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## THE EFFECTS OF REDUCING THE COSTS OF LIVING ADJUSTMENTS AND A SALARY INCREASE TO IMPROVE CONSUMPTION

**Summary:** *This paper examines the importance of increased consumer demand for poverty reduction, reduction of economic inequality, social development and economic growth. Therefore, the comparison of the cost of living to maintain the same standard of living in 37 cities worldwide will be presented.. The aim of the paper is to identify elements that can contribute to increased consumption. The ultimate goal of the paper is to point to the importance of reducing the cost of living and raising the wage for the distribution of values from irrational government spending to population consumption.*

**Key words:** salary, cost of living, purchasing power, increased consumption, measures

**JEL classification:** E10, E25, E37

### INTRODUCTION

In Bosnia and Herzegovina, as well as in many underdeveloped world economies, the problem of insufficient consumer demand is evident. Consumption is mainly focused on meeting the primary needs, which is insufficient for the optimal rate of economic growth. Therefore, the paper will analyze measures to increase consumption through the index of differences and strive to give a theoretical contribution to the importance of increasing consumer demand.

### 1. ANALYSIS OF MEASURES TO INCREASE OF CONSUMER DEMAND

Economic reproduction includes production, distribution, exchange and consumption. Therefore, the real sector is the carrier of economic reproduction since the real sector has been given it to be the first exploiters of values in the distribution. On the one hand, the problem of the capitalist economy (Pohjola 1987; Pohjola and Kaitala, 1990; González-Alcón and Joaquín and José 1998; Clayton 2005; Heng-fu 1994; Smith 1999; Binswanger 2009) is reflected in the state measures to incomes policy in terms of actions on the basis of the division between labor and capital. The goal is to increase accumulation (Jovičić 2005, 55) and improve profits, which is ensured by keeping wage growth at the level of labor productivity growth. Thus, wage expenditures are at a level that would not endanger profit. In civic theory and politics, the opinion is that labor costs have grown enormously and dominate in the structure of production costs and jeopardize efficiency (Knežević and Stanišić and Stanišić 2009, 144) and the competitive power on the world market. The contemporary capitalist state acts as a capitalist who places itself in the defense of private capitalist investments and monopoly capital against workers. The state assumes even part of the investment costs at the expense of society, redistributing income for capital, especially with fiscal policy measures (Kellogg 2018, 33). On the other hand, modern capitalism is

characterized by an increasing importance of the non-productive sphere in the economy (Nissim 2007; Woolston 2016). This is particularly important in terms of employment and personal income. The share of non-produced spheres in the total number of employees increases in all developed economies, over 60%. Therefore, the dominant participation in the distribution has the second value-absorbers rather than the first value absorbers that are generating value in the real sector, which is carrier of economic reproduction. The above mentioned contributed to the fact that the classical form of personal consumption was corrected by interventions of the public sector and the monetary system. Inflation, public debt, deficit financing and credit expansion have caused that these additional fund exceed the amount of the national income. In modern capitalism the state stimulates the economic power of monopoly by guaranteeing high profits through state procurement contracts, and by supporting monopoly exports of goods and capital. From all this it follows that under capitalism ever-present problem of insufficient effective demand or purchasing power. Many theorists believe that due to the relative lack of employee spending to make effective demand (Mankiw 2000, 121) at a sufficient level, the consumption of entrepreneurial capital must grow faster than production. That is, as labor demand is accompanied by growth in production, and capital expenditure follows growth in profits, as profits grow faster than national income, only the faster growth of savings or investments will be the compensating factor of declining global demand. This paper seeks to highlight the importance of increasing the consumption of workers from the real sector through increased personal income and the reduction of fixed costs on the demand for all categories of the population, which is disciplining factor in public spending. Workers' consumption (Ercolani and Azevedo, 2018, 40) is directed only to basic needs, and the problem of purchasing power can not be overcome as long as the consumption of workers is not directed towards satisfying conducted needs, which would further contribute to the growth (Ravallion 2016, 139) of production, investment, employment, exports, gross national product and gross national income. This problem is especially pronounced in developing countries where several average salaries can not settle the market basket. Given that B&H has a particularly pronounced problem of purchasing power, increase in consumption through personal income increases without price increases and lowering the basic costs are necessary factors for economic growth and discipline in public spending, which is a hypothesis in this paper. In order to prove the hypothesis, it was made the comparison of purchasing power in Banja Luka city with 37 major cities around the world.

