

**DIFFERENT LEVELS OF SALARIES IN UKRAINE: REASONS, IMPLICATIONS
AND RELEVANT REGULATORY TOOLS**

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Abstract: *The article examines problems in relation to the existing differentiation of work salaries among Ukrainian people given the fact that the level of income inequality in Ukraine has grown extraordinarily high compared to other European countries also undergoing market reformation. Detailed review is given to the factors influencing salaries' differentiation, namely: regional, inter-sectoral, professional-qualification, etc., as well as challenges and threats resulting from the existence of such high-level differentiation in the country.*

Analysis of factors and reasons for continuous labour remuneration differentiation have been examined and assessments made on the ways to mitigate impact of negative factors. Also, authors have formulated general proposals as relates to the official policy on prevention of further aggravation of salaries' differentiation in Ukraine.

Keywords: *salary, labour remuneration differentiation, income level, inequality, regulation of salary levels, wage, wage rates, qualification, profession.*

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Effective operation and development of labour market in Ukraine requires adequate system of labour remuneration which should both ensure its reproductive function as well as reflect the dependence of the pay level of working people on efficiency and productive outcome of their work, along with consideration of their relevant qualifications, skills, experience, etc. However, presently in Ukraine the process of labour remuneration has proven very specific and sophisticated thus resulting in not only quite low pay level for many, but also reflecting the very existence of unsubstantiated pay differentiation in various spheres: regional level, economy as a whole, based on economic sectors, and at qualification and professional level.

As a result, the low pay level has become one of key problems in Ukraine, primarily because the narrowing of the volume of free social services and abandoning of price regulation on staple commodities (due to globalization processes and Ukrainian economy integration into the world economic space) puts main burden of a working person and his/her family reproduction on the factor of labour remuneration. This is resulting in the increased severity of low pay problem which leads to insufficient means for ensuring quality life of the people as a basic requirement for the development of national labour potential. Moreover, the high level of labour remuneration differentiation in the country (both inter-sectoral and inter-regional) ignores individual characteristics of the working people, and therefore cannot ensure proper reproduction of human capital which ultimately demotivates its further build-up.

Furthermore, the social-political aspects of this problem must not be overlooked as well, since the labour remuneration differentiation transforms into social polarization and reduces common ground for national reconciliation and in some cases may lead to significant social disturbances. Based on polls conducted by the sociological group "Rating" 83% of respondents admitted that they had experienced the lack of money they earned at work, and absolute majority of Ukrainian people considered themselves poor. UN research data also suggest that 60% of the Ukrainian population find

themselves beyond poverty line, while according to the US Bloomberg agency in 2017 Ukraine remained in top 10 poorest countries (7th place) [1, 2].

Since the labour remuneration level presents one of major factors of the Ukrainian labour market functioning and development, special attention, in our opinion, should be paid to the issue of examining and evaluating the pay level differentiation as well as identifying factors which influence its emergence. The result of this should be ensuring optimal and just labour remuneration differentiation through efficient regulation of its key elements with relevant legal instruments which, in turn, should promote effective increase in labour remuneration levels.

Differentiation of the disposable income of the people is rooted economically in the labour remuneration differentiation resulting from the social-economic variations of labour. Thus, the differentiation shall be viewed not merely as a qualitative indicator, but also as a phenomenon which presents an integral part of the social-economic system. Therefore, disposal income differentiation presents an objective social-economic phenomenon which is the result of social product distribution process in monetary form among individuals or social groups based on the production conditions and income distribution principle adopted in the society.

The study of labour remuneration differentiation identifies its component types, namely: sectoral, regional, professional (qualifications, rank), gender. Sectoral differentiation means variance in salary levels of working individuals based on the specific area of economic and industrial activities they are involved in. Regional differentiation manifests itself through salary levels' disparity in various regions as a result of many relevant factors, especially sectoral structure of regional economy. Professional differentiation reflects variance in salary levels based on specific professional groups, ranking, qualification skills, etc. Gender differentiation presents the difference between labour remuneration for men and women as a result of different scope of accumulated human capital (general and specific), concentration of working men and women in different sectors of the economy, at different positions and with different profession, as well as existence of discrimination of women in the labour market.

