

DYNAMIC TRENDS OF WAGE IN UKRAINE: PROSPECTS OF EUROPEAN INTEGRATION

Ganna KATARANCHUK

Yuriy Fedkovich Chernivtsi National University, Ukraine

kataranchuk1989@mail.ru

Abstract:

We analyze the main trends of the national economy and the dynamics of wages in Ukraine and other post-socialist countries in terms of the prospects of Ukraine's integration into the European economic and social space. The estimation of the impact of the wage indices for the welfare of citizens. The basic factors of Ukraine's backlog in terms of wages from other countries and the possibilities and prospects of solving this problem are determined.

Key words: wages, consumer price index, the index of real wages, minimum wages, cost of living, consumption, incomes policy.

JEL classification: B40

1. INTRODUCTION

The level and dynamics of wages largely characterize the level and terms of the welfare of the population, since they are closely intertwined with several other indicators that collectively define social competitiveness, prospects of growth and, consequently, the prospects for integration with other countries in comparable circumstances. These indicators include the size of the minimum social standards, the dynamics of nominal and real wages; level of purchasing power, and others. Comparing these indicators with those of other countries in social development enables them to analyze the situation and identify the real causes of unequal income growth of different countries to study proposals to improve public policy approaches to regulation of income.

The problem of improving the mechanisms of income distribution has always been topical in the practice of management and economic theory. Different aspects were highlighted in the works of representatives of the classical school (F. Quesnay, W. Petty, A. Smith, D. Ricardo, J.B. Say, J.S. Mill) and neoclassical school (K. Menger, F. Wieser, A. Marshall, V. Pareto, F. Edgeworth, K. Viksell, P. Douglas, J. Stigler), institutionalists (A. Deaton, T. Veblen, R. Coase, O. Williamson, D. North, J. Rawls, A. Sen) and other scientists.

In Ukraine, the problems of labor were studied by Z. Galushka, V. Heyts, A. Gritsenko, K. Gubin, N. Deeva, P. Eshchenko, Y. Zaitsev, A. Kolot, E. Libanova, I. Malyy, O. Novikova, N. Holod, O. Chernyshevych and other scientists. In their writings, considerable attention is paid to the problems of uneven social justice in the distribution, substantiation of the value of social standards defining principles of state policy of wage formation.

From the international experience point of view, the comparison of wages dynamics in different countries, the definition of social standards and approaches to state regulation of wages have great importance. This makes possible to understand the real situation of solving social problems, identify the main causes of the backlog of individual countries in terms of revenue growth, to assess the prospects of aligning different countries in terms of social competitiveness that prevents their effective cooperation in the future.

The purpose of the paper is to analyse the main trends in wages in Ukraine, compare them with those of other countries, to identify the reasons for the backlog of Ukraine and to identify opportunities and prospects for solving this problem under the influence of European integration processes.

2. THE DYNAMICS OF WAGES AS A REFLECTION OF WORLD ECONOMY DYNAMICS

The wage level is largely determined by the scale and efficiency of economic development. The end of XX - beginning of XXI century was characterized by the growth of the world economy. Exceptions were the years 2008-2009, which were characterized as the Great Recession. Table. 1 shows the growth rate of GDP in the years 2000-2014 in some post-socialist countries. This data shows that in the years 2000-2007 the average GDP growth rate made up 7.25% and the higher rate of 10% observed in Azerbaijan, Armenia, Latvia. The lowest growth rates were in Moldova, Slovenia, Hungary and the Czech Republic. In Ukraine, economic growth was even slightly above average, amounted to 7,4-7,6%.

In the crisis period 2008-2009, the situation changed. GDP growth declined significantly, and in countries such as Estonia, Latvia, Lithuania, Ukraine there was a recession of economy to 14-17% per year. In the post-crisis period not all countries have restored the previous rate of economic growth. Thus, Ukraine, demonstrating the growth in 2010-2011 to 4.5% in 2012, began to lose that, and in 2014 the economy has meant a decline of almost 7%. In other countries, including Belarus, Estonia, Lithuania, Moldova, Poland, Romania, Slovenia, Hungary and the Czech Republic as the rates slowed considerably.

