 2005: 399–403). More specifically, the state active policy of the labour market contributes to:

- Activation of the unemployed by encouraging them to participate in special programmes, including public works, intervention works and loan programmes for the unemployed and workplaces,
- Reduction of the structural mismatch in the labour market, based on training and upgrading skills through education,
• Raising labour productivity, which has a significant correlation with economic growth of the country, through the implementation of training, improvement of skills and participation in various public assistance programmes, directly increasing the productivity of the unemployed;

• The impact on employment and unemployment rate, which both refer to the demand-side effects of active programme development, the improvement of efficiency in searching for work by unemployed persons, and the weakening of upward pressure on wages,

• Verification of the readiness of the unemployed to work, carried out by providing job offers to the unemployed.

The main objective of the active labour market policy is to stimulate employment through activities of public service employment, subsidized work, vocational training and retraining of the unemployed and those at risk of unemployment, as well as loans to run private business and to promote small companies (Skórska 2004: 119).

Furthermore, in the modern labour market in Poland, there are many public and private institutions operating in order to initiate activities that contribute to the achievement of full and productive employment. Employment authorities, district and regional labour offices, and the Office of the Minister responsible for labour create this structure. The public institutions of the labour market also include the Voluntary Labour Corps, which perform tasks for the benefit of young people over 15 and the unemployed under 25 years of age in the area of employment, training, education and countering anti-social marginalization and exclusion. Among the non-public labour market institutions, employment agencies, training institutions, institutions of social dialogue and local partnership institutions can be distinguished. There are also Municipal Information Centres in Poland providing free services for unemployed people in the form of providing information on job offers, rights and obligations of the unemployed, the conditions and processes of running a business. There are also Academic Career Offices functioning for vocational activation of students and university graduates (Arendt, Hryniewicka 2013: 58–59).

The existence of social welfare institutions is worth mentioning. They are characterized by activities focused especially on the unemployed. The units placed at the lowest level of local government administration are social welfare centres, which are closest to the common man with a multiplicity and variety of social benefits. The functions of the county family assistance centres are less complex than those of social welfare centres as a result of their greater specialization and adjustment to specific groups, e.g. foreigners, disabled people.
Problems of the Labour Market in Elk

According to the Central Statistical Office, dated 31.10.2014, 5156 economic entities (233 in the public sector, 4923 in the private sector) functioned in the area of Elk. The largest group constituted of natural persons engaged in business activity – 3730. It is worth noting that 3693 natural persons engaged in business activity employing 0–9 employees. There were also 1426 legal entities (including 241 commercial companies, 429 civil partnerships, 18 cooperatives) in the town. The largest group of business entities constituted trading companies and those that specialize in motor vehicles repair (1237). The next largest sector in terms of the number of entities was construction (623), followed by activities related to the real estate market (410), health care and social assistance (409), professional, scientific and technical activities (403) and transport and storage (401). The industry sector included 315 business entities. The smallest numbers of entities were present in the sectors: information and communication (96), agriculture, hunting, fishing, and forestry (58), water supply (19) ([http://bip.stat.gov.plgfx/bip/userfiles_public/bip/regon/tablice/10_2014/tablica10_31102014.xls](http://bip.stat.gov.plgfx/bip/userfiles_public/bip/regon/tablice/10_2014/tablica10_31102014.xls) [entry date: 15.03.2015]).

It is important to add that the sector structure of business entities operating in the town of Elk is stable and not much different from the structure of the whole province. Describing the economic environment of the town, it should also be noted that a subzone, Suwałki Special Economic Zone (SSSE), functions in Elk, constituting a modern industrial district, where not only Polish capital is represented, but also German, Swiss and Austrian. SSEZ is one of the economic areas in Poland that is characterized by the fastest development and the best infrastructural preparation. The main advantage of SSEZ is its location, which provides proximity to the borders with Russia, Lithuania and Belarus, as well as the wide investment offer and the possibility to take advantage of the highest tax reductions in Poland. At the end of June 2014 the employment in the area was 2,030 people and the number of companies was 37, while investment was 514.7 million PLN. ([http://www.ssse.com.plzainwestujoferta-inwestycyjnapodstrefa-elk.html](http://www.ssse.com.plzainwestujoferta-inwestycyjnapodstrefa-elk.html) [entry date: 15.03.2015]). Another equally important element of the economic environment of Elk is the recently formed Science and Technology Park (PNT, Techno-Park), which was created from the need for integration of companies operating in the innovative sectors and offering technologically advanced products and services.

Looking at the information from the Central Statistical Office (as of 31.12.2013), it should be noted that industry and construction are the sectors that employ the highest number of people (5206). Financial and insurance
activities, real estate market service and other services provide employment to 4815 people. Sectors like: trade, motor vehicles repairs, transport and storage, accommodation and catering, information and communication provide jobs for 3084 people. The smallest number of jobs is provided in agriculture, forestry, hunting and fishing (33). It is worth noting that 49% of the 13 138 employed persons were women (http://olsztyn.stat.gov.pl).

The main parameter determining the phenomenon of unemployment is the ratio of the unemployed to the number of economically active individuals, i.e. the rate of unemployment. The unemployment rate in the county of Elk and in the town of Elk at the end of 2014 was 22.9%, with an average of Warmińsko-Mazurskie Province – 18.9%, Poland – 11.5% and the countries of the European Union – 9.8% (http://olsztyn.stat.gov.pl; http://ec.europa.eu). It should be noted that the nearby towns i.e. Augustów, Suwałki, Elbląg and Giżycko have lower unemployment rates, although still relatively high. The number of unemployed residents of Elk registered in the District Labour Office at the end of the last month of 2014 was 4069 people, half of whom were women and among them the most extensive group were women unemployed for a long time (1329 people).

A significant proportion of the unemployed were people aged over 50 and those under 25. Furthermore, only 17% of 4069 unemployed people were entitled to unemployment benefits. The largest number of persons entitled to unemployment benefits were people with no secondary education, followed by those over 50 years of age and people who did not have professional qualifications. The rapid increase in the proportion of long-term unemployed in the total number of unemployed in Elk, recorded in recent years, is alarming: in 2008 – 45,81%, in 2012 – 54,81%, in 2014 – 62%.

The District Labour Office (DLO), located in the town of Elk, is the main institution oriented on combating unemployment as well as eliminating the mismatched qualifications of the unemployed which are inadequate to the needs and expectations of the local labour market. DLO’s area of operations includes Elk and four neighboring municipalities. The District Labour Office implemented its statutory activities: registration of the unemployed and people looking for work, recruitment, career guidance services, awarding and payment of different grants-in-aid and other unemployment benefits, initiating, organizing and financing trainings for the unemployed and other entitled persons. Apart from the Labour Office, activities supporting the unemployed in Elk are implemented by the Town Social Welfare Centre (MOPS), which, inter alia, diagnoses the situation of the unemployed and determines the strategy of conduct, provides
material assistance, grants and pays cash benefits. The Social Integration Centre (CIS) also functions in the researched area. The facility focuses on professional activation and prevention of social exclusion, taking actions jointly with the unemployed and making their return to the labour market possible.

Methodology and Results of Research on the Problem of Unemployment in Elk

Empirical studies on the impact of unemployment were carried out over the period March-June 2014. The object of the research was the scale and determinants of unemployment in the selected area (town of Elk) and its cause-effect relationships. Qualitative research strategy was used, supplemented by quantitative studies of selected aspects of the analyzed phenomenon. The subject of the research was a group of unemployed people living in Elk, a selected group of entrepreneurs from the town and the main institution responsible for preventing unemployment – the District Labour Office in Elk. The study was conducted on 30 intentionally selected unemployed people living in Elk who had the characteristics of all the unemployed registered at the District Labour Office and 30 randomly selected business entities located in the town. The research programme included individual in-depth interviews with the Director of the District Labour Office in Elk that focused on the functioning of the office and an experiment aimed to determine the image of the DLO as perceived by the general population of Elk. The experiment was carried out using the popular social network site.

In order to increase the reliability of the results of research carried out on a small sample, a diverse set of research methods and techniques was applied. Four techniques of research were used: interviews, surveys, analysis of existing data and the field experiment. The research tools used included: a questionnaire carried out on-line and a controlled survey directed to local employers and the unemployed. The questionnaire was also used in personal interviews with the unemployed and the director of the District Labour Office.

The paper raised the following research questions addressed to the unemployed:

- How is the local labour market seen?
- What is the cause of unemployment in the researched area?
- What is the phenomenon of unemployment outflow on quality of life?
- How is the effectiveness of the DLO in Elk evaluated?
- What would increase the chances of getting a job?
and to the labor market entities:

- What is the assessment of the current and forecasted situation on the local labour market?
- What is the reason for low activity in setting up a business?
- How is the cooperation of local entrepreneurs with DLO in Elk?
- What elements are important when hiring new employees?

The research was conducted in four problem areas: evaluation of the local labour market, the causes and effects of unemployment, the effectiveness of the District Labour Office in Elk and the opportunities to reduce unemployment.

The assessments of both the unemployed and local businesses show that the situation in Elk is difficult. Moreover, during the next three years, 60% of entrepreneurs participating in the study do not expect the situation to change and only one-third of the respondents assumed that the current state of the labour market will improve slightly. A serious problem is the existence of the so-called gray area, which was experienced by more than half of the surveyed unemployed, who have had a job offer without a contract at least once in their lifetime so far. Nearly the same number of surveyed entrepreneurs admitted such proposals made by workers. The study area is characterized by low activity of starting a business, which is confirmed by all unemployed respondents who have never made any attempt to run their own businesses. According to local entrepreneurs, the main reason for this situation is the lack of start-up resources, extensive bureaucracy, lack of educational foundations and support from the public administration. In the opinion of employers, the directions of development in Elk are: tourism industry, information technology, construction, logistics and forwarding, outsourcing, automotive and the furniture industry. They can be the “providers” of jobs in the town. Important is the fact that nearly three-fourths of the surveyed entrepreneurs define Elk as business friendly town.

Another area of research was to determine the causes and consequences of the occurrence of unemployment in Elk. Nearly one-fifth of the respondents have never worked before. More than half of the unemployed lost their previous job for reasons such as: family situation, state of health, migration, the economic crisis and the resultant contraction of hiring by local companies. Other unemployed people lost their jobs as a result of: bankruptcy or liquidation of the workplace, the high costs associated with employment, insufficient level of qualifications and education. In the opinion of surveyed entrepreneurs, the key causes of unemployment in the study area are: insufficient number of job offers, low level of education, lack of employees’ willingness to work, and lack of skills, experience and knowledge of the local labour market (Fig. 2).
Focusing attention on the effects of unemployment, nearly three-fourths of the surveyed unemployed live frugally to be able to meet their basic needs. The rest can be divided between those who can afford everything without special savings and those who, despite a very economical way of life, are not able to meet their and their families’ basic needs. Every second surveyed person indicated that the most common feeling that accompanies the status of an unemployed person is the person’s helplessness and the loss of friends. Other significant effects of unemployment are the loss of opportunities for professional development and impoverishment of the family. Every third person in the study had experienced deteriorating health. In addition, one-fifth of the people participating in the study experienced conflicts in the family (Figure 3).

The next area of research concerned the assessment of the local Labour Office efficiency of operations aimed at solving the problem of unemployment. The studied unemployed come to the Labour Office for registration and four-fifths of them declared their readiness to work. An equally important purpose of the visit to the DLO was to obtain some information on job vacancies. A little less than half of those concerned come to the DLO in order to obtain information on the possibilities of retraining. The least sought information was related to the possibility of doing intervention works and public works. According to the unemployed respondents, the most effective forms of unemployment prevention offered by labor offices were internships and employment with financial support to equip the workplace. The respondents were slightly more doubtful about the effectiveness of the fight against unemployment in the form of trainings and job placements.
* multiple-choice answers possible

Fig. 3. **The effects of unemployment indicated by the unemployed surveyed**

*Source:* own study based on the carried out survey.

The experience of entrepreneurs shows that half of the respondents have not benefited from the forms of assistance offered by the DLO in Elk. Two-fifths of the respondents have cooperated in the form of internship refunds. A small number of the surveyed entrepreneurs have benefited from the assistance in the form of intervention works or refunds of the cost of equipping/retrofitting a position. Additionally, the test group of entrepreneurs believes that the DLO is not an effective way for the unemployed to enter the labour market. Moreover, in the opinion of three-fifths of the unemployed respondents, the operating efficiency of the DLO in Elk is low and needs to be improved.

The last area of research focused on identifying the opportunities and activities that would enable the reduction of the unemployment ratio. According to unemployed respondents, the most effective way to reduce unemployment is to create new jobs, favourable conditions for internship placements and protection of existing jobs. The fight against the gray area of illegal employment met with diverse opinions from the respondents – only half of the people surveyed found this method to be appropriate. The respondents indicated a reduction of unemployment benefits as an effective method of reducing unemployment. The least effective and uncertain ways were: raising the minimum wage, creating favourable conditions for labour migration and employment for intervention works and public works. In addition, more than four-fifths of the unemployed who participated in the survey believe that the best chance of finding a desirable job would be provided with an increase in the number of job offers and professional qualifications improvement. Moreover, longer period of work/more
experience were identified as important factors affecting the increase of employ-
ability. Half of the respondents agree that higher education would improve their 
situation on the local labour market. The respondents’ ratings are shown in 
Figure 4.

![Fig. 4. The surveyed unemployed’s assessment of the efficiency of different forms of combating unemployment offered by the labor offices](image)

**Source:** own study based on the carried out survey.

With regard to concessions, which the unemployed are inclined to make in 
order to work, three fourths of the respondents indicated shift working/overtime 
and one-half were able to agree to have a contract commonly defined as a “junk 
agreement”. A little more than one-third of the respondents are willing to agree 
to work in unhealthy conditions. A similar number of people would have no 
trouble accepting work outside their place of residence. Ten percent of respon-
dents expressed inclinations to work without a contract and with lower earnings.