Among the key reasons for labour remuneration differentiation first of all identified are differences existing in the development of economic sectors and territories, correlation between demand and supply at regional labour markets based on professions, skills, qualification levels, etc., profitability of enterprises, regulatory norms related to labour remuneration as determined in sectoral and collective agreements, etc., difficult labour conditions, actual value of a specific position, level of competencies, etc.

Continuous lack of efficient changes in this sphere results in a very low level of labour income for the working people. This calls for immediate reforms in the labour remuneration system, especially given the obvious fact that the salary increase, as a main source of income for working individuals directly influencing their wellbeing, provides necessary positive effect on all processes of economic development in the country, namely: increases purchasing power of the population along with enhancement of domestic demand which leads to increased production outcome in the real sector of economy; promotes investment activities; increases the quality of labour force and reduces external labour migration; creates necessary conditions for legalizing labour relations and reduces shadow processes in the economy, etc.

Unfortunately, the existing statistical data does not allow for comprehensive characteristic of the above described problems because in most cases the labour remuneration process is not duly monitored across the entire spectrum of working people. The national survey of the population on the issues of employment, which covers practically all working individuals including those working at small enterprises, does not have questions related to remuneration and salaries. Moreover, the official data on shadow pay levels remains extremely sketchy. Nevertheless, in 2017 the Association of Chartered Certified Accountants (ACCA) published its rating of countries with the most segments of shadow economy where Ukraine was placed among top three "leaders" (the level of Ukrainian shadow economy was assessed at 45,96% of the Ukrainian GDP) [3]. In its turn, the Ministry of economic development and trade of Ukraine in 2018 had estimated the level of shadow economy at 30% of the official GDP [4]. Even though such data cannot be truly deemed accurate and full, the general understanding of the existing situation presents dire picture in the sphere of labour remuneration in Ukraine.

According to the results of recent studies by the Ukrainian academia neither EU countries nor US have effective legislative norms regulating the process of determination (or establishment) of some specific level of labour remuneration in the GDP or in the cost of the product, despite the fact that this is a very important indicator of macroeconomic policy. With this, the European Union and United States cannot be deemed outright champions of "free" market (including labour market too), but rather on the contrary - supporters of Keynesian views on moderately controlled market.

In the developed countries like US and Japan the portion of labour remuneration in GDP corresponds to over 75%, in European countries - 80%, while in Ukraine this figure merely reaches 40% (the lowest level was in 2016 - 36,6%) (fig. 1). And all this against the background of continuous increase of the gross profit and mixed income over the period of 2013-2018 - from 37,65 to 43,1%, while a large part of revenues has been comprised by social support and other transfers. Therefore, the logical conclusion is that labour remuneration does not properly perform reproductive function and thus cannot provide necessary livelihood for working people.

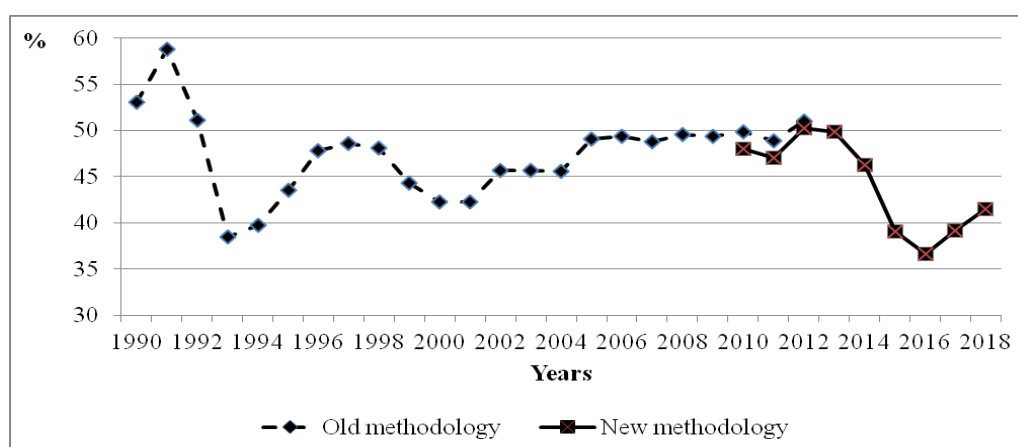


Figure 1. Labour remuneration in the Ukrainian GDP structure based on income categories in 1990-2018.

