

## SOCIAL JUSTICE AND ECONOMIC EFFICIENCY OF THE MODERN LABOUR MARKET

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**Abstract.** The *purpose* of the paper is to identify contradictions in the social and economic field in the process of achieving social justice and economic efficiency. *Methodology.* Methods of induction and deduction are used to determine the causal relationships; a systematic approach is applied to study research objects; abstract and logical methods of analysis, comparison and generalization allowed us to characterize the existing level of social injustice peculiar to the Ukrainian labour market. *The results* of the study are identified: manifestations of social injustice in Ukraine related to gender inequality in wages and different employment opportunities, income disparities in various sectors and regions, an increase in the gap between the income of rich and poor people, inconsistency between compensations for adverse working conditions and necessary expenses for labour rehabilitation, legal insecurity in informal, incomplete, and flexible forms of employment. Conclusions are made about their influence on the general situation on the labour market. *Practical implications.* To eliminate social inequality and injustice, ensure observance of labour rights and privileges, and create high social standards it is recommended to develop youth entrepreneurship programs; to provide free legal and informational support at the stage of opening own businesses and preferential lending and taxation in order to minimize youth unemployment; to develop a social unified agreement binding upon the execution of any work or provision of services to protect all participants in the social dialogue of the flexible and informal labour markets; to develop gender-sensitive personnel policies at all enterprises and organizations, to eliminate pay disparities, to develop state programs of promoting gender equality among legislators and senior officials to achieve gender equality; to attract the unemployed and economically inactive population for the growth of the labour potential of the country, which requires providing decent living conditions and remuneration to internally displaced persons, necessary working space for people with disabilities, creating a system of quality social care services for the elderly, sick and children with decent conditions and affordable services to people who receive social benefits in order to release the able-bodied population engaged in caring for relatives. *Value/originality.* The value of the research is the established facts of violations of human dignity and social injustice on the modern labour market and suggested recommendations for the elimination or minimization of them.

**Key words:** social justice, economic efficiency, labour market, informal employment, income differentiation, gender inequality.

**JEL Classification:** D31, D61, D63, E24, J16

### 1. Introduction

The model of social policy of any country is the embodiment of ideas of authorities and civil society about the possibility of combining the principles of social justice and economic efficiency in achieving sustainable development of the country. Economic efficiency and social justice are simultaneously

synergetic and in constant conflict. Ensuring social justice in society requires the intervention of a state in market pricing mechanisms, determining the value of labour, competition on the labour market, forming labour supply and demand. The functioning of market mechanisms depends on social factors, and the economic efficiency is based on the qualitative and quantitative

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characteristics of labour potential, consumers' solvency, and the level of development of social infrastructure.

Most researchers find the achievement of social justice in "fair" redistribution of income. The pursuit of social justice through income equalization will inevitably lead to a reduction in economic efficiency since the incomes of more productive market participants will be redistributed in favour of less productive market participants, the motivation to increase labour productivity and economic efficiency of business entities will decrease, and the number of economically inactive people will grow. The pursuit of economic efficiency with a focus on maximizing incomes and ignoring the principle of social justice in decision-making at all levels of public administration will result in an increase in inequality, further stratification of society by income, growing poverty of the country's population, weakening of the middle class positions, and increasing social instability. To find a balance of priorities is a difficult task for each country, especially in a long-term financial-economic and socio-demographic crisis.

The purpose of this article is to study social justice and injustice as a result of achieving economic efficiency peculiar to the social and economic area in Ukraine. The tasks of the article include considering existing theories of justice, the role of the state in ensuring social justice, identifying the manifestations of social injustice of the Ukrainian labour market. The paper uses general scientific methods, in particular methods of abstract and logical analysis, systematic approach, methods of comparison and generalization to assess income disproportions, gender inequality, informal employment, and poverty level in Ukraine. The methodological and informational basis of the work is scientific works, materials of periodicals, Internet resources, laws, and regulations.

## 2. Social justice from the standpoint of different justice theories

Social justice is a fundamental principle of social policy, which consists in observing equal rights, freedoms and opportunities, ensuring social guarantees and preventing discrimination based on the place of residence, nationality, sex, age, religion. The problem of the achievement of justice in society has been solved by philosophers, sociologists, economists, lawyers since ancient times, but there is still no single definition of social justice. In most of the proposed explanations, the definition of social justice is closer to that of social equality – equal rights and freedoms of individuals belonging to different social groups and strata, their equality before the law, and formally equal opportunities to succeed according to the principle "to everyone to the extent of his/her personal socially useful work". Agreeing with the author of (Jaremenko, 2016), it should be noted that not every equality is fair

and not every inequality is unfair. The complexity and structuredness of social systems require a certain level of inequality of their elements by different criteria, which do not necessarily contradict the conditions of justice.

The paper (Ghrynenko, 2009) studies the scientific views on the category "social justice" and defines it as "both a generalized moral assessment of social relations, and one of the basic universal human social ideals, the specific understanding and meaning of which has been changed throughout history..." In this interpretation, social justice requires taking into account national peculiarities of the formation of social norms, traditions, existing social standards and principles to characterize the conditions and criteria and their permissible level in determining the justice/injustice ratio.

In studies on social justice, the focus is on the redistribution of surplus wealth. In egalitarian theory, the distribution of benefits among people who equally deserve this should be equal. According to the utilitarian theory, a fair distribution is proportional and maximizes the total utility of all members of society. The founder of utilitarianism D. Bentham understood the meaning of ethical norms and principles in "the greatest happiness" for "the largest number of people", and people's actions should be judged according to their usefulness. These principles of distribution, due to the complexity of determining the usefulness of goods for everyone, have all the disadvantages of egalitarian theories, which include low incentives for productive work, entrepreneurship, innovations, and efficient use of productive resources, insufficient motivation to develop labour potential.