## 2. THE COST OF LIVING COMPARISON MAINTAINING THE SAME STANDARD OF LIVING

Using the cost of living indices to compare cost of living, an analysis maintaining the same standard of living was done in 37 different cities of the world. The analysis shows how much the average net salary can undermine the cost of living (assuming rental in all cities).

Table 1. Cost of living comparison maintaining the same standard of living (comparison of authors based on statistical database NUMBEO 2018).

Indices Difference									
City in relation to Banja Luka	Consumer Prices	Consumer Prices Including Rent	Rent Prices	Restaurant Prices	Groceries Prices	Cost of Basic Utilities	Local Purchasing Power	Difference in salary	Mortgage Interest Rate
Paris	+135.26 %	+199.92 %	+537.40%	+251.16 %	+161.37 %	+13.22 %	+89.16%	+467.35%	-68.90%
London	+130.40 %	+243.96 %	+836.62%	+271.21 %	+109.12 %	+21.91 %	+87.04%	+543.35%	-48.14%

Brussels	+118.42 %	+154.52 %	+342.95%	+264.29 %	+133.13 %	-3.99%	+91.64%	+387.77%	-61.55%
Amsterdam	+129.31 %	+211.31 %	+639.29%	+267.10 %	+119.51 %	+22.34 %	+99.67%	+521.59%	-59.50%
Luxembourg	+144.35 %	+232.17 %	+690.54%	+318.67 %	+154.84 %	+76.25 %	+153.79 %	+743.02%	-67.47%
Stockholm	+124.57 %	+176.68 %	+448.63%	+258.31 %	+143.17 %	-43.36%	+120%	+508.70%	-69.44%
Reykjavik	+222.91 %	+290.37 %	+642.44%	412.41%	270.77%	-8.30%	80.56%	+244.92%	+7.22%
Oslo	+206.77 %	+260.88 %	+543.29%	+386.11 %	+248.33 %	+33.38 %	+96.78%	+610.13%	-56.75%
Zurich	+267.56 %	+347.37 %	+763.90%	+425.20 %	+371.16 %	+22.79 %	+178.62 %	+1146.44 %	-78.82%
Geneva	+239.05 %	+328.73 %	+796.78%	+393.46 %	+317.96 %	+15.38 %	+166.78 %	+1043.74 %	-71.49%
Munich	+113.39 %	+171.98 %	+447.77%	+219.75 %	+117.97 %	+60.74 %	+130.65 %	+527.31%	-71.43%
Berlin	+89.86 %	+124.93 %	+307.99%	+147.75 %	+84.80%	+81.75 %	+121.09 %	+397.30%	-68.32%
Vienna	+101.65 %	+139.98 %	+340.03%	+181.56 %	+131.55 %	+36.90 %	+88.72%	+352.88%	-61.58%
Moscow	+30.54 %	+75.63%	+310.95%	+113.55 %	+23.24%	-13.56%	+15.78%	+103.35%	+90.77%
Milan	+110.10 %	+161.05 %	+426.94%	+251.47 %	+117.46 %	-5.50%	+45.35%	+279.42%	-60.79%
Madrid	+72.37 %	+111.36 %	+314.87%	+169.67 %	+70.07%	-5.46%	+88.31%	+298.01%	-64.38%
Podgorica	+14.96 %	+18.46%	+36.77%	+44.69%	+9.98%	-15.34%	+1.69%	+16.46%	-4.79%
Skopje	+2.23%	+1.19%	+19.06%	+11.44%	+6.46%	-14.42%	+18.80%	-17.84%	+1.83%
Belgrade	+12.85 %	+19.59%	+54.73%	+46.72%	+1.08%	+1.56%	+21.72%	-6.38%	-39.71%
Ljubljana	+61.14 %	+75.84%	+152.51%	+110.51 %	+65.30%	+45.21 %	+50.91%	+165.35%	-45.81%
Zagreb	+47.27 %	+54.19%	+90.35%	+78.45%	+52.89%	+36.44 %	+26.77%	+95.46%	-25.61%
Sarajevo	+10.66 %	+13.03%	+25.38%	+21.10%	+9.13%	+11.71 %	+4.32%	+8.15%	-3.09%