Taking into account the fact that $\frac{2}{3}$ of the economic net profit is channeled to owners of the capital and top managers as dividends, such trend together with very high salaries of highly-paid workers creates significant income differentiation based on specific social groups of the population. Thus, stimulation by the state of increased labour remuneration and other work-related income along with simultaneous restraining and slowing down of growing non-work super-profits remains the most important task today to overcome profound and prolonged crisis in the sphere of labour remuneration and work force reproduction. In this context it can be noted that evaluation of the current situation in Ukraine as relates to correlation between salaries and profits very vividly reflects the sharp classical statement by political economist D.Ricardo: "low wage is another name for high profits".

For the last five years Ukraine has been experiencing continuous drop in the disposable income of the population. The key factors which influence the level of such income in Ukraine include the following: military conflict and increased number of internally displaced persons (as of January 2019 - around 1,5 million), reduced GDP (over the period of 2013-2018 the decrease was 8,5% in prices of 2010), high inflation index (from 112,4% to 143,3%), increased tax burden, rapid devaluation. Analysis of the population income dynamics shows that for the last few years the nominal income has partially grown, however real income has fallen sharply (for instance, in Q2 of 2015 the real disposable income dropped 34% compared to the year 2014). Thus, it becomes obvious that if in the early stages of post-socialist transformations the labour remuneration differentiation could well be a stimulus for economic development, today it is inevitably becoming its serious hindrance. The factor of high number of people with low income leads to significant social expenses from the budget, increased requirements toward social policy measures, reduction of solvent demand, weak investment capabilities of the population as well as threatens social conflicts.

As relates to the regional differentiation of labour remuneration, the coefficient of regional differentiation based on real wages in recent years has been close to 2,0-2,3. It has to be said that

significant regional differentiation in most cases results from sectoral specialization of a region: industrial or agricultural direction of its economy. The general trend suggests that in industrial regions the labour remuneration level is much higher as compared to the agricultural areas.

The share of real wages in general volume of income currently corresponds to 40%, however in western Ukrainian regions this number merely reaches 30%. This means that the state social transfers still remain a significant source of income for many people, with pensions being its largest part. Therefore, the special character of regional differentiation at present lies in excessive dynamics of variation coefficient growth compared to the pace of cash income and wage growth with insignificant differences observed between oblasts (provinces) as relates to purchasing power factor. In essence, the difference between cash income in oblasts has been growing more rapidly than progressing disproportions in their economic potential and income level growth. This trend clearly represents quite a dangerous situation when regional labour differentiation is bringing the decrease of actual wellbeing of the people.

So, in 2018 the maximum absolute spread of average monthly wage differentiation in regions was 8016,8 Hrn. or 82% as compared to the median figure of this index in Ukraine (table 1). The observed values of square variation coefficient represent the existence of regional differentiation in labour remuneration, however dynamics of all presented coefficients allows to say that the size and intensity of such differentiation have been dwindling. So, although Ukraine is currently experiencing inter-regional discrepancies in wage levels the trend toward steady decrease of average wage differentiation in the regions has already taken hold.