Table 1. Average annual GDP growth of some post-socialist countries in the 2000-2014 years. %

Country	2000-2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Azerbaijan	11,32	34,50	25,00	10,80	9,30	4,96	0,09	2,16	5,80	2,79
Belarus	7,25	10,00	8,65	10,25	0,16	7,74	5,54	1,50	1,02	1,59
Armenia	11,46	13,20	13,75	6,95	-14,15	2,20	4,70	7,18	3,53	3,43
Georgia	6,45	9,38	12,34	2,31	-3,78	6,25	7,17	6,55	3,32	4,73
Estonia	8,07	10,10	7,49	-4,15	-14,07	3,33	8,28	3,22	1,63	2,08
Latvia	7,82	11,15	9,60	-3,28	-17,73	-0,94	5,48	5,58	4,23	2,36
Lithuania	7,10	7,81	9,80	2,91	-14,85	1,52	5,87	3,62	3,26	2,93
Moldova	6,25	4,79	3,00	7,80	-6,00	7,09	6,80	-0,82	9,40	4,60
Poland	3,29	6,23	6,79	5,13	1,63	3,88	4,32	2,05	1,67	3,30
Russia	6,78	8,15	8,54	5,25	-7,80	4,50	4,30	3,40	1,30	0,62
Romania	5,26	7,88	6,32	7,35	-6,58	-1,15	2,16	0,33	3,39	2,90
Slovakia	4,32	8,35	10,49	5,75	-4,94	4,38	3,23	2,03	1,43	2,41
Slovenia	3,73	5,85	6,96	3,38	-7,84	1,24	0,60	-2,34	-1,00	2,64
Hungary	4,19	3,88	0,13	0,74	-6,70	1,24	1,65	-1,66	1,53	3,64
Ukraine	7,48	7,40	7,60	2,30	-14,80	4,10	5,17	0,15	-0,03	-6,83
Czech Republic	4,12	7,02	5,74	3,10	-4,51	2,49	1,89	-1,25	-0,70	2,02

Note. Prepared by author: International Monetary Fund: Data and Statistics: <http://www.imf.org/external/data.htm>

According to the dynamics of the national economy in this period the rates of real wages growth also changed (Table 2).

Table 2. The growth rate of real wages 2006-2013 years, %

Country	2006	2007	2008	2009	2010	2011	2012	2013
Azerbaijan	11.24	24.22	5.26	6.91	5.28	1.54	-	-
Belarus	17.30	10.00	9.00	0.10	15.00	-	21.5	16,4
Armenia	16.98	17.45	12.78	15.80	2.17	-	9.9	9
Georgia	24.60	21.20	32.10	2.30	0.20	-	13.1	-
Estonia	11.58	13.05	3.20	-4.94	-1.76	0.73	1.4	3,4
Latvia	15.19	19.72	4.43	-6.80	-2.27	0.04	1.5	4,5
Lithuania	16.07	18.23	13.78	1.41	-0.25	-0.05	0.8	3,8
Moldova	14.19	8.27	8.69	8.61	0.74	-0.16	-	-
Poland	3.79	5.34	5.61	1.91	1.42	1.10	-	-
Russia	13.33	17.26	11.47	-3.46	5.21	4.28	8.5	5,4
Romania	11.06	16.19	16.97	-0.77	-2.84	-	1	-
Slovakia	2.49	7.50	3.46	2.97	2.73	-1.14	-1.2	1
Slovenia	3.09	2.55	2.46	2.48	2.85	-	-2.4	-2
Hungary	4.14	0.00	1.32	-3.45	-3.43	1.30	-0.9	1,7
Ukraine	18.41	15.01	6.77	-8.94	10,2	8.93	14.4	8,2
Czech Republic	3.07	4.42	0.71	0.21	-0.69	-6.40	-1.2	-0,3

Note. Prepared by author: [1]

In 2006-2007, the growth rate of real wages of these countries, on average, accounted for approximately 12.09% per year. The relatively lower growth was in Poland, Slovakia, Slovenia, Hungary, the Czech Republic (the average was 3.64%). The highest rates of growth of real wages in this period were in Georgia. The rate of growth of nominal wages in all countries were higher than reality. For example, in Armenia and Belarus are comprised 38-40% [2].