From the point of view of four-fifths of the surveyed entrepreneurs, interper-
sonal skills and experience are of the utmost important characteristics in the 
process of hiring new employees. Education, mobility and availability were 
identified as less, but still necessary features. When hiring new employees, 
one-third of surveyed employers appreciate qualities such as creativity, appear-
rance, knowledge of foreign languages, teamwork, organization, self-reliance
and responsibility. Nearly one-fourth of employers participating in the study pay attention to age and sex.

Moreover, a few of the unemployed and entrepreneurs surveyed made voluntary observations and reflections on the functioning of the DLO in Elk and the local labour market. In their opinion, the labour office is an institution that does not reflect the effects of work in ratio to its expenditure, while the labour market is difficult and closed to the uninitiated.

Based on in-depth interviews conducted with the director of the DLO in Elk, it was found out that the DLO conducts studies of the local labour market in the form of surveys carried out in schools and workplaces, and regular meetings with entrepreneurs. Analyses of the effectiveness of various forms of assistance provided to the unemployed are made in the form of reports, on the basis of which decisions are made on the allocation of funds. Information about the ways and purposes of fund allocation is not published by the DLO, since, according to the office representative, it is unnecessary for the public to know. The DLO does not undertake any actions that go beyond the relevant legislation because it is not permitted by law (the DLO cannot function in a way other than the one specified in the Act, but it is open to initiatives arising from the unemployed). For example, if an unemployed person finds an employer who will contact the DLO – there is a possibility of additional training for the unemployed.

The next step resulting from the research process was to carry out an experiment designed to determine the image of the DLO perceived by the general population of Elk. The experiment was carried out in order to seek advice and opinions on the functioning of the DLO among the residents of Elk. The researcher asked the question: Is it beneficial to use the services of the DLO? A theme account on one of the popular social networking sites was used to carry out the experiment. People participating in the virtual discussion ranged in age group 18–30, which can be explained by the popularity of this form of communication among young people. It should be noted that the continuation of the experiment was not only difficult, but also interrupted by the deletion of all queries and received responses by the moderator account. The social experiment showed that the DLO in Elk is seen ambiguously by the public. Most of the comments collected lean toward the negative reception of the institution and its activities offered to the inhabitants.
Proposals for Measures to Reduce Unemployment

The problem of unemployment is both important and difficult to solve. It is important because it entails many consequences: economic, social and psychological; and difficult because there are many internal and external conditions that determine its solution. Moreover, the actual scale of this phenomenon is not known. Despite continuous publicizing by the media, the problem of unemployment remains a taboo for people who experience it. Their opinions remain in their environment and are not passed on, because no one, except people working in the District Labour Office, ask questions regarding the situation in which they find themselves. Thus, in the study two attitudes of the unemployed were observed: their resistance and inactivity resulting from a lack of confidence and their enthusiasm and openness resulting from interest in the problem.

The conducted analysis and the results of empirical studies allowed to present a set of actions that can reduce the problem of unemployment in the town.

1. The most effective solution to the problem of unemployment is to create new jobs. Elk is characterized by a small number of international companies, which is why the town and the region authorities should:
   - invest financial resources for promotion of the region of Elk aimed at attracting new investors. Elk should be presented not only at various national fairs, but mostly at fairs abroad, as a developing town, environmentally friendly and community-oriented, with numerous tourist and cultural values, located close to the eastern border of Poland, open to innovation and entrepreneurs. An important factor is to promote the planned investments, which will open a new window on the foreign world, namely the Rail Baltica route, the Via Baltica and to propagate the smart specialization area. Warmińsko-Mazurskie chose three territorial specializations: economics of water, high-quality food, wood and furniture;
   - take action to improve the town’s infrastructure, which is a significant barrier to attracting foreign investment. More funding for the development of infrastructure should be one of the main elements of industry and services development, which would launch public works, activating the unemployed.

2. In terms of industry and services development, an important issue is to support the existing small and medium-sized enterprises by the local government, through tax incentives on a broader area than the specially designed area, grants, preferential land purchase opportunities, etc. Thus, the emphasis should be on the promotion of collective initiatives to support entrepreneurship. The DLO should organize a series of thematic meetings that would motivate the unemployed who are in a similar situation (e.g. young graduates
of computer science; unemployed but technically qualified, mothers who left the labour market as a result of motherhood or those who had businesses in the past) to attempt setting up their own companies.

3. The main objective should be to create a network of petitioner friendly offices – for both potential investors and unemployed persons. The town authorities should focus on building trust and proper relations with public visitors. There also needs to be an improvement in the flow of information between offices and enquirers. In addition, the District Labour Office in Elk should adapt to the requirements of innovation and implement best practices used by other agencies. As a result, the office will increase the group of information (marketing, legal, economic, etc.) recipients, improve its image, become closer and open to comments, suggestions and reflections, thus improving communication with e-users. Focusing on the activities of the labour office, the possibility of creating a long-term cooperation programme for investors/entrepreneurs is worth considering, which would determine specific rules for cooperation. The consequence of this solution would be the employer – employee – labor office loyalty programme, which would be aimed at the implementation of all necessary further training despite being employed.

4. Another idea is to create a “volunteering by the unemployed” programme which would operate on the principle of voluntary work/help to people who work in the public sector and with private sector entrepreneurs favourable to the proposal. This way, the unemployed would remain active, acquire new skills, knowledge, contacts and a sense of support and interest. In addition, the basis of volunteering should be thoroughly developed incentive system that would award precedence to start the employment or attend a course/training after completing e.g. 500 hours of volunteering.

5. In addition, the town authorities should focus on the existence of a gray area in the town because studies have shown that the problem exists and results from both potential employees and entrepreneurs. It is therefore necessary to take measures to monitor the situation on the local labour market, which would take into account the socio-economic conditions in the study area, development trends and forecast of changes in the economy of the region and its surroundings (Podlaskie Obserwatorium Rynku Pracy i Prognoz Gospodarczych, http://www.obserwatorium.up.podlasie.pl/index.php/strony/9715, as of 24.06.2014.). Warmińsko-Mazurskie Province should, like other provinces, create Warmia-Mazury Labour Market Observatory, which would aim to generate and share information relating to the labor market. The proposed project should also ensure the reflection of research...
in practice, improvement of the quality of services provided by labour market institutions and education of businessmen and institutions involved in the course of human capital formation. Elk authorities could take actions in order to create Elk Local Labour Market and Education Observatory, as a part of the regional Observatory structures.

6. The District Labour Office in Elk should conduct thorough analysis and research that will answer the question of whether the long-term model of functioning is still effective and does not require any improvements. Legal solutions should be developed to motivate, not only Elk labour office, but also all such offices in Poland, to create, implement and promote innovative solutions to reduce the effects of unemployment

References

VALUES AND STANDARDS OF BEHAVIOUR UNDER THE RUSSIAN CONDITIONS

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Moscow, Russia

Middle Class: System of Values and Perceptions on Country’s Development Vector

Abstract

The paper estimates the share of Russian population that belong to the middle class and analyzes their values, standards, and ideas of the nation’s future vector of development. The analysis is based on nationwide representative polls conducted by the Institute of Sociology of the Russian Academy of Sciences in 2013–2014. The paper shows that everyday values of the Russian middle class are modernized and proactive and thus are different from those of other population groups; however, the middle class barely stands out from other groups in terms of political values and the vision of Russia’s future. As of now, the consensus view of the middle class (as well as other groups of Russians) is that Russia cannot just copy the Western “route” and needs to take its own way defined by its people’s values, standards and attitudes to some basic non-political institutions such as private property, rule of law etc.

Key words: middle class, middle strata, standards, values, political mindset, private property, modernization, cultural dynamics, the Western route of development.

Academic papers and public opinion tend to associate the middle class with a potential actor that can play a decisive part when determining the country’s vector of development. Indeed, this mass social group comprises the Russians that hold quite stable structural positions in the society and are most resourceful (including financial, social, educational, human resources etc.). This group can
strongly influence the choice of Russia’s further direction – in particular, accepting or rejecting the values, standards and practices associated with certain paths of development at the micro-level, and spreading their ideas among other social groups. Researchers have studied the inclination of the middle class to innovation activity (Radaev 2003; Golovlyanitsyna 2009); its demand for democracy and attitude to authorities (Urnov 2010; Petukhov 2014), to law and order (Levinson and others 2004) and its demands of the state in general (Shastitko and others 2010) – particularly in the wake of the 2011–2012 protest movement (Fedorov 2012) and the discussions of what road Russia must choose. However, Western social and economic researchers have long been focused on studying the link between the middle class and the development of democracy (Inglehart and others 2005; The Global Middle Class 2009).

It should be mentioned that researchers who analyze the middle class under the functionalistic approach tend to attribute very different social roles to this class, ranging from securing the stability in the society and supporting traditional values to promoting changes and modernization, acting as an innovative agent responsible for modernization. However, such approaches, initially based on some functions the researcher wants this class to perform in the society, do not provide clear answers what the real life middle class values and standards are and what direction of the country’s development they fit. In this paper we attempt to figure out what path the middle class finds most preferable for the country, according to the values and standards of the middle class as described by the nationwide representative quantitative research carried out by the Institute of Sociology of the Russian Academy of Sciences over the last few years.¹

We developed our own methodology to determine the share of the middle class based on the analysis of the Russian and foreign literature that focuses on the place of the middle class in social structures and bearing in mind the objective of research. The methodology focuses on the specifics of the structural positions that the representatives of the middle class hold in the society. We used the approach that is widely used in Russian and Western social science – applying a set of specific stratification criteria (multidimensional stratification) that measure these specifics. Since social science lacks a commonly recognized set

¹ We refer to representative nationwide research studies by the Institute for Complex Social Research and the Institute of Sociology of the Russian Academy of Sciences: “The Rich and the Poor in Contemporary Russia” (March 2003, n = 2106); “The Poor and Poverty in Contemporary Russia” (April 2013, n = 1600), “The Middle Class in Contemporary Russia” (February 2014, n = 1600 + extra middle class sampling n=300). The sampling of every study was representative of the country’s population by region, and by gender, age and location (urban/rural) within the region.
of criteria to include an individual or a household into the middle class, this approach often causes debate as to what set of criteria should be used to define the middle class in research and what threshold values should be assigned to them.

We used the following set of criteria and threshold values:

- education (no less than vocational/post-secondary education);
- professional status (non-manual labour);
- well-being (monthly average income per capita no less than the median income for the type of settlement or the quantity of durable goods in possession no less than the median for the whole sampling);
- self-identification (the individual rates his/her social status at least 4 points out of 10).2

However, the middle class is not homogenous, just like any other social group. It includes two subgroups: the core of middle class is relatively stable and it comprises the people who display the qualities of the middle class most clearly. The periphery of the middle class core is less stable and middle class features gradually weaken in it.

We used two key features of the middle class to define the above-mentioned subgroups – education and professional status. The core of the middle class was made up of managers/supervisors, entrepreneurs and experts/specialists with higher education and computer skills. The periphery comprised other people that met the criteria of the middle class, including: self-employed, clerks and retail sector employees with vocational secondary education, people with unusual combinations of education and job position (managers with vocational secondary education, low-level employees with higher education) or qualification (such as managers, entrepreneurs and experts with higher education but without computer skills) and unemployed middle class people. The core and the periphery together make up the contemporary Russian middle class.

As for the rest of the Russians beyond the middle class, two categories were defined – the potential middle class and other population that has no chances to be included in it. The potential middle class included the people that failed one of the four criteria except for the professional status, i.e. those who do not qualify as middle class due to education/well-being/self-identification but meet the professional status requirement. The rest of the population either failed the professional status criterion or had the adequate education and professional status but failed both self-identification and well-being criteria.

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Speaking of the middle class size change, the above methodology applied to the data obtained by the Institute of Sociology of the Russian Academy of Sciences (IS RAS) for the last 11 years shows that the middle class increased throughout 2003–2008 (to 34% from 29%), shrank during the 2008–2009 crisis (25%), recovered in 2010 and resumed slow growth reaching 42% of the population by now (Fig. 1).

![Fig. 1. Size of population groups in Russia in 2003–2014, %](image)

Now let us analyze the standards and values of the middle class, starting with the values that usually associate with modernist societies⁴ – nonconformity, choosing equal opportunities over equal incomes, internal locus of control (taking responsibility for one’s own life) (Table 1).

Table 1 shows that the values and beliefs typical for modernist societies are most prominent within the middle class, particularly its core. Both the core and the periphery of the middle class show very similar figures except for their judgment whether they can survive without the government support (more than half of the core middle class and less than half of the peripheral middle class are positive about it, the rest of Russians are even less confident of themselves).

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⁴ Speaking of modernist societies (as opposed to traditional societies) we mean the condition that these societies reach throughout modernization. Modernization is viewed in its neo-modernist interpretation – as a process that develops differently due to the specifics of cultures and historic experience of a given nation. Societies achieve the state of modern via economical, political, cultural, social and socio-cultural modernization (latter means shaping up new systems of values, meanings, behavioral patterns and rational type of thinking, etc.).
### Table 1

Values of population groups in 2013 and 2014, %

<table>
<thead>
<tr>
<th>Alternative statements</th>
<th>Middle class, including</th>
<th>Potential middle class</th>
<th>Other population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core</td>
<td>Periphery</td>
<td>Total</td>
</tr>
<tr>
<td>A person is responsible for his/her happiness, success and failure *</td>
<td>64</td>
<td>61</td>
<td>62</td>
</tr>
<tr>
<td>A person’s life is largely determined by external factors, not by his/her efforts *</td>
<td>36</td>
<td>39</td>
<td>38</td>
</tr>
<tr>
<td>I am sure I can provide for myself and my family on my own and I do not need financial assistance from the government</td>
<td>54</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>It is hard for me and my family to survive without financial support from the government</td>
<td>46</td>
<td>57</td>
<td>53</td>
</tr>
<tr>
<td>It is better to stand out as a unique personality than to live like everybody else *</td>
<td>69</td>
<td>63</td>
<td>65</td>
</tr>
<tr>
<td>It is better to be like everybody else than to stand out *</td>
<td>31</td>
<td>37</td>
<td>35</td>
</tr>
<tr>
<td>It is most important to be proactive, undertaking, looking for new things in work and life even if you find yourself in minority</td>
<td>59</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>It is most important to respect customs and traditions</td>
<td>41</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>Equal opportunities for everyone to show their abilities are more important than equal income, status and living standards *</td>
<td>78</td>
<td>72</td>
<td>74</td>
</tr>
<tr>
<td>Equal income, status and living standards are more important than equal opportunities *</td>
<td>22</td>
<td>28</td>
<td>25</td>
</tr>
</tbody>
</table>

The data marked by * are provided according to the IS RAS poll of 2013 that covered a comparable nationwide representative sampling and outlined various groups of population under the same methodology as later in 2014. The positions that are most typical for the respective groups are highlighted in grey (here and after).
Still it would be a stretch to say that modernist values clearly prevail in the middle class. A smaller but still significant share of the middle class holds to opposing, traditional values. The Russian middle class demonstrates the same discrepancy of values typical of the contemporary Russian society as a whole, though the former has advanced further on its way from traditional to modernist values (sociocultural modernization).