Table 1. Statistical evaluation of regional wage differentiation in Ukraine*

	Years							
	2000	2010	2013	2014	2015	2016	2017	2018
Average monthly wage per working individual, Hrn.								
average in Ukraine	230,0	2239,0	3265,0	3480,0	4195,0	5183,0	7104,0	8865,0
maximum	405,0	3431,0	5007,0	5376,0	6732,0	8648,0	11135,0	13542,0
minimum	135,0	1659,0	2359,0	2527,0	2994,0	3695,0	5554,0	6969,0
median	207,4	2021,7	2921,3	3106,4	3724,1	4598,0	6444,3	8016,8
Variation spread, Hrn.	270,0	1772,0	2648,0	2849,0	3738,0	4953,0	5581,0	6573,0
Differentiation level	3,0	2,1	2,1	2,1	2,2	2,3	2,0	1,9
Average general square variation	58,8	367,2	543,0	575,0	760,2	972,9	1103,9	1324,8
Average selective square variation	60,0	374,8	554,2	586,9	775,9	993,0	1126,7	1352,2
Oscillation coefficient, %	130,2	87,6	90,6	91,7	100,4	107,7	86,8	82,0
Square coefficient of variation, %	28,9	18,5	19,0	18,9	20,8	21,6	17,4	16,9

* does not include temporarily occupied territories

Results of the ranking based on the level of average monthly wage per working individual allow to identify regions which persistently have lowest ratings (Ternopil, Chernivtsi, Chernihiv, Kirovograd and Zhytomyr oblasts). At the same time, there is a group of regions which have constantly enjoyed high ratings (city of Kyiv, Donetsk, Kyiv, Dnipropetrovsk and Zaporizja oblasts). In some regions observed is significant growth of such rating (Zakarpattia, Volyn, Vinnytsya, Lviv and Odesa oblasts) or its decline (Lugansk, Kirovograd, Rivne and Chernivtsi oblasts).

Dynamics of statistical evaluations of the labour remuneration regional differentiation levels reflects the trend toward its decrease, while regional ranking results based on average monthly wage demonstrate inverse dependence between regional rating and the pace of wage growth. Quite stable and rigid remain groups of regions with low, average and high pay levels, while significance of average monthly wage differences per groups has been substantiated by statistical criteria. The calculated variation and localization coefficients demonstrate decrease of both labour remuneration level differentiation in each group as well as level of wage fund concentration.

As relates to the inter-sectoral labour remuneration differentiation, the sectoral correlation of

wage levels had a high range of 2,8 times in 2018. This means that the size of labour remuneration is determined primarily by belonging to a specific area of economic activities in contrast to prevalent global practice when its primary formation factors include quantity, quality and results of labour. Thus, the inter-sectoral differentiation level in developed countries does not exceed 1,5 - 2 times.

According to data from the State Statistics Committee of Ukraine the highest pay level in the country in 2018 was observed among those employed in aviation transportation and financial sectors, and in relation to industrial types of activities - among workers of mining industry and production of main pharmaceutical products and medicines (wage level in these types of activity exceeded the medium range by 1,3-1,8 times). As a contrast, the pay level in health care institutions has remained almost 30% lower than the medium wage range for economy as a whole, and in educational sphere - lower by almost 20%. As per aggregate data on average monthly wage in 2018 based on specific type of economic activities traditionally highest pay was observed in the following areas: financial and insurance activities (16161 Hrn.), information and telecommunications (14276 Hrn.), state management and defense (12698 Hrn.), and professional, scientific and technical activities (12144 Hrn.). All these sectors enjoyed average monthly salary above the average pay calculated for the entire country - 8865 Hr. At the same time, the pay level in health and social services sectors, administrative and auxiliary services, education and cafeteria/dining services was about 70-75% of the average national indicator. Also low traditionally remained pay level in agricultural sphere, construction, arts, sports, entertainment and recreation. Moreover, inter-qualification correlations in labour remuneration do not comply with the principle of equal pay for the same type of work (low pay and irregularities in labour remuneration in the budgetary (official) sphere, outdated system of qualification ranking, lack of motivation to apply flexible pay structures at enterprises, etc.)