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In Ukraine up to 2009 nominal wages increased annually. The average rate of growth for the years 2000-2008 was 29.46%. Only in the crisis year of 2009 the growth rate of nominal wages fell to 5.54%, and in each of the next two years are approximately equal to 17.5%. However, years of 2012-2013 the rate began to fall again. This is especially evident in the years 2014-2015.

There is an ambiguous relationship between economic growth and growth in wages. This is explained by other causes. Great importance, for example, belongs financialisation - increasing role of financial activity and the popularity of financial institutions in the national economy. This phenomenon is seen as a key factor of greater concentration of income of the highly skilled workers and therefore falling share of wages of the less skilled.

In the transformation period earnings of employees in most countries were growing faster than the incomes of the owners of capital. This can be explained by the global trend in government policy income distribution and also by the increasing expenditures of owners of capital on technological development [3]. Therefore, the economical and institutional factors are of great importance.

Changes, occurring in the labour market, also play an important role in distribution relationship, in particular, the role of the institutions of the market in the distribution of national income is reducing. In Ukraine, for example, a significant share of workers is employed informally.

3. THE BACKLOG OF UKRAINE IN TERMS OF WAGES, POSSIBILITIES AND PROSPECTS OF SOLVING OF THIS PROBLEM

2013-2015 years in Ukraine marked by the economic downturn, due to the aggravation of the socio-political crisis annexation of Crimea, military actions in eastern Ukraine, that manifested in the deterioration of most socio-economic indicators. The decline in GDP in January 2015 compared with January 2014 - 8%; Inflation -3.1% PPI -2.3%. The growth in economy wasn't observed, and the downturn in various sectors of the economy was as follows: housing construction - 2.1%; agriculture - 2.4%; industry - 21.3%; retail trade - 22.6%; construction - 36.4%; cargo - 24.2%; passenger - 13%; wholesale - 19.2%; exports of goods and services - 14.6%; imports of goods and services - 28% [4]. The outflow of foreign direct investment in 2014 totalled 11.1 billion USD. State budget revenues - 357 billion USD, Growth - 5.2%, the deficit - 78.1 billion UAH. Pension fund revenues - 234 billion USD (Increase - 1.4%), deposits in banks - (-13.1) billion, a decline - 1.9%; bank loans - (-0.7) billion UAH decline - 0.1%. The balance of current account balance negative - 5.2 billion USD. (In 2013, it was a negative -16.5 billion dollars.). Foreign exchange reserves amounted to 6.4 billion USD., In 2013 was - 17.8 billion. USD. (A decrease of 11.4 billion USD). Gross external debt amounted to 135.9 billion USD. (Decline - 1% (on 01/10/14)). The average monthly wage amounted to 3.5 thousand. UAH., Nominal growth - 6.5% real decline - 6.5%. The average pension - 1,6 thousand. UAH., Nominal growth - 14.3%, real - 0.9% (January-August). Over the first 9 months of 2015, the employment rate among working-age population decreased from 57.4% to 56.9%. The highest employment rate was in Kiev region - 62.3%, the lowest - in the Donetsk region 50.6%. Unemployment rate (by ILO methodology) among the working-age population increased to 9.0% (8.9% for 9 months 2014). At the end of December 2015 in Ukraine was officially registered 490.8 thousand of unemployed, or 1.9% of the working population [5].

In Ukraine, the problem of the backlog in terms of wages is associated primarily with the intensification of the crisis tendencies in the economy derived from the results of Russian aggression and serious systemic economic strains that accumulated from the 90s to the present. Some enterprises in eastern Ukraine were forced to close. Worsened employment due to labour migration from the eastern regions related to combat action. Rising energy prices led to a significant rise in public services and rising prices for most consumer goods. Thus, the challenge of survival in difficult conditions raises.

The problem of guaranteeing the workers a level of income, the value of which can provide sufficient subsistence standard of living is very important now in Ukraine. This is the value of the minimum consumer basket and the minimum wage.