Washington	+133.34 %	+240.95 %	+802.63%	+224.31 %	+184.48 %	-24.85%	+146.62 %	+740.87%	-32.40%
New York	+157.46 %	+316.11 %	+1144.09 %	+285.23 %	+216.67 %	-21.65%	+85.99%	+673.93%	-34.58%
Chicago	+103.76 %	+185.40 %	+611.53%	+197.44 %	138.44%	-25.13%	+141.99 %	+590.64%	-33.13%
Rio de Janeiro	+42.57 %	+58.84%	+143.75%	+86.70%	+25.77%	-30.74%	+24.76%	+19.51%	+82.96%
Sydney	+126.18 %	+222.45 %	+724.94%	+181.89 %	+152.69 %	-13.56%	+138.91 %	+670.37%	-27.94%
Melbourne	+108.92 %	+164.72 %	+455.93%	+191.14 %	+139.50 %	+5.10%	+142.40 %	+541.68%	-25.81%
Singapore	+137.23 %	+240.59 %	+780.04%	+156.66 %	+161.90 %	-29.95%	+82.18%	+520.49%	-64.90%
Shanghai	+43.00 %	+98.53%	+388.32%	+49.38%	+91.95%	-66.51%	+28.97%	+156.04%	-21.43%
Tokyo	+151.59 %	+187.60 %	+375.50%	+132.84 %	+219.38 %	+29.55 %	+114.12 %	+515.79%	-82.01%
Seoul	+129.32 %	+167.15 %	+364.61%	+99.17%	+243.42 %	+0.73%	+96.38%	+424.64%	-40.55%
Abu Dhabi	+56.50 %	+161.70 %	+663.75%	+160.49 %	+68.11%	-27.74%	+139.00 %	+525.46%	-26.47%
Dubai	+88.68 %	+184.72 %	+696.44%	+164.89 %	+89.66%	+16.03 %	140.15%	+583.77%	-31.59%
Cairo	+31.45 %	+31.43%	+31.28%	+13.08%	26.85%	-87.13%	48.80%	-64.89%	+148.26 %
Cape	+25.60 %	+68.52%	+292.57%	+81.04%	29.50%	-55.92%	57.45%	+165.34%	+71.55%

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Indices difference show (The author's compilation based on the NUMBEO 2018 statistical database):

#### Cost of Living Comparison Between Banja Luka and Paris.

The results of the survey indicate that it would be needed around 8,697.75BAM (4,448.63€) in Paris to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808,69 BAM. The average monthly net salary in Paris is 4588,08 BAM (2346,66€) and it is 4,6735 times higher than in Banja Luka. To maintain the displayed standard of living in Paris it is necessary to have 1.89 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and London.

The results of the survey indicate that it would be needed around 9,974.77 BAM (£ 4,497.69) in London to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in London is 5,202.70BAM (2,345.93 £) and it is 5.443 times higher than in Banja Luka. To maintain the displayed standard of living in London it is necessary to have 1.92 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Brussels.

The results of the survey indicate that it would be needed around 7,381.09BAM (3,774.47 €) in Brussels to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Brussels is 3,944.58 (2,346.66 €) and it is 3.8777 times higher than in Banja Luka. To maintain the displayed standard of living in Brussels it is necessary to have 1.87 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Amsterdam.