Specifics of the modern labour market, such as its heterogeneity as relates to the quality of work force and its professional qualification level, especially preservation of a significant portion of low-efficient labour, contributes to the described scope of the labour remuneration differentiation. Rigidity of the professional-qualification structure of the labour market as relates to structural changes in economy upon formation of the labour force price also somewhat impacts labour remuneration differentiation (through lack of comprehensive approach toward personnel training, devaluation of labour force services, low level of professional mobility, dissatisfaction with labour conditions and pay levels, etc.) In general, the old situation lingers when economic situation in specific sectors correlates insignificantly with qualifications of employed workers and does not properly respond to relative complexity of used labour. At the same time, along with the spheres of excessive differentiation, there are types of activities with much lesser discrepancies in pay level, although the reality would suggest to the contrary.

Furthermore, Ukrainian specifics with regard to the labour remuneration lies not merely in the high level of differentiation, but also in its deformed character as within the range of factors directly influencing wages of Ukrainian workers the internal ones, that play leading role in western models (education, qualification, work experience), are relegated to the background. Among the dominating factors arise those which have exogenous character in relation to working personnel, namely: specific economic sector (financial or aviation transportation); region (capital city, export-oriented or with prevailing mining industry); size and location of the place of residence; financial state of an enterprise. Sectoral differences thus assume a much more significant role as compared to the qualification-related differences.

Another important factor that influences the described model of differentiation is segmentation of the Ukrainian labour market: work force is in fact strongly tied up to a specific area, while local markets with their own prices for labour are being formed. Internal migration of the population is restrained by underdeveloped institutional infrastructure (first of all, lack of affordable housing) as well as the fact that largest part of income comes from the people's integration into local environment (acquaintances with right people, private households, etc.), and therefore any relocation prospect brings a danger of decreased livelihood and wellbeing rather than any improvement.

Modern Ukrainian legislation covers practically no issues in relation to pay for qualified work, but rather focuses on the amount of minimum pay level. Data from studies conducted by the State Statistics Service of Ukraine in 2012 and 2016 [5, 6] identified two major trends in labour

remuneration differentiation within firms and enterprises. First of all, observed was an increasing gap between remuneration to management of enterprises and majority of hired personnel which meant enhanced status-related differentiation. Secondly, a steady trend was in place with regard to narrowing of the difference between qualified and unqualified workers' pay (something similar can be observed at present in the system of labour remuneration in scientific and educational spheres). Yet is obvious that some kind of sensitivity threshold should be preserved upon transition from less qualified to more qualified labour. In this context, high expenses for education become one of the inequality factors with regard to labour remuneration, however it stimulates the desire of an individual to obtain vocational training or attend refreshment courses which will ultimately have a positive impact on labour productivity and thus contribute to the pace of economic growth.

Some changes have already taken place in the sphere of labour remuneration, however the amount of minimal wage still significantly lags behind the levels of EU countries and remains lower than the UN established poverty threshold of 5 USD per day. Low level pay and increasing unsubstantiated labour remuneration differentiation in practically all spheres together with inefficient support to purchasing power through indexation mechanisms and taxation of cash income, and continuous growth of debt which leads to further impoverishment present clear danger for the country's economy and social stability. In developed countries minimal wage functions as a social protection instrument against low remuneration level and sharp drop in purchasing power of the population as a result of inflation. Employers are forbidden to pay salaries lower than minimal wage [7, p.4], and such countries upon determining the amount of minimal wage first of all take into consideration the dynamics of average wage levels. The European Council recommends to set minimal wage at the level of 60% of national average salary, while in Ukraine the size of minimal wage is determined on the basis of established subsistence for working individuals. However, for the minimal wage to be able to perform stimulating function and guarantee social protection of working class it must be higher than the mere subsistence level. Based on EU standards, the amount of minimal wage should constitute 2,5 times of hand-to-mouth subsistence [8, p.84], while in Ukraine minimal wage has long been lower than subsistence level and only in 2008 their became equal (fig.2).

Figure 2 shows that the average wage in Ukraine is growing much quicker than the minimal one, which corroborates that upon determining minimal wage in Ukraine the dynamics of average pay is basically ignored leading to unjustified drop in the hired personnel income.