Looking at the historic data and comparing them against the 2003 figures shows that the support of nonconformity by the middle class increased but mostly due to its peripheral group (from 55% to 63%). The rest of the Russians showed an even stronger increase in support of nonconformity. As for the “equal opportunity vs equal income” dilemma, the changes were more controversial – the peripheral middle class and the Russians outside the middle class showed little change, while the core middle class that prioritized equal opportunity in 2003 (88%) showed a reversal (Table 2).

Table 2

<table>
<thead>
<tr>
<th>Alternative statements</th>
<th>Middle class, including</th>
<th>Other population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core 2003</td>
<td>Periphery 2003</td>
</tr>
<tr>
<td>It is better to stand out as a unique personality than to live like everybody else</td>
<td>72</td>
<td>69</td>
</tr>
<tr>
<td>It is better to be like everybody else than to stand out</td>
<td>28</td>
<td>31</td>
</tr>
<tr>
<td>Equal opportunities for everyone to show their abilities are more important than equal income, status and living standards</td>
<td>88</td>
<td>78</td>
</tr>
<tr>
<td>Equal income, status and living standards are more important than equal opportunities</td>
<td>12</td>
<td>22</td>
</tr>
</tbody>
</table>

On the one hand, the changes show that the society is becoming more homogenous in terms of values and that the middle class is becoming closer to the rest of the Russians. On the other hand, this means that part of the core middle class is disappointed with the modernist values that do not perform in the Russian institutional environment the way they were expected to.

The middle class appears divided in its view of the values and beliefs of the modernist society; the split is seen not only between the core and periphery of the group but also among age subgroups in it: younger people of the middle class tend to show more support for the modernist values than older people (Table 3).
The middle class is similar to the rest of the Russian population – younger Russians generally show a more modernized mindset. However, even considering only the people below 30, it is the middle class that shows more support to the modernist values. Age is an important factor marking the difference between Russians who prefer modernist or traditionalist values but it is not the only one – the social class matters as well, reflecting a group of attributes that influence this choice (a certain level of well-being, accrued human and cultural capital etc.).

We also note that the middle class shows age differences across all these values except for the “equal opportunity vs equal income” dilemma where the middle class splits 3 to 1 (75% supporting equal opportunity and 25% support equal income) regardless of age.

5 The data marked by * are provided according to the IS RAS poll of 2013 that covered a comparable nationwide representative sampling and outlined various groups of population under the same methodology.
Speaking of the extent of modernization of values among the middle class, we can briefly mention such a feature as rational thinking that is also typical of modernist societies. Mid-term and long-term planning of one’s life, more typical of the middle class, is one of indicators of rational thinking (Fig. 2). The middle class, particularly its core, has a much longer planning timeframe than the rest of Russians due to the differences in living conditions (a more stable position on the job market), standards and norms.

Hence, talking about everyday values, standards and mindset of the Russian middle class one can state that modernist values (such as independence, nonconformity, initiative, rational planning of one’s life) prevail. This might bring us to the conclusion that the Russian middle class should show stronger support for the Western-oriented path of development (and the institutions associated with it). However, empirical data shows that this is not the case – the Russian society currently holds the consensus view that the Western model of development cannot be applied to Russia, and though the middle class supports the Western route more than other populations’ groups do, most middle class representatives (as well as Russians in other social groups) tend to take the view that Russia needs its own “special” way (over 66% of the middle class and 75% of Russians from other social groups back this opinion).

Comparing the recent data to the answers from the year 2003, one can see that the opinions of different social groups barely changed – with the exception of the core middle class where the support of the Western path declined to 33% from 43% (Table 4) meaning that even the most pro-Western part of the middle class gradually gives up on this way of development. It is likely that, witnessing the development of Russia in the recent years and trying to implement the Western model over the last 20 years, the core middle class decided that the standards
and institutions that perform efficiently in the developed Western world can yield quite different results in Russia.

Table 4

<table>
<thead>
<tr>
<th>Years</th>
<th>Middle class, including</th>
<th>Potential middle class</th>
<th>Other population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core</td>
<td>Periphery</td>
<td>Total</td>
</tr>
<tr>
<td>2003</td>
<td>43</td>
<td>34</td>
<td>37</td>
</tr>
<tr>
<td>2014</td>
<td>33</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

Support for one or another path of development differs in middle class depending on age: the younger representatives of the middle class are more prone to choose the West-oriented option than the older generation. In the below 30 age group, 42% of the middle class believe Russia should live by the same rules as the contemporary Western powers. This share decreases with increase of age – to slightly above one third among people 31 to 40 years old and to 25% among older groups. It should also be noted that the middle class shows more support for the Western path in every age group: 17% of all Russians older than 50 and 21% of the middle class in the respective age group choose the Western route. In general, though the idea of Russia following the West is more popular with the Russian middle class than with other social groups, this point of view is not prevailing even among the younger representatives of the middle class – almost 60% of them want Russia to find its own, special way.

The general idea that the middle class has about the future it wants for Russia is largely similar to that of the general population and clearly articulates the demand of the society for the soft conservatism focused on social issues: justice, equal rights and strong government are the main priorities (Table 5).

The middle class supports the stable development of the country: it does not welcome hardline government or revolutionary reforms; neither does it support the free market with the minimum involvement of the government. Convergence with the West is also not a priority. This confirms the conclusion that the middle class wants Russia to take its unique “special way” that does not coincide with that of the Western world. The Russian middle class believes that Russia’s way should not be limited to social justice, equal rights and freedom of self-expression, i.e. features typical of the Western world as well (note that the middle class typically prefers equal opportunity to equal income), but should also include quite a significant involvement of the government in social and economic issues (mostly by creating a specific institutional environment, setting
the fair institutional rules, enforcing them and balancing the interests of different social groups – Mareeva 2013; Tikhonova 2011), a feature less typical of the contemporary neoliberal Western doctrine.

Table 5

**Statements about the future of Russia as seen by the middle class and the rest of the Russians, 2014, %**
*(ranked by the replies of the middle class)*

<table>
<thead>
<tr>
<th>Statements describing the desirable future of Russia</th>
<th>Middle class</th>
<th>Rest of the Russians</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social fairness, equal rights for everyone, a strong government taking care of the nation’s citizens</td>
<td>49</td>
<td>56</td>
</tr>
<tr>
<td>Regaining the status of a superpower</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>Return to national traditions, moral values tested over time</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Human rights, democracy, freedom of self-expression</td>
<td>33</td>
<td>27</td>
</tr>
<tr>
<td>Securing stability and social development without revolutions or shocks</td>
<td>27</td>
<td>29</td>
</tr>
<tr>
<td>A strong hardline government able to secure order</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Russia primarily for Russians, creating a national Russian state</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Solving the global problems of humanity (environment protection etc.)</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Free market, private property, keeping government involvement in the economy to the minimum</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Convergence with the West and the developed world, entering the “common European home”</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>New, revolutionary rebuilding of Russia</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>None of these slogans reflect your personal dream of Russia’s future</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Now let us turn to the values and standards that are not the direct markers of Russia’s future path chosen by the middle class but that largely influence the range of opportunities available when choosing the nation’s development model. Any nationwide initiative can succeed only if it finds support at the grassroots. Let us look at the values that reflect the attitude of the middle class to private property, the key non-political institution.

The Russian middle class is positive about the very fact that private property exists in Russia, and its support for private property is stronger than in other groups, while the difference between the core and the periphery of the middle class is insignificant (in both if these middle class subgroups at least 70% approve of private property and see it as a necessary and useful institution, and about
25% are neutral about it, taking it as a natural fact). The potential middle class and the rest of the population show much lower support rates for private property (56% and 52%, respectively). A negative attitude to private property is displayed by 2% of the middle class core, 6% of its periphery and 12% of people outside the middle class. Therefore, accepting private property as an effective and necessary social institution, not just as an existing fact, is more typical of the middle class than of the rest of the Russians.

The data show that all the strata of the Russian population have improved their attitude to private property since 2005; that applies to the middle class as well, though it did not show any qualitative changes – back in 2005, it already perceived private property as part of everyday life, as a standard (Table 6).

<table>
<thead>
<tr>
<th>Years</th>
<th>Middle class, including Core</th>
<th>Core</th>
<th>Periphery</th>
<th>Total</th>
<th>Potential middle class</th>
<th>Other population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>68</td>
<td>64</td>
<td>66</td>
<td>54</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>73</td>
<td>70</td>
<td>71</td>
<td>56</td>
<td>52</td>
<td></td>
</tr>
</tbody>
</table>

But what does the Russian middle class mean when talking about private property? Data show that the way that the Russian middle class sees private property is quite different from the classic understanding accepted by the economic science. The Russian middle class understands private property primarily as personal use items and real estate such as apartments (85%), country houses (81%), land plots used for one’s own need (78%) or for growing agricultural products for sale (66%), and cars (71%). A smaller share of the middle class is ready to accept the idea that private property can apply to plants, factories, shops (63%), shares of company stock (52%), large amounts of money (47%), durable goods (45%). Finally, the Russian middle class barely applies the concept of “private property” to natural resources (13%), meaning that it does not see private property for nature and its resources as legitimate. Other groups of the Russian population largely take a similar view, though people outside the middle class tend to show smaller rates of support for private property for country houses (74%), apartments (80%), land plots used for one’s own needs (72%) or for growing agricultural products for sale (60%). As we can see, all Russians, including the middle class, understand private property as applying mostly to tangible physical objects. Understanding private property for less “physical” things such as money, stocks etc. is weaker.
Now let us see how the middle class treats the fact that foreign companies operate in Russia. The data show that the middle class tolerates this fact better than the rest of the Russians, and both parts of the middle class stand out in this respect from the groups that do not belong to it. The core of the middle class is more positive about the presence of foreign owned companies in Russia (Fig. 3). However, even the core has a smaller but still a significant share that is negative about foreign ownership of businesses, and this share grows to one third for the peripheral middle class. Therefore, one can say that Russians, and even their middle class, do not accept the open market economy “as is” and this means the classical Western model cannot be applied to Russia.

Dynamics of the data show that though the share of people who consider the Western path of development unacceptable for Russia has grown, the share of the middle class that is positive about foreign ownership of Russian companies has grown over the last 10 years (from 18% in 2005 to 31% in 2014) while the share of people taking it negatively declined (from 42% to 29%). However, the change in the middle class’ attitude to foreign ownership reflects the general increase in Russians’ tolerance to foreign ownership.

Now let us see how the Russian middle class treats the rule of law, another basic institution of the Western society. The middle class reflects the general opinion of the Russian society on the issue that implies a certain degree of “conventionality” – it is not necessary to abide by the law if the authorities break it; only 25% of Russians (both in and outside the middle class) accept the rule of law unconditionally (Fig. 4).

We see that the middle class is representative of the whole Russian population in terms of attitude to private property and to the law as a tool that regulates relations in the society. Both the middle class and the rest of Russians neither reject the basic non-political institutions of the contemporary Western
societies, nor do they take them for granted – they believe that there are boundaries for the concept of private property, prerequisites that justify abiding law etc.

![Fig. 4. Attitude to law across various groups of population, 2014, %](image)

Now let us see what Russians think about the standards and values related to political institutions and the regulation of the political life in the society. Again, the data show that the middle class generally reflects the opinion of the whole Russian population, and it is not possible to say that the people of the Russian middle class have a different political mind-frame or very different ideas of the optimal political structure and political institutions than the rest of the Russians. Also, these values and beliefs are sometimes quite different from the understanding of human rights and the role of the opposition in the society typical of the developed Western democracies. For instance, the Russian middle class generally (though to a lesser extent than the rest of the population) agrees that the state must always choose to protect the interests of the majority over the interests of an individual, and that the mission of the opposition is to help the government rather than criticize it (Table 7).

It should be noted that the survey was held at a time when the political events in Ukraine took a twist beyond the rule of its constitution,⁶ so the opinions of the Russians about the acceptability of strikes and public protests to protect one’s opinion and about the actions of the opposition could have been “heated up” by the media campaign and their unwillingness to see the Ukrainian scenario unfold in Russia, and this should be kept in mind when interpreting the results of the research. However, historical data show that the recent data are not occidental (Fig. 5).

