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THE PROBLEM OF INCOME STRATIFICATION IN ECONOMIC DEVELOPMENT OF UKRAINE

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The question of income stratification was always relevant for Ukraine as well as for any other country in the world. But nowadays this problem is more urgent than it has ever been before due to number of reasons, among which following issues merit particular attention.

First of all, there is a problem of real wages rapid decrease. The term real wages refers to wages that have been adjusted for inflation, or equivalently wages in terms of the amount of goods and services that can be bought. It provides a clearer representation of an individual's wages in terms of what they can afford to buy with those wages – specifically, in terms of the amount of goods and services that can be bought [2].

Instead of slight increase of nominal wages during past years (for example the minimum wage in 2010 year was 888,25 hryvnia, whereas in 2015 year it has grown up to 1271,33 hryvnia), the cost of living in general has increased dramatically, especially during 2013-2015 years.

More detailed information on changes of real wage index in Ukraine since January, 2010 till February, 2016, that is given in Table 1, demonstrates its permanent recession over the recent years.

As shown in Fig. 1, such tendency mainly caused by the accelerated growth of the inflation rate in comparison with the slow decrease of real wage rate during last three years.

Table 1

Summary table of the index of real wages [4]

Year	Month												Per year
	January	February	March	April	May	June	July	August	September	October	November	December	
2010	86,7	100,1	106,8	100,2	105,1	108,1	100,0	95,2	100,1	98,4	101,0	110,6	110,5
2011	86,8	100,9	106,6	98,8	100,8	104,7	102,9	98,4	101,5	99,7	99,8	111,5	111,0
2012	89,5	102,5	104,1	100,5	102,8	103,4	101,3	97,8	99,6	101,8	99,7	108,6	111,0
2013	88,8	101,6	105,4	100,8	100,5	103,9	101,4	97,0	98,7	100,4	99,4	110,1	106,8
2014	87,0	100,7	104,1	97,3	96,3	103,9	97,7	92,9	100,3	98,5	98,8	110,0	86,5
2015	83,3	99,6	95,9	90,8	99,0	105,8	103,1	96,6	101,0	105,6	97,3	115,2	90,1
2016	80,3	105,3	-	-	-	-	-	-	-	-	-	-	84,6

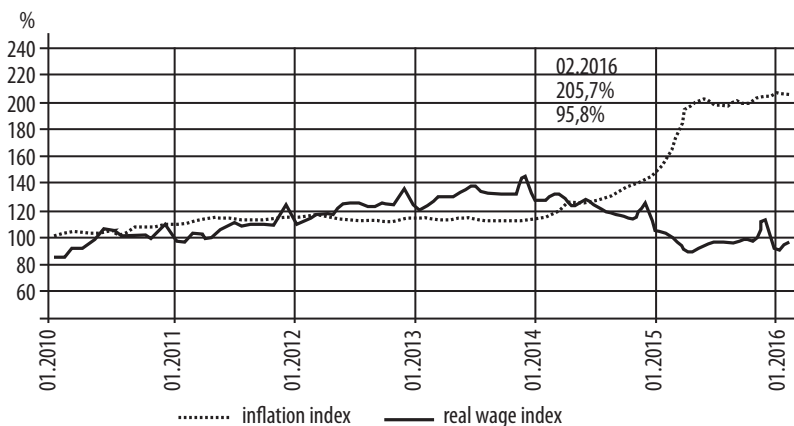


Fig. 1. The dynamics of inflation and real wage rates in Ukraine since 2010 year (cumulative) [5]

As far as we can see from Figure 1, inflation and real wage indices have strongly diverged after 2014 year, although the rate of real wage index should fluctuate somewhere in the region of 100%, preferably with a slight excess. Persons belonging to the middle-class argue that inflation in consumer goods and the housing market prevent them from maintaining a middle-class lifestyle. That leads to situation of «middle-class squeeze», when increases in wages fail to keep up with inflation for middle-income earners, while at the same time, the phenomenon fails to have a similar impact on the top wage earners [6].

While at the end of 2008 year, that was marked by the global financial crisis, the income of Ukrainian wealthiest population few dozen times (12-15) exceeded the income of the poorest groups [1], today the difference in incomes is about 40 times. So we are talking about strengthening of stratification between rich and poor segments of the Ukrainian society and mass impoverishment of most population of the country. According to «The Credit Suisse global wealth report 2015», Ukraine refers to the group of countries with lower middle income and occupies first place in the list of the poorest countries in Europe.

Секція 3. ПРОБЛЕМИ СОЦІАЛЬНО-ЕКОНОМІЧНОЇ НЕРІВНОСТІ

Finally, the one of the most significant problems of Ukrainian society is leveling of the middle class, which is of great importance for emerging economies, such as Ukrainian one. Middle class is regarded as the main source of economic growth throughout the world. As it is not the rich that lead the way to growth and prosperity, but a thriving and vibrant middle class is the key to building of democratic state with a healthy economy. The size, health and resources of the middle class are seen as key factors in determining the speed and sustainability of economic development. The middle class is often at the heart of political movements and new consumption trends. It is also a major source of the business people and entrepreneurs who aim to satisfy the new demands, and of the funding needed to support their businesses, particularly in the early stages.

Over the past years the middle class in Ukraine has decreased dramatically. According to the results of the latest researches in 2015, less than 1% of Ukrainian population can be considered the middle class (table 2).

Table 2

Ukraine wealth pattern, 2015

Population	Adults	Middle class adults	Middle class lower bound wealth	Mean wealth per adult	Median wealth per adult	Distribution of adults in Ukraine (%) by wealth range (USD)					
						under 10,000	10,000 - 100,000	100,000 - 1 million	over 1 million	Total	Gini
thousand	thousand	thousand	USD	USD	USD						
44,287	35,600	297	11,258	1,437	166	99.0	0.9	0.1	0.0	100	91.6

Source: compiled on the basis of the Credit Suisse Wealth Report data, 2015 [4]

From the foregoing it follows that there are several serious problems that contribute to the deterioration of socio-economic climate and intensification of stratification in Ukrainian society. There is nothing normal or inevitable about elevated poverty levels and stagnant incomes. They are the direct result

of policy choices that put wealth and income into the hands of a few at the expense of growing a strong middle class. Strengthening of inequality and poverty in turn threaten to become major destructive force for economic progress of Ukraine, provoke social tensions and arouse opposition to conversions from the side of those who have lost hope of improving of their own fate.

Thereafter it can be assumed that Ukrainian government need to build the political will to enact the policies that will abate income inequality, increase economic security, expand opportunities and grow the middle class.

Literature

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