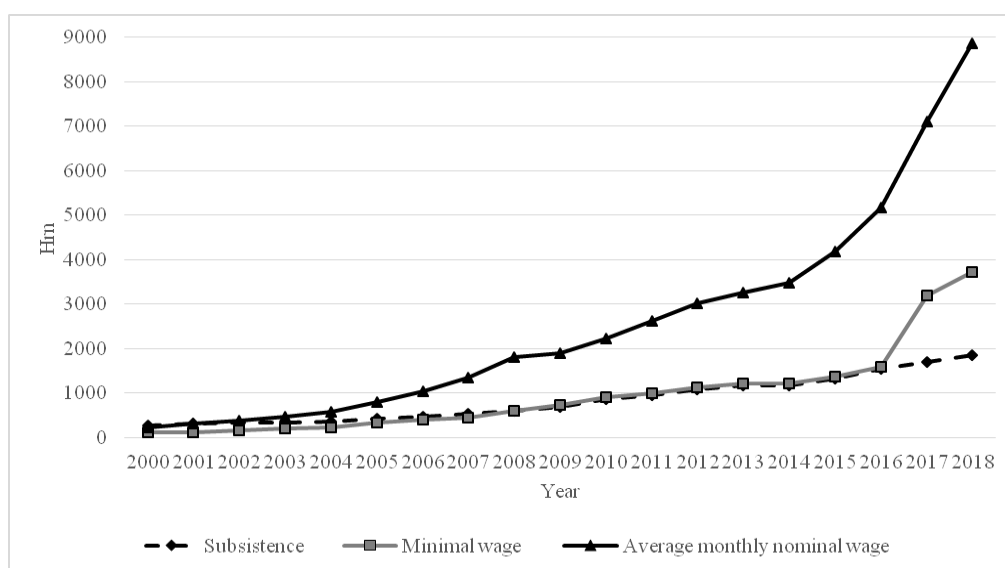


Figure 2. Dynamics of the average pay in Ukraine changes in accordance with the state standards in 2000-2018

Minimal wage which is a key mechanism of the state regulation of labour remuneration was being determined in 2013-2014 by the state at the level of subsistence for working individuals. In conflict with the national legislation and recommendations by the international institutions, the budget

deficit index was and still remains key factor which is taken into consideration in the country to determine levels of subsistence and minimal wage, and this practically balances out the influence of other criteria, first of all the real cost of consumer basket and positions of social partners during joint negotiations on the issue.

The double-size increase in January 2017 of the minimal wage amount to 3200 Hrn. helped induce the growth of labour income for almost 4 million low pay workers, however due to changes in its structure and substance [9] this did not lead to such level of wage raise that had been expected by the people. In addition to that, the artificially restrained level of subsistence for working individuals and lack of efforts to ensure minimal wage raise in correlation with inflation level kept the main state social guarantee in labour remuneration in the very last place among similar indicators in EU countries, and thus prevented its effective participation in income distribution and growth of social protection of the working population. It means that the state guarantees such a level of minimal wage which is unable to satisfy minimum needs of a working individual, and cannot guarantee (as stated in article 48 of the Ukrainian Constitution) the right of the people to sufficient livelihood, and thus does not stimulate productive labour which ultimately creates a serious threat to economic and social stability in the country and removes significant "beacon" in the labour market for all those involved. Real level of restoring purchasing power of the minimal wage should be reviewed with consideration of meager consumer basket and new social-economic context in which reproduction of working population is occurring today. Moreover, available educational and health services which are provided on a free basis are significantly behind the real needs of the people.