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⁶ February 2014.
Table 7

Political positioning of the middle class, 2014, % (ranked according to the share of those who completely agree to the respective statements)

<table>
<thead>
<tr>
<th>Statements</th>
<th>Fully agree</th>
<th>Somewhat agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every person should have the right to protect his/her opinion even though it differs from the majority view</td>
<td>62</td>
<td>34</td>
<td>4</td>
</tr>
<tr>
<td>The state should always protect the interests of the whole people over the interests of an individual</td>
<td>47</td>
<td>43</td>
<td>10</td>
</tr>
<tr>
<td>Real democracy is impossible without political opposition</td>
<td>46</td>
<td>45</td>
<td>9</td>
</tr>
<tr>
<td>The mission of the opposition is not to criticize the government but to help it do its job</td>
<td>43</td>
<td>49</td>
<td>8</td>
</tr>
<tr>
<td>Every citizen has the right to protect his/her interests by means of public rallies and strikes in any situation</td>
<td>37</td>
<td>55</td>
<td>8</td>
</tr>
<tr>
<td>Citizens should not be allowed to go on strike or hold protest rallies if public order is threatened</td>
<td>30</td>
<td>47</td>
<td>23</td>
</tr>
<tr>
<td>There are conflicts in every society that can only be settled by violence</td>
<td>10</td>
<td>41</td>
<td>49</td>
</tr>
</tbody>
</table>

Fig. 5. Political preferences of Russians: 2001, 2008, 2014, %

(share of those who chose “completely agree”)

7 The question about the mission of the opposition was not asked in 2008, the question about strikes threatening public order was not asked in 2001, so these data are not present on the chart.
Looking at the dynamics of this data for the middle class (2008–2014), one can see it was quite mixed: on the one hand, the share of the core middle class fully supporting that the government should protect the interests of the whole people over those of an individual decreased (from 52% to 41%; the periphery of the middle class showed no changes), reflecting a move to accepting the “individual above the society” concept that is typical of modernist societies. On the other hand, opposing trends were visible too: the share of those who believe that a person should have the right to protect his/her opinion even if different from the majority view fell (core middle class – from 72% to 65%, peripheral middle class – from 69% to 60%), while the share of believers that threat to public order voids the right to protect one’s personal interests increased (core – from 25% to 30%, periphery – from 22% to 30%). Such trends show that the political modernization of norms and values of Russians (including middle class) is complicated and non-linear process.

Conclusions

The values and standards of the middle class in everyday life largely match those of a modernist society (nonconformity, initiative, independence, rational thinking etc.). However, the political values and standards typical of the Western societies still do not prevail in the minds of the Russian middle class and are far from there. Such a discrepancy can be explained by the fact that the Russian middle class finds that, in the current situation, with the institutional specifics of the Russian state, such as excessive inequality, non-legitimacy of institutional conditions, lack of rule of law, – the direct copying of the Western route would be inefficient. It would be more plausible to borrow and adapt certain Western features that fit the Russian life. The Russian middle class supports the idea that Russia should find its unique way that matches its cultural code and implies social fairness, equal rights for everyone and strong involvement of the government.

References


Abstract

The authors of the article substantiate a new approach to the study of youth narcomania. Sociological theories of deviation by Emile Durkheim, Robert Merton and other scientists have been applied as a theoretical foundation. The conducted historical and sociological analysis allows the authors defending the thesis that there are no reasonable grounds to suspect drug consumption in Russia as a criminal activity, as well as to cast all drug users to the concept of “addict”. The consumer society that emerged in the post-soviet space influenced the differentiation of modern youth in drugs consumption. This motivates researchers to look for new causes of reproduction of addiction. The theoretical part of the article is supplemented with statistical data in Russia and the results of sociological research conducted in the South of the Tyumen region in 2010–2013. The results showed that the youth realize the problem of drugs consumption as socially meaningful. The younger generation is more knowledgeable, than the senior one on various aspects of drugs using. Since 2011 there has been a decrease in the positive evaluation of local authorities for the prevention of drugs using.

Key words: addiction, deviance, social control.
Introduction

The theme of addiction is one of the most crucial in the modern world (UNODC 2014), including Russia (EMCDDA 2014). Dynamics of addiction is associated with the objective contradictions of social development and sociocultural conditions, but the factors and their impact differ on various areas (Anisimova 2011). In Russia drugs consumption is considered a deviant behavior that is deviant from social norms established in the country. In this regard, drugs abuse took the form of latent social phenomenon, the study of which is very difficult. The “prosperous” period for its dissemination has been the transition to capitalism after the collapse of the Union of Soviet Socialist Republics which resulted in the transformation of norms, values and behaviour of the population, as well as it determined new trends in the development of addiction. Today drug using in Russia is not for the disadvantaged and socially excluded groups of society, but it is a common practice mainly among young people. Recreational drug using became popular which is characterized by self-controlled drug users and their involvement in the society. The study on such drug users have been carried out by foreign researchers for a long time (Zinberg 1984, 1991; Hess, Dany 2002).

The main difference between the concepts of “narcomania” and “addiction” is that the first one has a medical context (drug addiction is a disease) and the second one – social. Under the drug addiction is understood a relatively common, statistically stable phenomenon, manifested in the use by some parts of the population of narcotic or toxic substances and related consequences (Gilinsky 2000). The concept is complemented by indicators such as prevalence of drug using, the differentiation of drug practices, etc. (Gilinsky 2000). The prevalence of drug using among young people suggests that the norms of the modern generation are in conflict with the norms of post-Soviet society. This led to a revision of the understanding of this issue.

Professor Yuri Komlev who is specializing in sociology of deviant behavior and the theory of social control, made the following observation: “It would be simplistic to assume that the massive drug using caused only by the disease, individual drug experience inevitably leads to addiction. The majority of drug users does not go beyond one-time or occasional experimentation with drugs and with time, independently or under the influence of external circumstances abandon them. However, this latent part of the youth included in anesthesia, in fact, remains outside the scope of attention and general social prevention on the part of institutions of socialization and social control” (Komlev 2003). That is, the differentiation of drug users indicates a new tendency in the development of drugs and, consequently, the revision of social control in modern Russia.
The task of social control is to maintain the order in the society regulating the behavior of individuals in accordance with the established standards (in the case of drug using is to prevent it, or to reduce it). Depending on the tools used to achieve this goal, social control is divided into formal and informal. Formal social control uses formal (legal) methods of regulation, to implement it rules, laws, etc. are developed, which are binding and their implementation is monitored by the official structures. Informal social control uses informal (moral) methods of regulation and implemented through public opinion (for example, the approval or condemnation of the individual from family, friends, etc.) which motivates individuals to adopt the established social norms (for example, through the socialization process). Also people can control their behavior themselves.

Until the 1990s, the drug addiction as a social problem in the USSR was not recognized and in the mass consciousness of the people was correlated with the problem of capitalism in Western countries or with a military background, this does not mean that the drug was not used. Sociological studies of that time showed the stability of the drug, which was not an outdated phenomenon, as it was promoted in society (Golant 1929; Solomovich 1933; Gabiani 1988). After the collapse of the Soviet Union, Russia’s population was in a state of disorganization or anomie, according to Durkheim: social norms were broken, new ones began to emerge, social control weakened. This contributed to the spread of drug addiction. The number of patients who were first diagnosed with “drug addiction” and “substance abuse”, from 1990 to 2000 increased 12 times (Federal Service of State Statistics of 2014). Transit drug, routed through Russia, acquired extensive areas of drug trafficking.

Fig. 1. **Dynamics of the number of patients who were first diagnosed with drug addiction and substance abuse, per 100,000 (Russia)**

*Source:* The graph by the authors using the data of the Federal Service of State Statistics from 2014.
The graphs below (Fig. 1 and 2) show the changes in the level of registered drug addicts and drug-related crimes in the sphere of drug trafficking.

![Graph showing drug-related crimes in Russia per 100,000](image)

**Fig. 2. Dynamics of drug-related crimes in the sphere of drug trafficking, per 100,000 (Russia)**

*Source:* The graph by the authors using the data of the Federal Service of State Statistics from 2014.

The number of accepted each year on the account of drug addicts in Russia has decreased 1.4 times since 2010. And this is against the growing drug-related crime. An ambiguous situation emerged that requires a response to the questions: can the sale of drugs which is growing in Russia be carried out without the involvement of Russian citizens in drug use? Or the caught drug users are subject to criminal penalties? Or can people become more “conscious” of drug using?

In fact, these figures, which are submitted by medical institutions and law enforcement agencies, have not provided us with complete information about the development of addiction – we are dealing with “bare” facts of reported cases, it does not reflect the real social processes taking place within the Russian society.

In different countries there is a different way of formal social control that encourages seeing narcotism from different sides.

**Formal Social Control of Drug Using in Russia**

During the USSR times, it was believed that drug consumption is mainly for fringes that are characterized by the lack of self-control, violation of cultural norms of society, exclusion from social life. But after the collapse of the Soviet Union in Russia, the differential drug using was more and more distributed, typical for different population groups, including those who are included in society. A number of consumers who have high social status and good financial position were growing. Drugs are distributed in prestigious educational institutions, colleges and universities. The data of sociological research conducted in
the three largest universities of Yekaterinburg in 1999, indicated that almost half of the students had an experience of drug use (Malikova 2000).

Today, the Russian drug policy continues to build on the ideas of prohibitionism (restrictive measures) which aim to liberate the society from drugs, which are declared to be a threat to national security, and any drug using (regular or occasional) obviously defines a person as an addict who becomes the object of persecution by the state. Such a policy, according to the authors, is utopian, because the historical-sociological analysis of drug has shown the robustness of this phenomenon.

The analysis of regulatory documents shows that there are three basic strategies of formal social control in the fight against addiction: repressive (“War on Drugs”), liberal (“Harm Reduction”), and restrictive (Komlev 2005).

The repressive strategy considers someone who uses drugs, as a delinquent, antisocial type who is responsible for their behavior. Correction such a person is done using isolation, compulsory treatment. There are not any particular differences between a drug addict and a drug user. Drug addiction is seen as a disposable thing. This model is used in Russia, which the legislation does not define the term “drug”, “drug user”, and use “addiction”, “drug addicts”. Article 4 of the law “On Drugs and Psychotropic Substances” has no reference to human rights, which means law enforcement practices aimed at combating all who use drugs systematically as well as sporadically. This law speaks about the priority of prevention of drug addiction (disease), but not drug.

In the book “Ceremonial Chemistry” American psychiatrist T. Szasz argues that addicts are subjected to the same persecution inflicted on witches, Jews, Gypsies (Szasz 2003). He cites as an example obesity: instead of paying attention to an unhealthy diet (analogy: the harm that drugs can bring), the doctors blame overeating (abuse). The social prohibition against obesity should be viewed as a moral command, and not as medical advice.

Another strategy – liberal – sees the addict as a sick person, who needs to be treated. Drug using is voluntary choice of a person, and his likelihood of becoming addicts is the same as, for example, become an alcoholic using alcohol. Drug use may affect the socialization of the individual: he becomes the “bottom” of society, not to leave the family, make a career. Under this strategy, the drug is not completely eliminated, but with good policies can reduce the harm from drug use. The liberal model often allows partial legalization of drug use (mainly marijuana) and a small amount of storage. Many countries in Europe (the Netherlands, Switzerland, Germany etc.), some States of the USA are moving in this direction. But such model is hardly acceptable policy for Russia, because too
much mass attitudes and expectations (which are set by the authorities and the media) about the effectiveness of repression.

Another way of formal social control over drug using offers a restrictive model, which is successfully realized in Sweden (United Nations Office on Drugs and Crime 2007). Also this model, for example, is developing in Latvia – a former country of the Soviet Union. The approach of this strategy is intermediate between repressive and permissive model, since it includes a combination of hard measures with measures differentiated socio-medical prevention. The use of drugs is forbidden. From the point of view of the restrictive strategy, the addict is a sick person who needs various forms of treatment and re-socialization. A drug user and a drug addict are two different things. Individuals of the second type are objects of preventive anti-drug work to reduce drug demand and minimize harm from their use. The drug is not completely eliminated, but is amenable to control and limit.

Restrictive socially oriented strategy and its priority is prevention information, education, outreach-type activities to reduce harm while banning the legalization of all drugs and social policy aimed at addressing social exclusion, unemployment, poor living conditions, work and leisure activities. This approach is more flexible because it allows you to use the programs of replacement therapy of severe forms of drug abuse, needle exchange and other socio-medical interventions to reduce harm. Using a similar strategy in Russia would reduce the latency of addiction, to increase the effectiveness of anti-drug work due to the active social prevention, as well as to make financial investments not so much in the prosecution and maintenance of drug users in prisons, but rather on social and medical interventions.

Created in 2011, the Public Global Commission on Drug Policy, an expert group of the UN Global Commission on Drug Policy, on the basis of information about effective ways to reduce the harm caused by drugs to people who use them, proposes to change the direction of drug policy in the world: “The inefficiency of the existing system and the need – and opportunity – to change have become apparent “ (Global Commission on Drug Policy 2014). States are proposed to concentrate the forces on the health of the population and to redirect funding and political support from the security agencies for various types of science-based treatment and prevention of drug addiction. Experts of the Global Commission recognize that social campaigns such as “Say NO to Drugs” are ineffective: “Young people just do not believe such slogans, especially if authorities apply punitive sanctions” (Global Commission on Drug Policy 2014).

Fear cannot eradicate drugs from society. Their using does not disappear, but more sophisticated forms: people invent such drugs, which consist of compo-
nents not included in the prohibited list, but which are more dangerous in terms of chemical exposure (e.g., “spice”, which impress by their negative effects, many countries, including Russia). Hard approaches towards drug users are a barrier to accessing health services lead to stigmatisation and attaching “labels” on them.

**Look on Addiction from the Perspective of Theories of Deviant Behavior**

In Russia the use of prohibited drugs is defined as an administrative offence (Article 6.9 of the Administrative Code), which is punishable by a fine or arrest. Sociology defines any offence as deviant behavior (although not every deviation is an offence). Scientific sociological interest in the study of drug addiction is associated with theories of deviant behavior (Merton 1992; Durkheim 1994). Try to find the line separating the deviance from the crime, to understand whether the criminalization of drug use.

The French sociologist Emile Durkheim stressed that conflicting regulation of conduct of members of society are leading society to anomie, when old norms and values do not correspond to reality, and new ones has not yet been established. Social norms are destroyed; people lose the guidelines and they facilitate the spread of deviant behaviour (Durkheim 1994). In his opinion, to society cannot exist without manifestations of deviations, as they are a normal feature of social life, but anomie increases their prevalence.

Robert Merton complemented the theory (Merton 1992) who believed that the deviation is the inevitable reaction of the individual to the situation, when in society there is a gap between the established cultural goals and socially approved means of achieving them. By the example of the American society of the 20th century, the scientist showed the contradiction between the value accepted in the culture – achieving financial success – and the legitimate ways to achieve it, which resulted in a surge of deviations.