The results of the survey indicate that it would be needed around 9,028.08BAM (4,617.58 €) in Amsterdam to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Amsterdam is 5,026.78 KM (2,346.66 €) and it is 5.2159 times higher than in Banja Luka. To maintain the displayed standard of living in Amsterdam it is necessary to have 1.79 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Luxembourg.

The results of the survey indicate that it would be needed around 9,632.94BAM (4,926.95 €) in Luxembourg to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Luxembourg is 6,817.41 BAM (2,346.66 €) and it is 7.4302 times higher than in Banja Luka. To maintain the displayed standard of living in Luxembourg it is necessary to have 1.41 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Stockholm.

The results of the survey indicate that it would be needed around 8,023.60 BAM (41,357.82 kr) in Stockholm to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Stockholm is 4,922.50 BAM (25,373,15kr) and it is 5.087 times higher than in Banja Luka. To maintain the displayed standard of living in Stockholm it is necessary to have 1.63 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Reykjavík.

The results of the survey indicate that it would be needed around 11,320.75BAM (708,054.70 kr) in Reykjavík to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Reykjavík is 5,700.03 BAM (356,507.34kr) and it is 6.0484 times higher than in Banja Luka. To maintain the displayed standard of living in Reykjavík it is necessary to have 1.99 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Zurich.

The results of the survey indicate that it would be needed around 12,973.59 BAM (7,761.33 CFR) in Zurich to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Zurich is 10,079.87 BAM (6,030.19Fr.) and it is 11.4644 times higher than in Banja Luka. To maintain the displayed standard of living in Zurich it is necessary to have 1.29 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Geneva.

The results of the survey indicate that it would be needed around 12,433.07 BAM (7,437.97Fr.) in Geneva to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Geneva is 9,243.34BAM (5,333.33Fr.) and it is 10.4374 times higher than in Banja Luka. To maintain the displayed standard of living in Geneva it is necessary to have 1.35 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Munich.

The results of the survey indicate that it would be needed around 7,887.29 BAM (4,034.10 €) in Munich to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Munich is 5,072.99 BAM (2,594.67 €) and it is 5.2731 times higher than in Banja Luka. To maintain the displayed standard of living in Munich it is necessary to have 1.55 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Berlin.

The results of the survey indicate that it would be needed around 6,523.11 BAM (3,336.37 €) in Berlin to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Berlin is 4,021,63 BAM (2,056,94 €) and it is 3.973 times higher than in Banja Luka. To maintain the displayed standard of living in Berlin it is necessary to have 1.62 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Vienna.

The results of the survey indicate that it would be needed around 6,959.46 BAM (3,559.55 €) in Vienna to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Vienna is 3,662.44 BAM (1,873.22 €) and it is 3.5288 times higher than in Banja Luka. To maintain the displayed standard of living in Vienna it is necessary to have 1.9 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Moscow.

The results of the survey indicate that it would be needed around 5,093.27 BAM (183,674.71 rubles) in Moscow to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Moscow is 1,644.44 BAM (59,302.26 rub) and it is 1.0335 times higher than in Banja Luka. To maintain the displayed standard of living in Moscow it is necessary to have 3.10 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Milan.

The results of the survey indicate that it would be needed around 7,570.31 BAM (3,871.98 €) in Milan to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Milan is 3,068.34 BAM (1,569.36 €) and it is 2.7942 times higher than in Banja Luka. To maintain the displayed standard of living in Milan it is necessary to have 2.47 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Madrid.

The results of the survey indicate that it would be needed around 6,129.55 BAM (3,135.08 €) in Madrid to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Madrid is 3,218.69 BAM (1,646.26 €) and it is 2.9801 times higher than in Banja Luka. To maintain the displayed standard of living in Madrid it is necessary to have 1.90 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Podgorica.

The results of the survey indicate that it would be needed around 3,435.45 BAM (1,756.79 €) in Podgorica to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Podgorica is 941.78 BAM (481.60 €) and it is 0.1646 times higher than in Banja Luka. To maintain the displayed standard of living in Podgorica it is necessary to have 3.65 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Skopje.