Despite noticeable narrowing in wage differences, its differentiation level remains quite high while its criteria do not respond to the challenges of modern economy. Under conditions of weak correlation of labour remuneration differentiation with labour force quality the level of return on human capital continues to drop and stimulus for its build-up weakens. It can therefore be observed that with regard to labour remuneration differentiation two extremes have formed and continue to strengthen with equally negative influence in both economic and social context. On one hand, the artificial wage leveling has already taken hold and continues its rapid expansion, especially as relates to budgetary sphere. More so, such wage leveling is based on extremely low general level of pay which is several times lesser compared to the value of labour force cost as well as pay levels in other countries, including even some CIS countries. On the other hand, prevalent remains the unsubstantiated and unwarranted extremely high differentiation in the levels of real wages, especially this is evident through the gap in levels of minimal and average wage, on one side, and the pay of top government officials and corporate management representatives, on the other. In order to eliminate such unsubstantiated gap it is necessary to introduce progressive taxation scale on income, including wages. In this context it would be advisable to apply zero taxation to minimal wage while wages of 10-times minimal amount and higher should be taxed at a rate of no less than 30-40%. Such approach would comply with both the objective and scientifically substantiated criteria for labour remuneration differentiation (its length, productivity, intensity, complexity, quality, responsibility, social significance, safety, implementation conditions, etc.) as well as fundamental principles of social justice and social responsibility.

Another example of effective approach toward the state regulation of wages which deserves attention is the one used in countries like Japan and Belarus where labour remuneration for management representatives, including top-level managers, is rigidly tied to the average or minimal wage level across the entire corporation, and thus it cannot exceed such levels more than 3-5 times. So, the improvement of wage rates system must lead to restoration of optimal correlations between pay levels of various professional-qualification groups of workers as well as ensure optimal correlations between minimal and average, minimal and maximum, average and maximum wage levels. Limitations on the latter one in commercial sector would be advisable to implement not by direct administrative regulation but rather efficient usage of indirect regulatory methods. Also, the share of rate in wage amount shall be no less than 60-70%, and rates should be used to ensure minimal level of labour remuneration as relates to specific professional-qualification groups. Any payments above the rate level should be determined based on specific work results for each workplace. This approach will allow to eliminate deformities and disproportions, and would ensure proper

correspondence of remuneration to complexity of the work performed and qualification level of an individual as well as reflect personal achievements and results.

Another aspect of labour remuneration differentiation is the correlation between the pay in budgetary sphere and non-budgetary sectors of economy. Effectively, the state determines pay levels in the budgetary sector thus directly regulating an inflow of personnel to this sector, so when such pay level remains relatively low all qualified and productive personnel would leave state enterprises and organizations and move to the private sector. Unfortunately, in the budgetary sphere much lower labour remuneration levels are observed compared to non-government sectors of economy, and latest calculations demonstrate that over the period of 2010-2018 the average pay in budgetary sphere in Ukraine have not yet come close to the average level in the economy. For instance, generally in educational, health and physical development spheres the average monthly expenses for personnel salary constitutes 0,6-0,7 of the nominal wage within the economic sector.

Under such circumstances, the average pay in budgetary sphere cannot ensure even minimal labour force reproduction level, let alone expanded reproduction, and this is given the fact that budgetary sphere employs quite a large number of working personnel with higher education. In its own turn, low pay in the educational, health, culture and arts spheres significantly reduces the quality of services provided to the population, and thus induces spread of shadow relations at social-cultural institutions and health organizations. So, in order to survive and provide livelihood to their families the workers of budgetary sphere take bribes, and this inevitably reduces availability of their services to low-income segment of the population. Ultimately, low pay level in budgetary sectors makes them much less attractive for economically active people and, in the event, continuous such dynamics may result in displacement of labour force from such sectors.

Upon examining labour remuneration differentiation processes and its impact on employment due attention shall be also paid to the heterogeneity of the labour force quality and its professional-qualification capabilities which are characterized by presence of a large number of low-efficiency jobs. Highly-qualified professionals employed in various sectors of economy perform tasks characterized by high quality of obtained education as well as corresponding knowledge and skills required by application of modern technologies. Thus, such workers enjoy stable guarantees of employment and high price of labour. On the other hand, representatives of low-qualification and non-prestigious professions are mainly involved in traditional sectors of economy with prevalent manual labour; and although the demand for such labour still remains quite high, the supply is limited due to the lowest pay levels in such sectors. Also, surplus of specialists of some professions in the labour market leads to devaluation of labour force and its services, on one hand, as well as increase of unjustified differentiation in labour remuneration, on the other. The important instrument to help overcome such disproportions should be the proper consideration of ongoing changes and shifts in the labour market structure by restricting vocational training for surplus professions and expanding training for professions and specializations which are in high demand in the labour market.