Merton has built a typology of deviant behavior and highlighted the following: rebellion, innovation, ritualism, retreatism, the last of which (where the scientist related narcomania) is characterized by the negation of the purposes of the society and ways to achieve them. This theory applied to the analysis of the drug situation in Russia has critically meaningful postulates. In the context of this theory can be explored addicts who have become “hostages” of a morbid craving for the drug using that led to the rejection of social norms, exclusion from social life, committing crimes to get money for drugs. But the development of drug shows the appearance of differentiated drug practices, which include
not only “socially renounced consumers, but also “socially integrated”, which combine and drugs, and the culture aim.

It is difficult to absolutely classify deviant behavior. As it is noted by the English sociologist Anthony Giddens “what is considered a deviation, depends on time and place the behavior that is “normal” under one set of cultural attitudes, will be regarded as “deviant” other” (Giddens 1999). This also applies to drugs: the whole story they accompanied mankind, their use is sustainable social phenomenon. In ancient civilizations drugs used in ritual and therapeutic purposes (e.g. Coca leaves, Mandrake root was used in order to Eleusinian rites, to relieve pain, restore strength, etc.). With the development of society began the use of drugs in medicine. Drug using becomes a global social problem at the end of the 19th century (due to the opium wars), but today many countries are reviewing their policies.

The durability of drug using shows that it performs certain functions in society. Drugs perform the following functions: anesthetic (withdrawal, reduction of pain), sedative (calming, reduces stress), a psycho-stimulant (such as tea and coffee), integrative (uniting people, as the “peace pipe”). Drug use can also be a form of social protest, a means of identification with the subculture, and social status. Modern society has generated a hedonistic drug using, and consumption as an escape from the standardization of life (Baudrillard 2006).

What we call bad or good behaviour comes from those who have the power to set the rules. Drugs – is the result of social construction: government policy and public opinion of different groups in relation to drugs vary in time and in space, from approval, tolerance to the complete rejection, prohibition and prosecution. Consider the case with marijuana. Why to drink a glass of wine to relieve the feeling of fatigue socially acceptable, and to smoke marijuana for the same purpose? In India where consumption of alcohol is regulated, there is one species of marijuana “bhang” which is allowed to use by religion (Kravchenko 2006). On the contrary, in Russia today, marijuana is illegal and alcohol is freely and widely used, although it carries no fewer health risks, but the differences are not in the nature of the impact, and legal assessment. Note that the number of patients registered in health care organizations with a diagnosis of “alcoholism” and “alcoholic psychosis” at the beginning of 2013 amounted to: in Russia – 1261 per 100,000 people (whereas with a diagnosis of narcomania – 228 per 100,000) (Federal State Statistics Service 2014). Indeed, the excessive use of drugs and alcohol can be considered an offence because of the violation of cultural norms that harm health. But the criminalization of episodic drug users is not justified. Why the individual believes that he himself is able to decide whether to use or not to use the drug as well as legitimate products?
Legislative boundary that establishes the boundary of valid transition of drug using in the offence is to be determined by the legislature after comprehensive research, analysis of foreign experience. While a complete ban on the use of drugs based on well-established stereotype of the ill-will of all drug users. You cannot ignore the socio-cultural factors which have an impact on reproduction and trends in the development of drug addiction.

By means of theories of deviant behavior we can describe the specifics of narcotism in different periods of historical time in different parts of the world, to reveal the forms of contemporary drug use, etc. It is Necessary to study the drug situation in Russia with the help of sociological studies that would provide more accurate information on aspects of drug addiction.

Below there is a brief analysis of the results of research on the drug situation on the example of the South of Tyumen region, conducted with the participation of the author. Statistical data correlated with the results of a survey on the local population.

According to statistics, the crime rate in the area of drug trafficking in the South of the Tyumen region is the highest after the theft. In 2014 it totaled 3208 crimes, which is 1.4 times higher than the 2010 figure. The growing level of crime increases the risk of the first test of drugs.

To assess the extent of drug addiction in the Tyumen region, the authors use the results of the research conducted in the framework of the project “Socio-Cultural Evolution of Russia and Its Regions”. In 2013, 1,271 respondents in the South of the Tyumen region, the sample corresponds to the structure of the general population, and is representative of the population by sex and age, education and type of settlement (urban/rural) structure (Romashkina, Davydenko 2011). For the purposes of analysis, the author subdivided into two subsamples: young people (18–30 years old) and adults (31 years old and older).

Also an empirical base was the monitoring of the Tyumen youth 2010–2013 sample size (18–30 years old) in 2010 amounted to 927 in 2011 – 1025, 2013 – 759 people. The sample was allocated by sex, age and locality, error one sign does not exceed 4%.

In the study to assess the relevance of the problem in the minds of the younger generation were asked: “What problems do you feel are most acute (urgent) for today’s youth?” (See Fig. 3). The rating was carried out on the basis of the evaluation relevance: the issue was awarded a grade from 1 (not relevant) to 5 (most important). The final index was calculated as the mean value.

One of the most significant social problems for youth – drug addiction – it takes 4th place, 63% said “high” and “very high” relevance.
Fig. 3. **Rank of problems according to the degree of relevance for the Tyumen youth, 2013, n = 759 people**

*Source:* The chart was compiled by the authors based on the data of the sociological research in the South of the Tyumen region in 2013.

A significant factor in determining the low level of awareness of the problem was the lack of jobs for young people in employment or training activities (see Fig. 4).

![Bar chart showing rank of problems]

Fig. 4. **The sense of actuality of the problem of addiction in the context of employment of the Tyumen youth, %, 2013, n = 759 people**

*Source:* The graph was compiled by the authors based on the data of the sociological research in the South of the Tyumen region in 2013.
Assessing the degree of involvement in the problem of drug use, it is revealed that a quarter of respondents (23%) one way or another faced the problem (the problem was related to the family, friends, acquaintances or any other way). Availability of experience of using said 2% of respondents.

Taking into account the latent nature of addiction, it is expected that not all respondents will be able to answer a direct question about the clash with drugs. For more accurate information, use indirect questions about awareness of the people who use and/or distribute drugs on the market, the varieties and names of drugs. Awareness is the first precondition of formation of demand for the product.

In all respondents items the young people are more informed than the older generation. They have known or heard about the consequences of drug use – 89% of young residents and 85% of the older generation; the varieties and names of drugs – 73% of youth and 54% of adults. As a rule, those who are faced the problem of drug addiction, are more informed about the consequences of drug use. Among young people, one way or another is faced with the problem, 96% know the consequences, and among those who have not experienced – 88%.

35% of young people said that they know people who use drugs. 11% know places selling drugs, 8% are aware of those who distribute drugs. That is, approximately every 3rd young resident of Tyumen knows someone who uses drugs, every 10th – informed where and from whom you can purchase them. These data support the hypothesis that youth drug addiction in the region is widespread.

One of the objectives of the above-mentioned sociological study on narcotism was to determine the degree of relevance of drug addiction in the minds of young people and the level of involvement in the problem. Also it seems that it is important to determine the social values of the youth, their relation to anti-drug authorities’ actions.

According to the Tyumen research, in the cohort from 18 to 30-year olds, there has been higher than that of the older generation, support values such as authority, mentioned by 22% of the younger generation and 15% of the senior (see Fig. 5).

In this case, youth is lower than among the adult generation, support for values such as tradition (noted 51% of youth and 61% of the older generation), sacrifice (36% of youth and 44% of adults) and morality (38% of youth and 46% of the older generation) (Romashkina, Davydenko 2013).
Evaluating the effectiveness of local authorities for drug abuse prevention in your city (area), it was noted that the majority of young people who in 2013 evaluated the work is neutral, and there is a large share of those who assessed the activity of the state officials. 35% gave a neutral assessment: the work is satisfactory, 22% believe that the work is bad, it is one-time actions that do not produce the desired result, 11% indicated that the activities of the authorities are bad, almost nothing is done. And only 5% believe that everything is being done and has the results.

There is a low interest of youth in the promotion of social projects: 22% of respondents reported that they are curious about the project “Youth against Drugs” and only 14% would like to participate in it. The greatest interest was expressed by young people aged 18 to 22 – 22% of the young respondents are ready to participate in the project (from 23 to 30 year old – 10%).

It turns out that in society there is a contradiction between the attitude toward the current drug situation and the actions of government. Does this mean...
that the current drug policy of Russia does not correspond to reality? What is the opinion of the youth on the existing formal social control? What is the general attitude of the young generation to drugs? The answers to these and many other questions are important for understanding trends in contemporary social processes. This poll is not sufficient to fully explore the situation and give recommendations on drug prevention. As narcotic practice exists in the socio-cultural context which includes both drug users and those who did not drink (Dany 2002) confirmed the importance of this study aimed at developing a methodology for the study of youth drug and identify the causes of the reproduction of this phenomenon in modern conditions of development of society.

A Brief Programme for the Sociological Study of Youth Drug Using

The study on drug using can be done by means of a variety of sociological methods: analysis of macro data state control of the drug situation; surveillance (e.g. for young people in nightclubs), formalized interview, in-depth interviews with experts, drug users, etc. Methods of sociological research are used to study social indicators of drug addiction (socio-demographic characteristics of drug users; valued orientations of young people, etc.). The use of different methods will allow you to get closer to the real picture of the processes, to divide the observed set of youth groups, ordered by degree of involvement in drug use. However, those who will be in the group recreation consumers will be particularly important to obtain data about the nature of addiction and understanding the social mechanisms of its functioning. The results of the study will serve as a basis for rational drug policies. The object of study is young people from 18 to 30 year old, the experts. The subject is youth narcomania.

The main hypothesis of the study is that social control affects social attitudes and has different effects on the development of youth drug.

The aim of the investigation is to study the attitude of young people and experts to drug use and strategies of formal social control.

Objectives of the study:

1) to assess the level of urgency of the problem in the minds of youth;
2) to determine the awareness regarding names, availability of drugs, consequences of drug;
3) to determine the degree of involvement of youth in drug abuse;
4) to identify its social attitudes to drug use;
5) to identify the attitude of young people to formal social control of drug use;
6) to measure the effectiveness of anti-drug strategies from the point of view of experts.

Factor operationalization:

The main determinants of youth drug are environmental factors and personal factors (gender, age, education, occupation, financial situation, social attitudes, social environment of the individual). The environmental factors include: cultural (ideology), economic (the price of drugs, the availability of acquisition), legal (criminal, administrative laws), social (preventive measures implemented in the region), medical (health care, prevention).

Basic Conclusions

Historical and sociological analysis shows that addiction is a sustainable social phenomenon that has existed since the beginning of human civilization and includes not only the number of drug, the type of drug consumed, the socio-demographic composition of consumers, attitudes towards drugs, forms of social control, etc. Therefore, exploring drug-addiction in Russia scientists should bear in mind the differentiation of drug practices.

Speaking about the sustainability of drug use as deviance, it should be remembered that this makes sense – so there is a reason why its reproduction occurs not so much due to individual variation, but rather on the societal level.

Contemporary socio-economic processes determined changes in the behavior of people. In Russia there is a change of the company’s deficit now is the consumer society, which has its own specifics and drug use. Recreational groups formed which control the intake; remain active in public life, but whose behavior is contrary to cultural norms.

Social control carried out on the territory of Russia differs from the restrictive models of control in some countries, where the drug is much lower. Prohibitionism in Russia leads to the fact that any people who use drugs, regardless the degree of addiction to them and social inclusion/exclusion, become the object of persecution and branding. Restrictive model which is intermediate between repressive and liberal, socially oriented and allows you to approach the adequate drug because a drug addict and a drug user is different, requiring differentiated action of various socio-medical prevention. Today we need to understand what anti-drug policy contributes to reduced consumption, which effectively implements preventive measures. The urgent task in the development of preventive measures is to obtain timely and comprehensive information reflecting the actual processes associated with addiction.
References


The Situation on the Market of Medical Services in Russia

Abstract
The world-wide types of organization and financing of the health care system are analyzed. The analysis of the dynamics of the federal budget’s cost structure is carried out. The analysis revealed the decrease in costs on a social sphere while there is the increase in the demand for financing. As a comparison the article presents the costs on health care and the health status of population in different world countries in relation to the global rating of the health status of population. In order to analyse the development level of the regional market for medical services the article provides the basic data that characterize the health care system of the Tyumen region, as one of the most dynamically developing regions in Russia with a high level of living, and, the region capital city of Tyumen is considered in particular. The conclusions drawn are in line with the data obtained in the run of the sociological research “The Socio-Cultural Portrait of the Region” which deals with the development of paid medical services in the Tyumen region.

Key words: health care system, the market of paid medical services, Tyumen region.
Introduction

The health of population is not only an indicator of the nation social prosperity, but it is also a system-forming factor of the society. In the situation of transformations of social formations and related social changes it is necessary to investigate the processes of modernization of health care as a social institution in the context of changing political, economic, socio-cultural, and other factors. The changes in the modern Russian system of health care are related to its value “recoding” which is expressed in the replacement of the principle of social justice by the postulate of economic efficiency of the health care system, in the formation of new coordinates of values and norms in the activities of subjects of health care system. The Russian health care system, which was formed in the 1990s of the 20th century, was exposed to considerable changes, which resulted in the decline in quality and availability, as well as the volume of medical services provided to the population. The demand for the improvement of mechanisms for the provision of medical services is motivated by real-life challenges. The important problem is the failure of economic mechanisms of activity of health care institutions at different levels, the gap between funding and amount of medical assistance, the gap between financing for budgetary commitments and CHI; the public medicine assistance within the framework of the programme of state guarantees is an economic problem. Despite the fundamental importance and significance of health and health care in the country, the industry is funded residually, which aggravates the contradictions in the system development, and exposes the weaknesses of the health sector.

The problematics of our research consists in the change of paradigms of social development, the transformation of the Soviet system of provision of medical services which generates the development of such a new economic unit as the market for paid medical services. The issues of activity of medical establishments get in the light of a new socio-economic reality are being investigated. The modern period of development of the national health system raises the problem of the necessity for transition to new technologies of planning and management, but the efficiency of functioning of the health system largely depends on a rational system of management in the sector. One of the major issues of the efficient management is the allocation of limited resources. At present the current state of the health care system is characterized by the gap between the required and actual funding for the industry. The increase in costs, according to the authors, is a necessary condition for the development and improvement of the national system of the provision of health services, and as a consequence of social and economic development of the state. The problems
of development of economic relations in the health care in the market environment associated with the transition to completely new market relations generate specific features of functioning of medical institutions with paid medical services, and they determine the change in consumer behavior on the market of medical services.