The results of the survey indicate that it would be needed around 2,934.58 BAM (92,410.94 denars) in Skopje to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Skopje is 664.45 BAM (20,923.86 denars) and it is 0.1784 times lower than in Banja Luka. To maintain the displayed standard

of living in Skopje it is necessary to have 4.42 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Belgrade.

The results of the survey indicate that it would be needed around 3,468.02 BAM (209,884.41 Din) in Belgrade to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Belgrade is 757.07 BAM (45,818.09 Din) and it is 0.0638 times lower than in Banja Luka. To maintain the displayed standard of living in Belgrade it is necessary to have 4.48 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Ljubljana.

The results of the survey indicate that it would be needed around 5,099.23 BAM (2,607.59 €) in Ljubljana to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Ljubljana is 2,145.86 BAM (1,097.33 €) and it is 1.6535 times higher than in Banja Luka. To maintain the displayed standard of living in Ljubljana it is necessary to have 2.38 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Zagreb.

The results of the survey indicate that it would be needed around 4,471.46 BAM (17,020.44kn) in Zagreb to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Zagreb is 1,580.70 BAM (6,016.86kn) and it is 0.9546 times higher than in Banja Luka. To maintain the displayed standard of living in Zagreb it is necessary to have 2.83 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Sarajevo.

The results of the survey indicate that it would be needed around 3,277.84 BAM in Sarajevo to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Sarajevo is 874.57 BAM and it is 0.0815 times higher than in Banja Luka. To maintain the displayed standard of living in Sarajevo it is necessary to have 3.75 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Washington.

The results of the survey indicate that it would be needed around 9,886.66 BAM (6,236.66\$) in Washington to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Washington is 6,802.02 BAM (4,289.13\$) and it is 7.4087 times higher than in Banja Luka. To maintain the displayed standard of living in Washington it is necessary to have 1.45 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and New York.

The results of the survey indicate that it would be needed around 12,067.05 BAM (7,611.32\$) in New York to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is

808.69 BAM. The average monthly net salary in New York is 6,258.69 BAM (3,947.68\$) and it is 6.7393 times higher than in Banja Luka. To maintain the displayed standard of living in New York it is necessary to have 1.93 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Chicago.

The results of the survey indicate that it would be needed around 8,276.64 BAM (5,220.51\$) in Chicago to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Chicago is 5,585.19 BAM (3,522.87\$) and it is 5.9064 times higher than in Banja Luka. To maintain the displayed standard of living in Chicago it is necessary to have 1.48 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Rio de Janeiro.

The results of the survey indicate that it would be needed around 4,606.22 BAM (9,632.50R\$) in Rio de Janeiro to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Rio de Janeiro is 966.46 BAM (2,021.06R\$) and it is 0.1951 times higher than in Banja Luka. To maintain the displayed standard of living in Rio de Janeiro it is necessary to have 4.77 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Sydney.

The results of the survey indicate that it would be needed around 9,351.12 BAM (7,749.66 A\$) in Sydney to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Sydney is 6,229.91 BAM (5,096.37 A\$) and it is 6.7037 times higher than in Banja Luka. To maintain the displayed standard of living in Sydney it is necessary to have 1.50 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Melbourne.

The results of the survey indicate that it would be needed around 7,676.87 BAM (6,280.05 A\$) in Melbourne to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Melbourne is 5,189.21 BAM (4,245.02 A\$) and it is 5.4168 times higher than in Banja Luka. To maintain the displayed standard of living in Melbourne it is necessary to have 1.48 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Singapore.

The results of the survey indicate that it would be needed around 9,877.19 BAM (8,198.75 S\$) in Singapore to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Singapore is 5,017.82 BAM (4,165.14 S\$) and it is 5.2049 times higher than in Banja Luka. To maintain the displayed standard of living in Singapore it is necessary to have 1.97 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Shanghai.



The results of the survey indicate that it would be needed around 5,757.27 BAM (22,994.83 ¥) in Shanghai to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Shanghai is 2,070.58 BAM (8,270.00 ¥) and it is 1.5604 times higher than in Banja Luka. To maintain the displayed standard of living in Shanghai it is necessary to have 2.78 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Tokyo.