Reducing inequality in pay levels may include various processes and thus should require individual substantiation in each specific case. In a sense, it can result from special measures of social policy, for instance re-consideration of the minimal wage or wage rates with simultaneous tightening of the rate structure and rate increase in budgetary sphere, etc. In this event, a re-distribution of general labour remuneration fund will occur to the benefit of low-pay personnel, and this was happening a lot few years ago. On the other hand, reduction of inequality may also result from objective processes like uneven drop in income of various groups of workers during economic crisis. This process seems to be evident at present.

Since in Ukraine the raise of average wage to a large extent is prompted by salaries' increase in most highly paid groups, the majority of working people in the country continue receiving wages lower than the average level. More accurate explanation of the existing situation can be given through the analysis of median wage index which actually relegates half of the population to a segment of low income group. Median wage, as a rule, is lower than the average one, however in economies with relatively even distribution of income the gap between average and median wages constitutes no more than 15-20%. Should we compare median wage and hand-to-mouth subsistence in Ukraine it would become obvious that the purchasing power of the half of working people over the period of

transformational reforms has fallen and now barely exceeds two times the subsistence level. Studies conducted in Ukraine confirm unsatisfactory level of the most of social standards associated with decent wage and remuneration, and thus require improvements to the social policy currently under pressure from the low share of wages in the structure of people's income and existence of significant differentiation in the sizes of salaries which is further compounded by the gender inequality. All this leads to a conclusion that Ukraine still has imperfect labour remuneration system that contributes to further stratification of the society, increased discrimination on the part of employers as well as other negative consequences.

To eliminate such disbalances it is necessary to, first of all, strengthen the connection between wages and labour productivity without allowing neither extended lagging behind nor outpacing; secondly, increase, at least within the budgetary sector of economy, the dependence of wages on qualification level of a working individual thus strengthening remuneration for qualified labour which should ensure adequate return on human capital; thirdly, find proper balance between highest and lowest pay levels through streamlining of re-distribution processes by effective taxation mechanisms, though avoiding negative impact on the duly justified wage differentiation. Therefore, to eliminate negative implications of labour remuneration differentiation it would be advisable to promote efficient policy of its regulation with the following key objectives:

1. Establishment of high labour remuneration standards and renewed pay differentiation for working people of different qualifications. This requires determining of the size of minimal salary per position at the level of minimal wage. Adjustment of higher wage rates to comply with the effective today adjustment coefficients, which may take some time to implement (for instance, over a five-year period), with the minimal wage remaining a key social guarantee for unqualified labour remuneration. At the same time, the rise in pay for qualified labour should remain one of main objectives of the state policy on wage regulation.

2. Stimulation of personnel higher qualifications. To do so, any additional payments or bonuses shall be set aside from the size of minimal wage which shall remain a basic social guarantee for unqualified labour remuneration.

3. Elimination of existing labour remuneration differentiation as relates to highly-qualified personnel in budgetary sphere through wage raise in such segments of official sector where wage reforms have not yet been implemented (medical workers, etc.)

4. Setting up of a task force to develop progressive taxation scale for working individuals in order to realize policy on income leveling for highly educated and qualified personnel in the state and private sectors as well as establish competitive environment among various employment sectors.

5. Establishing of economically substantiated difference between minimal and maximum wages at the state enterprises in order to reduce excessive gap between labour remuneration for qualified state sector personnel which currently serves as a risk factor for increased social tension.

6. Bringing the size of minimal wage (quite likely in a number of periodic stages) to the level of 50-60% of average as per EU standards which would allow to rank employed personnel as the middle class of the country.

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