Institutional analysis of external functions of health care, from the point of view of the social whole, is impossible without the study of its internal structure (its inherent activities, social roles and statuses). This provides a possibility to determine deviations and dysfunctions in its activities manifested in the modern conditions of Russian society. It is obvious that in modern Russia due to the restructuring of key public institutions, there are needs in new types of social activities. This fully applies to the health care system. There are reasons for the change in a society’s needs in the ways of functioning of the health care system. First, the shortcomings of pre-existing administrative-command system of health care management. These include:

- functioning of health care under the unified nationwide standards, without taking into account the real needs of the population;
- assessment of activity of medical establishments on gross indexes without taking into account the needs and demands of a certain person;
- a highly centralized system of management and financing which predetermines the low efficiency of use of limited resources, the imbalance in the structure of medical care;
- a shift of medical care in the direction to expensive types of treatment for the sake of prevention;
- a lack of motivation of health care workers is a major cause of the low quality of medical care.

Second, the objective deterioration of the health status of the population. The problems of the deteriorating health of the nation in Russia can be summarized as following:

- the natural decrease in population due to the decline of birth rate and growth of death rate;
- the diminishing of life expectancy;
- the differences in the male and female life expectancy.

Third, the growing social unrest associated with the dissatisfaction of the population with the quality and organization of medical care. It is obvious that the emergence of these reasons stems from the political and the subsequent socio-economic changes in the society.

The increased interest of the Russian president Vladimir Putin, the scientific community, experts and practitioners to health care is associated with critical
points concerning the today and tomorrow of each citizen, in connection with
the deployment of new key directions for the next phase of the health reform,
the continuing debate on the state of regional finances. According to the latest
(2014) official figures from the HSE, the growth of salaries of doctors increased
the requirements of population to health services (about 60% of current expenses
of the system of mandatory health insurance (CHI) is the remuneration of health
workers), which caused an increase in their negative assessments against enormous
by the standards of the Russian Federation the Federal budget expenditures in
2011–2013 for the purchase and repair of medical equipment, medical devices
and their components. As the HSE experts state, health workers have a negative
attitude towards the majority of ideas of the Russian Ministry of Health for an
“effective contract”, and the differentiation of salaries depending on qualifi-
cations. It was clearly proven that the increase in salaries of health workers in
2012–2014 was not linked to “travelling maps” of restructuring of medical
institutions, while there has never been the system of external evaluation of
quality of healthcare in the Russian Federation. The “Open Government” which
is dealing with the subject on behalf of the President of the Russian Federation
was offered to initiate an urgent programme on the sector restructuring (which,
by estimate, will allow to save up to 10% of expenses of the CHI system by 2018)
and reduction of the surplus accountability in the health care sector. The reforms
in the health care sector undergoing in Russia have a special social effect in
connection with the influence on vitally important interests of the society. Although
the parameters and priorities of the strategic development of the industry have
been conceptually defined, and the measures to ensure the sustainable develop-
ment in the health sector have been undertaken, the Ministry of Labour of the
Russian Federation has been issued specific plans for the further reductions in
the network of state and municipal institutions of health and education in 2014–
2018, which testifies the steps taken by the government of the Russian Federation
in the social sphere in general and in health care in particular.

Various Forms of Health Care in the World

There are four main types of organization and financing of health care
system in the world. *The first type* is the presence of a private health care system
in the framework of a market economy (e.g. the USA). Medical care is carried
out mainly on a paid basis at the expense of the consumer of medical services;
as such there is no uniform system of public health insurance. The market of
paid medical services is the main tool to meet the needs of health services. The
state undertakes that part of needs which is not satisfied by a market (low-
income sections of the population, pensioners, and unemployed persons) by developing and financing of public health care programmes. The second type of organization and financing of the health system is characterized by the presence of the public health system in the framework of a market economy (e.g. the UK, Ireland, Denmark, and Portugal). The large part of the state is predominant here. Health financing is mainly done from the state budget through taxes from the enterprises and the population. The population receives medical care free of charge (except for a small number of medical services) and the state is the main provider and purchaser of health care assigning the market a secondary role. The third type of organization and financing of the health system is characterized by the presence of the public health system within the state economy (such system existed in the USSR): all medical care with no exception is free and publicly available. The key features: advanced prevention, accessibility, free of charge, and high quality medical care. The fourth type of organization and financing of the health system is characterized by a mixed health care system in the framework of a market economy (the majority of developed countries, e.g., France, the Netherlands, Austria, Belgium, Switzerland, Canada and Japan). The state plays a key role in meeting the needs of the population, in the presence of the market of medical services (meeting the needs of the population beyond the guaranteed level, providing freedom of choice and consumer sovereignty).

The Situation on the Market of Medical Services in Russia: Today and Tomorrow

The data of the survey carried out at the beginning of 2015 by the analytical centre “Levada-Center” testify that 51% of the Russian respondents feel the infringements in their right for medical help and social defense. How can this high level of uncertainty in availability of medical care be explained? Russia because of its historical transformation in the 1990s came to a necessary reform of the health system. The need for it was determined primarily by the accumulated underfunding, secondly, by the exacerbated inequalities in the access to health care. It was assumed that the increase of funding in conjunction with the development of market economy would solve the problems of financial security of the industry, as well as the issues of equality of access to healthcare resources.

In view of the obvious and significant defects of the health care system inherited by Russia from the communist past, in the 1990s, and later in the 2000s a number of projects attempting to solve the question of reforming the health care industry were run. However, according to the experts, the reform is characterized by a lack of consistency of the actions undertaken. As V. Vlasov
noted in his article: “…some of them are just euphemisms (no “main” drug supply which could be supplemented by “additional”, does not exist), some measures reflect the aspiration to add individual elements to the health care system, which are able, as expected, to improve it…” (Vlasov 2014). The indicators of efficiency of the functioning of the health care system should be developed for the purposes of the analysis of the health care system. In the early 2000s these indicators are increasing amounts of the spent budget and insurance funds allocated to the health system, since 2010 they are replaced by the improving demographic indicators and the transition to “effective contract” with a unique remuneration of health workers. However, this does not solve the existing and emerging problems of the health care system against the background of current reforms. And yet what can be attributed to the real characteristics of the performance of the health system? In order to solve the problems considered above, at the beginning of the 1990s the parallel system of financing was created by means of compulsory health insurance (CHI) in addition to the resources allocated to health care. And since January 1 2015 the introduction of a single-channel financing which causes a lot of controversy about the effectiveness of this method of financing of health care has been introduced. The process of closing medical facilities began in the 1990s, in the 2000s it was undergoing at an accelerated pace under the slogan of reducing overheads, by 2014–2015 it reached its peak, due to the need of transition to a single-channel financing, involving, primarily, the reduction of costs, including hospital beds. Open conflicts expressed in the mass meetings and strikes of doctors who do not accept basic postulates of the reform of health care are going on in medical community.

However, in the era of growing economic crisis, the contradictions in the choice of strategy of development of the health system will intensify: to preserve the existing system of health care that provides minimum guarantees or to reform it in order to turn into cost effective?

In conditions of economic recession and, as we can see, the clearly decreasing efficiency of state management, various adverse changes in the funding system of medicine are undergoing, but they always involve the reduced state spending on health care. Russia is no exception of this pattern, which is evidently demonstrated by the data in Fig. 1 (The Dynamics of Expenses of the Federal Budget of the Russian Federation). We can see that the expenditure of the Russian Federation budget on social policy significantly and quickly “shrink”, while, according to the existing forecasts, the expenditure on national security and administrative sectors will increase from the current 19.5 percent of GDP to
25% of GDP in 2016; while the currently low birth rate and increasing life span of the population determine the growth in the share of population over working age, characterized by high demand on health care in the Russian Federation. The growth of expenditure necessary to provide medical care to the population is a global challenge to modern health care systems, as medical services are significant social and economic benefits. This determines a special role in observing the principles of accessibility and equality of quality of health care for all segments of population.

For comparison, Table 1 presents health expenditure and health status of the population in different countries in correlation with the global rating of population health.

<table>
<thead>
<tr>
<th>Country</th>
<th>Costs, %</th>
<th>Expenditure per capita, $</th>
<th>Global ranking health *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>9.5</td>
<td>3022</td>
<td>2</td>
</tr>
<tr>
<td>Australia</td>
<td>8.7</td>
<td>4774</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.6</td>
<td>3757</td>
<td>9</td>
</tr>
<tr>
<td>Austria</td>
<td>11</td>
<td>4388</td>
<td>12</td>
</tr>
<tr>
<td>France</td>
<td>11.9</td>
<td>4021</td>
<td>13</td>
</tr>
<tr>
<td>Canada</td>
<td>11.3</td>
<td>4404</td>
<td>14</td>
</tr>
<tr>
<td>Great Britain</td>
<td>9.6</td>
<td>3480</td>
<td>21</td>
</tr>
<tr>
<td>Chile</td>
<td>8</td>
<td>1199</td>
<td>27</td>
</tr>
<tr>
<td>Cuba</td>
<td>10.6</td>
<td>431</td>
<td>28</td>
</tr>
<tr>
<td>United States</td>
<td>17.9</td>
<td>8362</td>
<td>33</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>10.9</td>
<td>1242</td>
<td>37</td>
</tr>
<tr>
<td>Russia</td>
<td>5.6</td>
<td>661**</td>
<td>97</td>
</tr>
</tbody>
</table>

* The country’s place in the ranking of population health assessment, Bloomberg, 2012.
** For Russia costs are given in purchasing power parity.


However, it is important to emphasize that among developed and some developing countries, Russia is the leader in the incompetence of doctors in the eyes of population, as evidenced by the comparative sociological research, presented by the Levada Center.
Table 2

Distribution of answers to the question: “Do you think that professional level of most doctors is lower than required? (the percentage of citizens who agree with this statement)”.

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
<th>Country</th>
<th>%</th>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>52</td>
<td>South Africa</td>
<td>35</td>
<td>Croatia</td>
<td>25</td>
</tr>
<tr>
<td>Poland</td>
<td>50</td>
<td>United States</td>
<td>35</td>
<td>Switzerland</td>
<td>25</td>
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<tr>
<td>Bulgaria</td>
<td>47</td>
<td>Taiwan</td>
<td>35</td>
<td>Czech</td>
<td>25</td>
</tr>
<tr>
<td>Philippines</td>
<td>41</td>
<td>Turkey</td>
<td>34</td>
<td>Great Britain</td>
<td>24</td>
</tr>
<tr>
<td>Portugal</td>
<td>40</td>
<td>Norway</td>
<td>33</td>
<td>Sweden</td>
<td>23</td>
</tr>
<tr>
<td>Chile</td>
<td>38</td>
<td>Australia</td>
<td>31</td>
<td>Belgium</td>
<td>22</td>
</tr>
<tr>
<td>Germany</td>
<td>38</td>
<td>Slovakia</td>
<td>29</td>
<td>Israel</td>
<td>22</td>
</tr>
<tr>
<td>Korea</td>
<td>37</td>
<td>France</td>
<td>29</td>
<td>Netherlands</td>
<td>21</td>
</tr>
<tr>
<td>Denmark</td>
<td>37</td>
<td>Slovenia</td>
<td>28</td>
<td>Japan</td>
<td>17</td>
</tr>
<tr>
<td>Finland</td>
<td>35</td>
<td>Lithuania</td>
<td>27</td>
<td>On average in the world</td>
<td>32</td>
</tr>
</tbody>
</table>

If in the world the medical profession guarantees a decent standard of living, in Russia (especially in the regions) most doctors struggling to survive. It is unlikely that in such objective circumstances, it can be argued that the quality of medicine in the country even better than it could be with such low wages.

The question appears: which of the following mechanisms in Russia contribute to the provision of guaranteed medical assistance to the population in the conditions of functioning of the national health system? In our opinion, more or less appropriate responses can be formulated as follows. First, the increase in public expenditure due to changes in priorities in allocation of resources (however, this option “cost” is unlikely). Second, the increase in tax revenues due to the population increase in the tax burden may have a negative impact on the economy in the long term. Third, the extension is directly independent participation of the population in paying for medical services – apparently, this is the only real alternative to the others. The income growth and the formation of a solvent social layer that accepts responsibility for their own health, determine the increase in the demand for medical services. The continuing lack of financing causes the necessity and inevitability of patient participation in self-pay medical services.

To analyze the development of the regional market of medical services refer to the Tyumen region, as one of the most dynamically developing regions in Russia with a high level of life, in particular, considering the regional capital – the city of Tyumen.
Table 3

Indicators of morbidity of population (per 1,000 population)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>730.5</td>
<td>743.7</td>
<td>780.0</td>
<td>796.9</td>
<td>793.9</td>
<td>799.4</td>
</tr>
<tr>
<td>Tyumen region</td>
<td>925.7</td>
<td>899.3</td>
<td>848.9</td>
<td>848.0</td>
<td>846.3</td>
<td>862.3</td>
</tr>
<tr>
<td>Hanty-Mansi Autonomous Area-Yugra</td>
<td>966.5</td>
<td>891.4</td>
<td>911.7</td>
<td>908.5</td>
<td>919.7</td>
<td>937.9</td>
</tr>
<tr>
<td>Yamal-Nenets Autonomous Area</td>
<td>1095.7</td>
<td>1178.0</td>
<td>1151.5</td>
<td>1180.7</td>
<td>1122.1</td>
<td>1191.9</td>
</tr>
</tbody>
</table>


In Russia there is a growing tendency of the morbidity level of the population. The level of morbidity in the Tyumen region is significantly higher than the national average. Created over the last 6 years, the trend towards reducing the morbidity is not confirmed by the data for 2013, the morbidity of the population has increased. In the sub regions a sharp increase in incidence can be identified. Considering the Tyumen region without autonomous districts, it is worth noting the reduction of the morbidity rate for the period of 2013. In the structure of general morbidity of the population of the Tyumen region (the number of registered diseases in patients with the diagnosis set for the first time in their life, per 1,000 of population) lead to diseases of the respiratory system – 374.9 in 2012; the second place in the structure of general morbidity is injury, poisoning and other external causes – 88.4; in the third place is diseases of the genitourinary system – 63.7; the fourth place is diseases of the skin and subcutaneous tissue – 50.8 in 2012. Indicators of life expectancy in the Tyumen region roughly correspond to the national level. The increase in life expectancy by 2.9 years from 65.3 years in 2006 to 68.2 in 2011. The most common risk factors for public health can be viewed through patterns of mortality. In the structure of the general mortality of the population of the Tyumen region is leading the mortality from diseases of the circulatory system – 49% in 2012; second place in the structure of total mortality is death from external causes 15%; in the third place is the mortality from neoplasms (14%). A similar situation exists in the sub regions of the Tyumen region: distribution of causes of general mortality in KHMAO corresponds to the Tyumen region in a whole; in YaNAO is among the leading causes of mortality can distinguish diseases of the circulatory system, neoplasms, external causes.