To determine the minimum subsistence level in the world, there are several approaches: statistical - involves setting a minimum subsistence level of 10-20% income of the poorest citizens of the state; subjective or sociological - based on the data of sociological surveys required minimum income; Resource method comes from the capacity of the economy of the state to provide a living wage at a certain level; Combined - combines the previous approaches; regulatory method which consists of establishing the value subsistence level through minimum consumer basket. In Ukraine, the basis for calculating the subsistence minimum for the main social and demographic groups of the cost of a minimum set of food products, services and non-food items that are commonly called consumer basket. From the consumer price basket value depends at what level will be set a living wage, and thus all other social standards, guarantees, payments and aid. In this context, becomes particularly acute content and method of calculating the consumer basket and the cost of living.

The current method of calculating the living wage in Ukraine in 2000 was approved by the Resolution of Cabinet of Ministers № 656 [6]. The calculations of living wage are too imperfect. As part of a set of food standards there's discrepancy between medical standards of consumption and food products.

For all major categories of food, except bread products, there's a significant underestimation of consumption norms of non-food goods and services. Their content does not provide a decent life because they do not take into account the current vital necessary expenses: rent, the cost of education

(pre-school, school, university), medical care, recreation, modern communication facilities (mobile Internet) and so on. Weight structure of consumer basket does not meet the current needs of citizens: the structure of food consumption in 14 years has changed (increased consumption of fruits, meat, less - flour, potatoes). The norms of consumption of non-food products and their service life are extremely outdated, based on the emergence of new products and the almost complete disappearance of the items included in the current set. The norms of usage of set of services, especially in the category "Communications and Information Services", also need to be revised. In addition, a set of content needs to be updated with the addition of new communication tools and therefore their consumption standards.

Throughout the years the necessary ratio between the minimum social guarantees and minimum income wasn't kept. The dynamics of growth of subsistence level and minimum wage in Ukraine is shown in Fig. 1.



Fig. 1. The dynamics of subsistence level and minimum wage in Ukraine growth, UAH

Note. Prepared by author: [7]

Fig. 1 contains information in the national currency - the hryvnia. It should be noted that its exchange rate relatively to other currencies in recent years is rapidly declining. Over the last 2 years, the hryvnia devaluated in three.

Compared to other European countries minimum wage in Ukraine is very small. Table 3 presents the value of this indicator for Ukraine, the US and some EU member states for the 2002-2014 years in euro.

We see that in Ukraine in 2014 this value was 77.33 euros, as a consequence of the fall of the national currency versus the euro. For the years 2013-2014 in Ukraine employees have become much poorer.

Special studies of the problem in Ukraine are carried out by scientists of the Center of Advanced Social Studies. To significantly improve the Law of Ukraine "On Living Wage" they propose to eliminate a number of shortcomings, including: simplify the definition of a living wage, making it clearer; add the concept of "consumer basket" to the law to avoid confusion with the use of the term; add applications to use its subsistence level for assessment of absolute poverty; give a full list of all social allowances and payments, which are used to establish a living wage, or completely summarize the list; present a complete list of areas in which the state provided social guarantees and standards; replace the required method for regulatory changes with accompanying

statistical principles in forming sets of food, goods and services and in the assignment and approval subsistence level [9].