The results of the survey indicate that it would be needed around 8,340.28 BAM (551,381.92 ¥) in Tokyo to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Tokyo is 4,979.88 BAM (329,223.38 ¥) and it is 5.1579 times higher than in Banja Luka. To maintain the displayed standard of living in Tokyo it is necessary to have 1.67 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Seoul.

The results of the survey indicate that it would be needed around 7,747.45 BAM (5,284,325.29 ₩) in Seoul to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Seoul is 4,242.69 BAM (2,893,826.67 ₩) and it is 4.2464 times higher than in Banja Luka. To maintain the displayed standard of living in Seoul it is necessary to have 1.83 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Abu Dhabi.

The results of the survey indicate that it would be needed around 7,589.19 BAM (17,581.78 AED) in Abu Dhabi to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Abu Dhabi is 5,058.06 BAM (11,717.95 AED) and it is 5.2546 times higher than in Banja Luka. To maintain the displayed standard of living in Abu Dhabi it is necessary to have 1.50 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Dubai

The results of the survey indicate that it would be needed around 8,257.00 BAM (19,128.89 AED) in Dubai to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Dubai is 5,529.60 BAM (12,810.36 AED) and it is 5.8377 times higher than in Banja Luka. To maintain the displayed standard of living in Dubai it is necessary to have 1.49 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

#### Cost of Living Comparison Between Banja Luka and Cairo.

The results of the survey indicate that it would be needed around 1,988.67 BAM (22,108.07 G£) in Cairo to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Cairo is 283.92 BAM (3,156.34 G£) and it is 0.6489 times lower than in Banja Luka. To maintain the displayed

standard of living in Cairo it is necessary to have 7 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

Cost of Living Comparison Between Banja Luka and Cape Town.

The results of the survey indicate that it would be needed around 4,887.22 BAM (3,6546.99 R) in Cape Town to maintain the same standard of life that anyone could have with 2,900 BAM in Banja Luka (assuming rent in both cities). The average monthly net salary in Banja Luka is 808.69 BAM. The average monthly net salary in Cape Town is 2,145.78 BAM (16,046.30 R) and it is 1.6534 times higher than in Banja Luka. To maintain the displayed standard of living in Cape Town it is necessary to have 2.28 average salaries, while in Banja Luka for the maintenance of the same standard of living is necessary 3.58 average salaries.

According to a survey of the cost of living for 115 countries from Africa, Asia, America, Europe and Australia are also presented rankings according to the cost of living where Bosnia and Herzegovina in 2017 (NUMBEO 2018) occupied the 23rd place by the cost of living. Comparing the cost of living of Banja Luka city with 37 large or major cities of the world it can be concluded that the problem of purchasing power of the population derives from the high cost of living where the consumption of the population, especially the first exploiters value of economic reproduction, is focused mainly on meeting the primary needs. The classic macroeconomic policy gives the advantage of the external equilibrium of the economy (Duvnjak 2018, 198), which is the problem of developed and underdeveloped countries. For the purpose of this paper, the focus will be on the importance of increase in purchasing power of the population to achieve the internal balance of the economy. Contemporary macroeconomic theory gives preference to the internal balance of the economy to achieve economic growth, and it implies the economy where the low unemployment rate and the low rate of inflation change in prices. However, it is neglected that high living costs undermine the internal balance of the economy and slow down economic growth. Reduced purchasing power is negatively reflected in the increase in production, investment, introduction of new technologies, increase in employment, gross domestic product and national income. Such a disrupted balance leads to cost inflation because of the rise in taxes, government spending and other costs, which are not accompanied by wage growth, so that cost inflation leads to structural inflation (Ercolani and Azevedo 2018, 40) that does not allow Keynesian inflation theory and then comes to stagflation. Therefore, monetary (Basu and Bundick 2017, 937) and fiscal principles are not respected. Research survey has shown that local purchasing power in Banja Luka is lower than in the respective cities. Then, interest on loans is only greater in Moscow, Reykjavik, Skopje, Cairo and Cape Town. To maintain the same standard of living, average salaries are far greater in the respective cities than Banja Luka, except Sarajevo, Belgrade, Skopje, Podgorica, Rio de Janeiro and Cairo. One of the most important elements to enable the population to meet the emerging needs is to reduce consumer prices and running costs (electricity, water, utilities, heating and cooling). The survey has shown that most cities apply this strategy, especially for running costs, so the costs of utilities in most cities, even those that have up to 11 times the average salary than in Banja Luka, are far lower in numbers, and in proportion to the average salary than in Banja Luka. Utility bills are higher or equal only in cities that also have the problem of stagflation.