The largest volume of medical techniques in Tyumen is part of the MHI – 71%, the share of voluntary medical insurance – 17%, the sector of legal com-
mercial medicine takes about 10% of the market. There is reason to believe that the private sector of the Russian health care has the potential to compete with the public sector on the labour market and on the market, pulling on a portion of the solvent demand of the middle and upper class. Indeed, the number of medical techniques in the sector of legal commercial medicine tends to an annual increase. Sector cash payments increased in real terms over the period 2008–2012, the number of medical practices in the city of Tyumen, for the period of 2008 is estimated 0.87 million techniques, reaching by 2012 0.97 million doses. For the period of 2012 the turnover of the market of medical services in the city of Tyumen has grown by 17.8% reaching 9 billion. Of course, a major factor in the development of the market is the growth of incomes of the budget of the MLA, which is the main sector of the market of medical services in Tyumen. The number of medical institutions is one of the major public accounting options in the health care system. Thus, according to the Federal State Statistics Service, the largest share among all medical facilities are outpatient clinics and 58% of the total number of health facilities in 2012, hospital – 26%, institution ambulance – 13%, other medical institutions – 4%. Most medical institutions are private: in 2012, they accounted for 76% of the total number of medical institutions of the city, with state ownership of 15%, and 9% are institutions of a different form of ownership.

The value of the market equal to the cash amount paid for all techniques. Average admission price in the city at the end of 2012 is RUB 923,8 having increased in comparison with 2011 by RUB 87.8. Thus, the average price of admission CHI amounted to RUB 595,9, the reason for this difference is the fact that the services CBO are paid by the state, as a consequence are strictly regulated and controlled. As you know, many markets are inflationary, i.e. the volume growth of the market due, primarily, not so much the increasing number of customers, increase the quality of medical services, their volume, how high inflation and subsequent price increases. The growth of prices for medical services, primarily in the commercial sector of medicine, is associated with large clinics’ inputs: the purchase of expensive imported equipment, lease or purchase of large areas, high salaries of highly qualified specialists. In recent years there has been a systematic increase in the salaries of medical staff. For the purpose of increase of highly qualified personnel, which is the main competitive advantage for healthcare organizations, especially private clinics have to raise salaries and more extensive schemes of wage payment than the institutions. With private health care providers are actively using the personnel reserve of the public sector, annually increasing the percentage of medical assistants.
On the development of the private healthcare market is influenced by satisfaction with public health services. Thus, respondents’ assessment obtained in the framework of the applied sociological research “socio-cultural portrait of the Tyumen region, serve as a kind of marker of the regional situation in the health system. Almost two-thirds of the population in the region noted that “it’s hard to get to the doctor, long queues, prescription drugs that are hard to get or they are very expensive (27–32%). Option “Doctors prescribe drugs that are hard to get or they are very expensive” – the second most frequent references version notes up to a third of the region’s residents. Moreover, the significance of the problem has increased almost everywhere. Almost every fifth is unhappy that “tips, doctors’ prescriptions rarely help”. Only 20% of the population surveyed said “Overall I am satisfied with medical care.” However, the market of private medical services was developed with almost no public system of health care financing and with a low degree of integration with the market of voluntary medical insurance and only serves to widen the choice of the consumer. In the Tyumen region the bulk of the population to obtain health care continues to be drawn to a clinic or clinic by place of residence, taking advantage of the policy of obligatory medical insurance.

Conclusions

1. According to our survey “The Portrait of the Regions” in 2007–2014, when you receive health care services paid health took no more than a quarter of the population surveyed. Thus, despite the fact that people with higher levels of financial situation is really a little more often turn to agencies for paid medical service, there is no clear division.

2. People, low evaluation of their income, use the services of paid health care. So 17–18% of those who indicated that they money is only enough for daily expenses or even not enough for them, have used the paid service of health. The further development of private medicine and its role in the health care system will largely be determined by the state policy in the field of development of medical insurance. With the active creation of conditions to enable private medical organisations in the CHI system and the promotion of VMI development private sector development should be an important factor in increasing the availability of quality health care to a significant portion of the population. Need it is crucial to have a constructive prerequisites for an efficient combination of activities of public and private sector medical services, in accordance with the prevailing objective and subjective factors.
3. The system of voluntary medical insurance prevailing in modern Russia, on the one hand, does not receive sufficient of its development in comparison with leading countries; on the other hand, overall health, medical care and health protection in Russia, indicate that in their market orientation (the desire for profit, competition, the ratio of demand and supply, bargain, rational choice, price and driving forces of economic development medicine) is moving further away from public / socially protected nature of health, which shall be intended mainly for poor people and people with average income (wealthy can take charge of their health).

4. Economic relationships that exist currently in the Russian health sector, not lawfully be reduced to pure market mechanisms, which inevitably contribute to the creation of conditions, which affect equal access to quality health care (especially pensioners, the poor and chronically ill) that would violate the natural rights of patients and the majority of the Russian population.

5. It is proposed not to focus on the inclusion of incentives in the remuneration system in the health sector in employment agreements: not more than 30% of doctors and 25% of nurses prepared in the current scheme to increase employment benefits in exchange for wage growth. Furthermore, experts state that while the reform does not reduce the part-time doctors: it is practiced by 20% of health care workers (on average they are busy 46 hours per week, which is 10–15% above the national average).

6. The Russian President demanded when switching to “effective contract” in health care the establishment of maximum permissible load of health workers, development of changes in the strategy “exposure” high-tech medical care in the system of compulsory health insurance, as well as the appropriate trade Union control [8], which should allow to increase the efficiency of the Russian health care.

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The Role of Knowledge Management in the Growth of Competitiveness of Business in the Region of Latvia

Abstract

Promoting competitiveness of small and medium-sized business is one of the key goals of the economies of the new EU states. In this relation it is necessary to determine the effect of the processes of knowledge management on the competitiveness of small and midsize enterprises (SMEs). In order to assess the processes of knowledge management, the authors analyze the results of the 2013 staff survey conducted among SMEs in the Latgale region of Latvia. The study proves that all the competitiveness indicators of the SMEs of the Latgale region are chiefly effected by the process of the creation of new knowledge by the staff of the organizations, as well as, secondarily, by strategic awareness among staff and more general results of business management in certain organizations. Key words: knowledge, management knowledge, business, region, competitiveness, Latvia.

Introduction

To ensure a correct understanding of the research area, it is necessary to consider several basic notions that are usually used as synonyms but have significant differences. Data is an aggregate of facts stored on a certain medium and ready for processing. Information is a result of processing and analysing data in solving certain problems. Knowledge is practically verified processed information that was used and can be used in decision making; it is intellectual capital. Knowledge can be formal, i.e. presented in the form of documents, rules, standards, guidelines, and non-formal, i.e. the knowledge and skills of employees...
obtained both in training and professional activities. Formal and informal knowledge is necessary for decision making. The results of decisions contribute to knowledge as acquired and accumulated experience. Therefore, knowledge is a result of intellectual activities: “Knowledge is the ability to turn information and data into effective action” (Applehans, Globe, Laugero 1999). In other words, “familiarity gained by experience; range of information” (Oxford Advanced... 1982). Finally, “knowledge is the combination of data and information, to which are added expert opinion, skills, and experience, to result in a valuable asset which can be used to aid decision making” (Despres, Chauvel 1999). As an area of management, knowledge management was first mentioned in P. Drucker’s book The Landmarks of Tomorrow (1956), where he defined a new type of activity – “knowledge work” (Drucker 1993).

The term “knowledge management” was first coined in 1986 in Switzerland by Karl M. Wiig in his presentation at a conference of the UN International Labour Organisation. He defined this activity as “systematic, explicit, and deliberate building, renewal, and application of knowledge to maximize an enterprise’s knowledge-related effectiveness” (Rooney, Hearn, Ninan 2005: 191). European scholars specialising in knowledge management identify a number of problems in this field. For instance, D. Gilmour stresses low return on investment in knowledge management (Gilmour 2003: 16–20). D. Cohen emphasises the problems associated with knowledge work (Cohen 2006: 28). The current situation is largely caused by insufficient attention paid by scholars to the basic theoretical aspects of knowledge management. Many scholars believe that knowledge is the reason behind wealth and prosperity (Hope, Hope 1997; Bozbura 2007), as well as a key factor behind the long-term success of enterprises (organisations) (Stewart 2001; Tatand, Stewart 2007). Therefore, an efficient use of knowledge can become a competitive advantage, which will contribute to the sustainable development of an organisation (Nonaka 1998; Storey, Bamett 2000). Therefore, knowledge and its management are of great significance for increasing the competitiveness of businesses, especially small and medium-sized ones, where decision making is associated with uncertainty and unconventional methods.

We pursue an applied research objective of identifying the significance of different factors for growing competitiveness of small and medium enterprises of Latvia’s Latgale region in the course of knowledge management.

**Approaches to studying knowledge management**

Recently, knowledge management has been arousing an increasing interest. Knowledge management embodies organisational processes that seek synergistic combination of data and information-processing capacity of information techno-
ologies, and the creative and innovative capacity of human beings. (Malhotra, 2000). We share the opinions of researchers adhering to a process-focused approach to knowledge management: knowledge management is a systemic management of all activities (processes) manifested in the obtaining and development, coding and storing, transfer and exchange, as well as use of knowledge for generating competitive advantages in an organisation. The efficiency of knowledge management depends on how the obtaining and transfer of new knowledge is managed in an organisation (Hicks, Dattero, Galup 2007; Sveiby, Simons 2002).

Therefore, one of the key objectives of knowledge management is its unification and availability, since different departments of one organisation often waste resources on accumulating similar information and duplicating actions as a result of poorly managed knowledge exchange and transfer processes (Robertson 2002).

It has been established that enterprises benefit from a well-organised and functioning process of knowledge transfer and exchange between departments, which can be both formal and informal (Riege 2007).

Other scholars believe that the only stable competitive advantage comes from the successful generation of new knowledge (Beveren 2002).

There are different means of knowledge generation in business – by analysts and expert groups within the enterprise’s departments or as a generalized practical result of implemented programmes and projects. At the personal and group management level, new knowledge is often a result of training, advanced training, and targeted acquisition of knowledge. Another source of new knowledge is the recruitment of staff with an already high level of knowledge and skills gained in previous employment. Yet another source of knowledge is the acquisition of other enterprises with their specialists, knowledge, technology, and experience. However, building new knowledge is not a systemic process that can be easily planned or controlled (Bhalt 2000).

Storage and processing of knowledge at enterprises is necessary for the accumulation and development of knowledge assets: knowledge should be well organised and easily accessible for search and business purposes. The transfer (dissemination) of knowledge takes place in different ways. It can be disseminated through documentation, data and knowledge base expansion. Most of new knowledge is transferred orally: from a person to a person via communication, cooperation, workshops, etc. Of special importance is the creation of a favourable atmosphere for exchanging ideas and experience. A significant element of knowledge dissemination is the demand for it shaped by the needs of the innovative development of the enterprise’s business processes, and the
employee’s interests associated with professional growth and personal development. However, a significant amount of knowledge is never used or is not used more than once. The use of knowledge is the final stage of the knowledge management process. Its use depends, first of all, on the abilities and motivation of the employees. One cannot rely solely on their professional interest or work ethics. The enterprise should encourage the use of new knowledge by different means: acknowledgement and rewards, promotion, etc.

Although the importance of knowledge has been recognised by business theorists and practitioners, the process of its transfer from one person to another is still an important problem for most enterprises and organisations (Szulanski 1996; Hurt, Hurt 2000; Wang, Noe 2010; Teece 2001). Knowledge transfer is a complex process, since knowledge is found in the minds of the employees (Argote, Ingram 2000) and is often ill-structured, whereas its transfer depends on the level of communication and trust among the employees (Skyrme 1999). A criterion of the efficiency of the changing knowledge massive as the enterprise’s asset is the ability of the employee to obtain the necessary knowledge in time. Thus knowledge is relevant when it is encoded, classified, and presented in a format convenient for storage. In this case, knowledge can be used to the benefit of the employees at the opportune time and for certain purposes. The storage and encoding of knowledge is important not only for its effective use, but also in case there is a need to use it again. Therefore, it belongs to the enterprise rather than the employees (Nemati 2002).

Finally, the process of using of and benefitting from knowledge relates to the storage of knowledge obtained in the previous processes for further use and aimed at value added increase (Davenport, Prusak 2000; Despres, Chauvel 1999). One of the most complex functions of encoding is the systematisation and storage of knowledge without losing its content-related and other unique features that create its value (Davenport, Prusak 1998). The most difficult process is the encoding of implicit knowledge, since it is linked to the experience of the carrier of knowledge both subjectively and situationally (Chua 2002). Therefore, the processes related to knowledge (i.e. innovative ideas) transformation into goods and services with higher value added requires a more systemic and disciplined approach (Skyrme 1999). Knowledge management is less profitable if the generated knowledge cannot be applied for increasing the competitiveness and innovativeness of an enterprise. Therefore, knowledge management is a continuous processes aimed at the generation, storage, processing (accumulation), and use of knowledge at an enterprise to create competitive and innovative goods and services with higher value added.
Research methods

The objective of the research is defined as follows: assess the processes of managing formal and informal knowledge and its impact on the objective and subjective indicators of the competitiveness of a small or medium enterprise operating in the Latgale region. To achieve this objective, knowledge management is operationalized by the following processes: F1 – knowledge and strategy; F2 – knowledge acquisition; F3 – knowledge production; F4 – knowledge exchange; F5 – knowledge storage and documentation; F6 – use of knowledge; F7 – result of knowledge management. For assessing the processes of knowledge management, each process is juxtaposed with a set of statements that are evaluated by the respondents according to a Likert scale. The development of the integrated indicators of F1, F2…, F7 processes is conducted with the help of an averaged value of the assessments of each process. To calculate the generalised assessment of knowledge management processes (a generalised integral coefficient of knowledge management) F, it is necessary to calculate the arithmetic average of process assessments F1, F2,..., F7:

\[ F = \frac{1}{7} \sum (F1 + F2 + F3 + F4 + F5 + F6 + F7) \]

where F is the final generalised indicator of knowledge management, and F1, F2, etc. are generalised indicators by knowledge management processes.