Table 3. The minimum wage in some countries in the years 2002-2014, EUR

Country	2002	2005	2007	2008	2009	2010	2011	2012	2013	2014
Belgium	1140.24	1210.0	1259.00	1309.60	1387.50	1387.50	1415.24	1443.54	1501.82	1501.82
Estonia	118.24	171.92	230.08	278.02	278.02	278.02	278.02	290.00	320.00	355.00
France	1127.23	1286.09	1254.28	1280.07	1321.02	1343.77	1365.00	1398.37	1430.22	1445.38
Greece	571.71	667.68	730.30	794.02	817.83	862.82	862.82	876.62	683.76	683.76
Hungary	203.93	231.74	260.16	271.94	268.09	271.80	280.63	295.63	335.27	341.7
Latvia	107.86	114.63	172.12	229.75	254.13	253.77	281.93	285.92	286.66	320
Luxembourg	1290.21	144.81	1570.28	1570.28	1641.74	1682.76	1757.56	1801.49	1874.19	1921.03
Poland	217.43	1466.77	244.32	313.34	307.21	320.87	348.68	336.47	289.62	289.62
Portugal	406.01	555.06	470.17	497.00	525.00	554.17	565.83	565.83	697.42	717.95
Romania	50.33	207.86	115.27	138.59	149.16	141.63	157.20	161.91	392.73	404.40
Slovenia	432.6	437.15	521.80	538.5	589.19	597.43	748.1	763.06	783.66	789.15
Spain	515.90	598.50	665.70	700.00	728.00	738.85	748.30	748.30	752.85	752.85
United Kingdo	1109.29	1134.6	1314.97	1242.24	995.28	1076.46	1136.22	1201.96	1249.85	1251.05
USA	1012.90	655.36	677.81	688.81	815.79	872.32	940.48	971.22	952.46	911.22
Ukraine	29.46	54.43	61.33	50.84	64.14	86.17	95.62	104.49	111.45	77.53

Note. Prepared by author: [8].

According to a survey of experts in international human resource portal HeadHunter Ukraine in the near future salary policy in most companies will not change. More than a third of respondents (35%) indicated that they plan to keep staff salaries at the same level in local currency. Almost a quarter of the experts predicted a slight increase in wages. Most companies that can afford the move, working in IT, agricultural sector, wholesale trade and business services [10].

Insufficient wage growth leads to a number of negative trends in the economy and in social life. There is a so-called "cycle of poverty". Here are some of the vicious circle mechanisms that lead researchers. 1) there are specific families which for some reason are living on the brink of survival. It is large, the disabled, single-parent families, young families. Their poverty is reproduced in subsequent generations. Chances of escape from the vicious circle are outside - state, public organizations etc.; 2) low qualification workforce and lack of development of national training systems contribute to low production efficiency, low share of wages in the structure of production costs, inability to pay workers in the acquisition of consumer goods; 3) imperfect institutional mechanisms of regulation of employment does not promote the growth of incentives to work, generate shadow processes, labor migration, etc. 4) poverty causes opportunistic specific type of human behaviour at work; 5) type of forced labor in relation to workers with low wages is not conducive to the development of skills, initiative, productivity, etc; 6) lack of economic incentives to work leads to an absence of market mentality, lack of entrepreneurship and more. The display of social exclusion, along with poverty, is a direct violation of basic human rights - to quality education, health services and health, to decent living, access to cultural heritage, to protect their interests and to participate in the general economic, social, cultural and political life - and a sign of low level of human development in the country. Thus, individuals, groups or entire communities

suffer from a number of related problems such as unemployment, poor skills, low incomes, poor living conditions, high level of crime, family disintegration, etc. [11, p.17].

4. CONCLUSION

The lag of Ukraine behind other European countries on the level and dynamics of wages is not only an internal problem of our society. Modern globalization of the economy and social relations determine the need to learn from experience and find ways to provide the necessary conditions for the effective use of labour and decent pay. Multidirectional processes cause this situation. First of all, achievement of high results is based on the effective use of incentives. Cheap labour leads not only to low productivity but also to low quality products, and, as a result, the lack of competitiveness.

Low level of salary is the main cause of unregistered employment, shadow income, a significant reduction in solvent demand, labour migration.

It is therefore extremely urgent task is to reform the wage as a major source of income, together with the reforming of the whole economy, the adjustment of wages to ensure the gradual increase in wages, and creating an effective motivational mechanism, based on a combination of economic incentives and social guarantees. This situation requires effective income policy through: efficient economic restructuring; introducing development of better social standards that will make it possible to ensure the reproduction of working on the basis of family burden; increase of labour costs in the operating costs of sales and services; establishing direct wages depending on the quantity and quality of each employee, his labour contribution; creating the conditions for recovery and stimulating the reproductive function of wages; use economically justified and socially fair legislated wage differentiation, creating conditions for the legalization of shadow incomes; use effective mechanism for indexing wages to inflation protection of workers; introducing economically justified and socially equitable income tax by raising tax rates on high incomes and thus reduce the low income from employment.

Ukraine is facing a difficult and important task of achieving European living standards.

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