### **3. IMPORTANCE OF INCREASING IN CONSUMER DEMAND**

Developed and developing countries of the world should ensure every citizen meeting the basic costs of living, especially if you take into account that in a capitalist economy, most workers in the real sector begin from minuses and have to do extra work just to rise from zero and survive (Allen 2017, 3691).

The increase in purchasing power can be achieved by using monetary (Ristić and Ristić, 2015, 28) and fiscal principles and through disciplining irrational government spending. Increasing in purchasing power and disciplining irrational government spending can be achieved by tax relief on gross salary in the real sector and their proportional distribution (Mas and Pallais 2017, 3722) to increase net wages for workers. Disciplining irrational government spending can be achieved by reducing basic utilities costs as compensating factor for increasing in purchasing power of the population.

Developed world economies have applied the policy of lower consumer prices in relation to wages and reduced costs of basic utilities, so that the majority of the population, in particular the primary exploiters values of economic reproduction can meet derived needs.

In developing countries, cost of living are higher and stagflation is present. Since the costs are constantly increasing, this implies a rise in prices, while wage workers maintain the same level.

This leads to decline in consumption, which results in fall in production. The link between production and consumption is interrupted. Demand declined due to unemployment growth and falling investment. There is an imbalance in the economy. Production is dependent on exports of primary products. Domestic accumulation (Kaličanin and Todorović 2014, 67) is insufficient for investments. In such economies, the accumulation is often reduced and depreciation is used to cover consumption. Government revenues are insufficient to meet public spending so that government increases fiscal and parafiscal charges. Tax increase and new forms of taxation according to fiscal policy principles are only applicable in the case of full employment because in other circumstances affecting demand reduction, the expansion of cost inflation, slower economic growth and increased basic living costs. Developing economies generally do not have a strong *legal and institutional* framework. The increase in wages through tax relief and reducing the cost of living would contribute to the distribution of value to the first exploiters value of economic reproduction and the rest of the population, which would increase the consumption of the population and reduce the misuse of public revenues. In developing countries increase the cost of living can only be proportional to or less than that in relation to wage growth, otherwise it leads to a decline in consumer demand to the extent that alarmingly reflects a reduction in investment, employment, demographic (Giovanni 2016, 3) imaging.

## CONCLUSION

To meet the derived needs and increased consumer demand, it is necessary that everybody has enough funds for basic existence. Using the cost of living indices and the cost of living comparisons, an analysis maintaining the same standard of living was done in 37 different cities of the world. Using the cost of living indices to compare cost of living, an analysis maintaining the same standard of living was done in 37 different cities of the world. The analysis found that in the developed world economies had applied the policy of lower consumer prices in relation to wages and reduced costs of basic utilities, so that the majority of the population, in particular the primary exploiters values of economic reproduction can meet derived needs. In developing economies and economies where stagflation is present, there are high unemployment, higher consumer prices and living costs compared to wages, while on the other hand there is irrational government spending. The higher cost of living leads to a decline in consumer demand as reflected in the decrease in investment, employment and demographic imaging. The increase in wages through tax relief and reducing the cost of living would contribute to discipline of government spending and the distribution of value to the first exploiters value of economic reproduction and the rest of the population, as well as increase purchasing power and economic growth.

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