Therefore, knowledge management processes and, therefore, their generalised indicator of knowledge management are scalar values.

The competitiveness of an enterprise is a general measure of interest and confidence in its goods and services in stock, financial, labour, and other markets. Key factors behind it are as follows: the enterprise value, workplace equipment, management concept, management technology, organisational system, human capital, strategic marketing, and technological, investment and innovative policies.

The operationalisation of the competitiveness rates of the enterprise can be divided into two groups. The first one brings together indicators that reflect objective characteristics of the enterprise’s competitiveness: changes in income over the last three years, changes in cost effectiveness over the last three years, changes in sales over the last three years, changes in the market share over the last three years. The second group brings together indicators that reflect the subjective characteristics of the enterprise’s competitiveness: a better performance than that of competitors, a greater market share, a higher growth rate of its earnings, a greater amount of innovations, a lower production cost than that of competitors.
A quota survey of managers and specialists at enterprises that meet the requirements of the study was chosen as a method of analysing knowledge management processes at the region’s small and medium enterprises. The survey was conducted in June 2013 in the Latgale region of Latvia. The region comprises Balvi, Daugavpils, Kraslava, Ludza, Preili and Rezekne Municipalities, and two cities of republican subordination – Daugavpils and Rezekne. The region’s area is 14.5 thousand square kilometres. Population density is 14 people per square kilometre; 292.6 thousand people live in Latgale.

A total of 104 regional enterprises showing the characteristics of small and medium businesses (in terms of turnover, number of employees, and cost of equity) participated in the survey conducted by the Institute of Social Studies at Daugavpils University. The survey was based on a stratified sample. The main stratification parameters included industry affiliation (manufacturing, trade, services, etc.) and geographical localisation (territory of the region). The survey parameters differ from the regional population parameters by less than 3% in total in terms of relative indicators. The maximum sample error is less than 3% at a 95% confidence level. Top level managers accounted for 35% of the respondents, mid-level managers (enterprise departments) for 19%, lower level managers for 8%, specialists for 35%, and other employees for 3%. An average respondent’s period of employment at the enterprise was 3.1 years; an average enterprise’s period of operating in the market was 3.5 years. Most enterprises (65%) were limited liability companies; the rest of the respondents represented private entrepreneurs (30%) and unlimited liability companies (5%). In 73% of the enterprises, the aggregate balance did not exceed 2 million euros, in 12% – 10 million euros, in 15% – 43 million euros. The equity base of small and medium enterprises of the Latgale region averaged 82%. The surveyed enterprises had one personal computer per 3–4 employees.

**Key results of studying knowledge management processes at the region’s small and medium enterprises**

As a result, the above values associated with knowledge management processes were assessed on a scale from 1 (a low value) to 5 (a high value) (Table 1).
Table 1

**Integral indicators by knowledge management processes at the small and medium enterprises of the Latvian Latgale region**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1 – Knowledge and strategy</td>
<td>3.1</td>
<td>Average</td>
</tr>
<tr>
<td>F2 – Knowledge acquisition</td>
<td>3.3</td>
<td>«</td>
</tr>
<tr>
<td>F3 – Knowledge production</td>
<td>3.1</td>
<td>«</td>
</tr>
<tr>
<td>F4 – Knowledge exchange</td>
<td>3.0</td>
<td>«</td>
</tr>
<tr>
<td>F5 – Knowledge storage and documentation</td>
<td>3.2</td>
<td>«</td>
</tr>
<tr>
<td>F6 – Use of knowledge</td>
<td>3.6</td>
<td>Above average</td>
</tr>
<tr>
<td>F7 – Result of knowledge management</td>
<td>2.9</td>
<td>Average</td>
</tr>
<tr>
<td>F – Generalised integral coefficient of knowledge management processes</td>
<td>3.1</td>
<td>«</td>
</tr>
</tbody>
</table>

*Source:* Calculations based on the survey results obtained in the framework of the SPSS project.

It was established that the most developed processes at Latgale’s small and medium enterprises are the use of knowledge and knowledge acquisition, and the least developed – the results of knowledge management and knowledge exchange. The method of correlation analysis was used to interpret data for proving a hypothesis about the influence of knowledge management processes on an enterprise’s competitiveness. A positive linear correlation between the objective competitiveness rates and the generalised integral coefficient of knowledge management was established for the surveyed enterprises. The greatest impact of knowledge management was exerted on the respondents by the indicators “changes in income over the last three years” (p(Spearman) = 0.480, p-value = 0.00) and “market share over the last three years” (p(Spearman) = 0.470, p-value = 0.00). Of less significance are the indicators reflecting the changes in cost effectiveness over the last three years (p(Spearman) = 0.354, p-value = 0.00) and the changes in sales over the last three years (p(Spearman) = 0.337, p-value = 0.00) (Table 2).

A stronger positive linear correlation was established between the subjective competitiveness rates and the generalised indicators of knowledge management.

The most significant impact of knowledge management on the respondents was associated with indirect competitiveness rates: “earnings growth rates in comparison to other enterprises” (p(Spearman) = 0.592, p-value = 0.00) and the “degree of innovativeness in comparison to competitors” (p(Spearman) = 0.565, p-value = 0.00). Of less significance are other competitiveness rates:
“market share in comparison to competitors” (p(Spearman) = 0.476, p-value = 0.00) and “an assessment of performance in comparison to competitors” (p(Spearman) = 0.378, p-value = 0.00). However, no linear correlation was established between the integral knowledge coefficient and such indirect competitiveness rates as an assessment of production costs in comparison to competitors (Table 2).

### Table 2

<table>
<thead>
<tr>
<th>Objective (direct) competitiveness factors</th>
<th>F (generalised integral coefficient of knowledge management)</th>
<th>Subjective (indirect) competitiveness factors</th>
<th>F (generalised integral coefficient of knowledge management)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in income over the last 3 years</td>
<td>0.480 (significance value 0.00)</td>
<td>A better performance than that of competitors</td>
<td>0.378 (significance value 0.00)</td>
</tr>
<tr>
<td>Changes in cost effectiveness over the last 3 years</td>
<td>0.380 (significance value 0.00)</td>
<td>A greater market share than that of competitors</td>
<td>0.476 (significance value 0.00)</td>
</tr>
<tr>
<td>Changes in sales over the last 3 years</td>
<td>0.337 (significance value 0.00)</td>
<td>A higher earnings growth rate than that of competitors</td>
<td>0.592 (significance value 0.00)</td>
</tr>
<tr>
<td>Changes in exports over the last 3 years</td>
<td>0.354 (significance value 0.00)</td>
<td>A greater amount of innovations than that of competitors</td>
<td>0.565 (significance value 0.00)</td>
</tr>
<tr>
<td>Changes in the market share over the last 3 years</td>
<td>0.470 (significance value 0.00)</td>
<td>A lower production cost than that of competitors</td>
<td>0</td>
</tr>
</tbody>
</table>

**Source:** Calculations based on the survey results obtained in the framework of the SPSS project.

Through using the correlation analysis method for assessing competitiveness rates and integral coefficients associated with knowledge management processes, it was established that there is a close connection between the rates of development of small and medium enterprises and the process of managing knowledge for increasing competitiveness and innovativeness of enterprises.
Firstly, income growth over the last three years correlates with the factors F1 (knowledge and strategy, \( r = 0.586, \text{p-value} = 0.000 \)), F3 (knowledge production, \( p(\text{Spearman}) = 0.639, \text{p-value} = 0.000 \)), F5 (knowledge storage and documentation, \( p(\text{Spearman}) = 0.444, \text{p-value} = 0.000 \)), F6 (use of knowledge, \( p(\text{Spearman}) = 0.307, \text{p-value} = 0.000 \)), F7 (result of knowledge management, \( p(\text{Spearman}) = 0.629, \text{p-value} = 0.000 \)).

Secondly, an increase in cost effectiveness over the last three years correlates with the factors F1 (\( p(\text{Spearman}) = 0.354, \text{p-value} = 0.000 \)), F3 (\( p(\text{Spearman}) = 0.572, \text{p-value} = 0.000 \)), F5 (\( p(\text{Spearman}) = 0.229, \text{p-value} = 0.020 \)), F7 (\( p(\text{Spearman}) = 0.551, \text{p-value} = 0.000 \)).

Thirdly, an increase in output over the last three years correlates with the factors F1 (\( p(\text{Spearman}) = 0.392, \text{p-value} = 0.000 \)), F3 (\( p(\text{Spearman}) = 0.536, \text{p-value} = 0.000 \)), F4 – “knowledge exchange” (\( p(\text{Spearman}) = 0.214, \text{p-value} = 0.030 \)), F5 (\( p(\text{Spearman}) = 0.252, \text{p-value} = 0.010 \)), F6 (\( p(\text{Spearman}) = 0.335, \text{p-value} = 0.000 \)), F7 (\( p(\text{Spearman}) = 0.465, \text{p-value} = 0.000 \)).

Fourthly, an increase in the exports of goods and services over the last three years correlates with the factors F1 (\( p(\text{Spearman}) = 0.354, \text{p-value} = 0.000 \)), F3 (\( p(\text{Spearman}) = 0.442, \text{p-value} = 0.000 \)), F5 (\( p(\text{Spearman}) = 0.298, \text{p-value} = 0.010 \)), F6 (\( p(\text{Spearman}) = 0.300, \text{p-value} = 0.000 \)), F7 (\( p(\text{Spearman}) = 0.508, \text{p-value} = 0.000 \)).

Fifthly, an increase in the market share of the last three years correlates with the factors F1 (\( p(\text{Spearman}) = 0.527, \text{p-value} = 0.000 \)), F2 – “knowledge acquisition” (\( p(\text{Spearman}) = 0.195, \text{p-value} = 0.049 \)), F3 (\( p(\text{Spearman}) = 0.601, \text{p-value} = 0.000 \)), F4 (\( p(\text{Spearman}) = 0.283, \text{p-value} = 0.004 \)), F5 (\( p(\text{Spearman}) = 0.310, \text{p-value} = 0.001 \)), F6 (\( p(\text{Spearman}) = 0.296, \text{p-value} = 0.003 \)), F7 (\( p(\text{Spearman}) = 0.536, \text{p-value} = 0.000 \)).

**Results of the study**

The results of the study into knowledge management at the region’s small and medium enterprises are in line with the findings of other influential studies into the impact of knowledge management on an enterprise’s efficiency. Many researchers stress the importance of the processes of building, storing and processing, transferring and using knowledge at the enterprise and consider them as a competitive advantage (Hicks, Dattero, Galup 2007; Sveiby, Simons 2002; Riege 2007).

Others (Beveren 2002) have established that the only stable competitive advantage is building new knowledge. However, we believe that other factors will be underestimated in this case. The process of using and benefitting from
knowledge depends to the organisation of the storage of knowledge obtained in
the previous processes for further use and aimed at value added increase (Daven-
port, Prusak 2000; Despres, Chauvel 1999), which has been proved in the study.
It has identified the impact of the above processes on the enterprise’s competi-
tiveness and innovativeness in the case of small and medium enterprises of
Latvia’s Latgale region in 2013. It has been established that the building of
knowledge and the knowledge of strategy affected the income increase observed
over the last three years. The process of building new knowledge had the most
profound effect on the increase in cost effectiveness. Building new knowledge,
familiarity with the strategy, and the result of knowledge management affected
the increase in the market share over the last three years.

Conclusions

1. Our assessment of the processes of knowledge management at small and
   medium enterprises in the Latgale region has shown that the employee’s
   knowledge and experience are at a medium level (on a 5-point scale) ranging
   from 2.9 to 3.6 points. This fact is indicative of that the possibilities of
   knowledge management processes are not used to their full potential at
   small and medium enterprises in Latgale. Therefore, there are hidden
   reserves for increasing the competitiveness of these enterprises. As the study
   shows, regional enterprises have to improve their understanding of new
   knowledge as a key value for developing the competitive and innovative
   potential of businesses.

2. The worst results were shown by processes resulting in knowledge manage-
   ment (2.9 points) and knowledge exchange (3.0 points). The processes of
   using (3.6) and obtaining (3.3) knowledge are better developed.

3. It has been proved that one of the crucial factors affecting the competiti-
   veness and innovativeness of enterprises is knowledge management. We
   have established a positive linear correlation between the generalised
   integral coefficient of knowledge management and the objective/subjective
   competitiveness rates (changes in incomes over the last three years, changes
   in cost effectiveness over the last three years, changes in sales over the three
   years, changes in exports over the last three years, changes in the market
   share in the last three years, a better performance than that of competitors,
   a greater market share than that of competitors, a higher earnings growth
   rate than that of competitors, a greater amount of innovations in comparison
to competitors).
4. There is a prevalence of a more significant positive linear correlation between subjective competitiveness rates and the generalised integral coefficient of knowledge management than that between objective competitiveness rate and the generalised integral coefficient. This shows that the management and employees of the enterprises overestimate the competitiveness of their companies in comparison to similar businesses. However, it is rather a positive fact, since it is indicative of the positive attitude of the employees to their company.

5. The study has shown that the process of building new knowledge has the most profound effect on the competitiveness rates, followed by those of familiarity with the strategy and the general results of knowledge management.

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