In Rawls's theory of justice, the principle of income distribution is the maximization of the usefulness of the poorest members of society. The theory suggests that people, being in their natural state, are equal: they do not know their place in society, social status, class position. In this situation, nobody can change anything for themselves for the better, which determines the initial situation as honest (Rawls, 1995). According to the author of this theory, J. Rawls, "the differences in the distribution of income and power among organizations are expected, but it is necessary to use these revenues and power to gain benefits for the whole society; in addition, posts should be available to everyone. In other words, inequality can be permissible only if it is beneficial to all" (Maffettone, 2010). Rawls's theory of justice is criticized for the limited use and similarity to the ideas of egalitarian theory in the distribution process (Kheffe, Malakhova & Filatova, 2009).

Under the market concept, the distribution of benefits occurs in accordance with the economic usefulness and productivity of the production factors, depending on the degree of their participation in production. Owners of production factors receive different incomes, which depend on the cost of resources and their quantity. The cost of production resources is determined by market

pricing mechanisms depending on demand and supply, their marginal productivity. In a highly competitive environment, incentives for effective work, innovation and efficient use of resources are growing. The distribution of income by wealth, the privileged distribution of income along with the market approach, which are prevalent in the modern economy of many countries, increase social inequality and give an opportunity to receive additional income to those who accumulate assets and inherit them, enjoy privileges in power. These approaches create strong economic incentives for personal wealth accumulation and are characterized by an increase in the proportion of the population classified as poor.

### 3. State intervention in ensuring social justice

When the state implements social and economic functions, including creation of equal opportunities for achieving welfare, ensuring decent living conditions, social protection of disadvantaged population, development of the education system, health care, environmental protection through the growth of social expenditures, introduction of progressive taxation and other market tools, a possibility of achieving social justice increases. State intervention in market processes weakens incentives for entrepreneurship and affects pricing mechanisms, including using tax instruments to regulate the economy. And a question arises: is a non-market mechanism of redistribution of wealth fair and who is responsible for observing the principle of social justice: market, state, or civil society? What is the balance between state and market instruments for decent living conditions and wages to ensure an increase in the efficiency of using and reproducing labour potential and minimizing social tension and instability?

The stronger social support of the population from the state, the more opportunities for the development of labour and social potential of the country. Ensuring decent social protection and population support is possible under conditions of a stable and efficient economy. On the other hand, with the excessive state intervention in the redistribution of material wealth, a risk of an increase in the proportion of the economically inactive population with growing transfer payments rises. The optimal level of social norms and guarantees should contribute to the growth of labour productivity, the share of the economically active population by attracting economically inactive population and keeping retirement age people and persons with disabilities in the labour force. For an effective social inclusion of economically inactive people, there must be necessary social infrastructure, namely education system, healthcare system, transport and environment convenient for persons with disabilities and retirement age people. Public opinion should positively perceive these changes and get prepared for further changes and transformations that social inclusion requires in society.

The fulfilment of the foreign investors' requirements to attract financing from international funds in order to maintain macroeconomic stability requires a continuous reduction of social costs, which "painfully affects the poorest groups of the population. There is an additional endogenous failure of demand, which almost automatically worsens the budget" (Jaremenko, 2016). However, experts from the World Bank state that in Ukraine "social security is not only expensive for the budget (it accounts for almost 5% of GDP in 2017) but also insufficiently targeted: only 30% of the aid falls to 20% of the disadvantaged population. Solving this problem requires improving the targeting of one of the largest programs, the housing and communal subsidy" (Press release, 2018).

The IMF expects optimization of budget expenditures with structural reforms in the main budget spheres (education, healthcare, pension system, public administration). Optimization of expenditures is achieved by reducing the number of employed and reorganizing, combining budget organizations and institutions. Achieving a decent remuneration rate in the budget sphere is accompanied by increasing the qualified staff while reducing the low-skilled representatives of this sphere, and the main direction within the framework of decentralization is optimization (reduction) of the network of schools and hospitals. The achievement of the economic effect in the budgetary sphere corresponds to the negative social effect expressed in the increase in the number of unemployed.

The growth of social injustice with increasing the differentiation of people's incomes and the number of people under the poverty line affects the strengthening of social potential with a negative vector characterized by reduced trust in employers and authorities, decreased labour productivity, a tendency toward open and hidden forms of conflicts in defending equal rights and opportunities. According to the studies (Monitoring of various..., 2016), about 70% of the population of Ukraine classifies themselves as poor, and 38.1% of the population is unable to meet their basic needs in full and the need for food, 68.6% at least by one criterion belongs to the category of poor. Comparing the actual and official subsistence level, the number of poor in Ukraine is 58.3%, indicating a crossing of the critical threshold of 50% (Protesty nachinaiutsia..., n.d.). Only 30% of Ukrainian population receives income that provides the minimum standards of living. According to the research done by financial analysts of the American business edition Bloomberg, Ukraine ranks seventh among the poorest countries (Saraiva, Jamrisko, 2017) by Bloomberg's Misery Index.

The eradication of poverty is the number one goal among the Sustainable Development Goals, approved by the UN General Assembly at the end of September 2015. 193 UN member states have committed themselves to end extreme poverty, to reduce inequality and injustice,

to fight with the challenges of climate change in the next 15 years. In 2006, the Verkhovna Rada of Ukraine ratified the European Social Charter (revised), where one of the main directions is poverty reduction.

To achieve the goal number “one”, Ukraine adopted the Poverty Reduction Strategy. This Strategy identifies poverty prevention mechanisms and main tasks for solving this problem until 2020, updates the Integrated Poverty Assessment Methodology (Ministry of Social Policy..., 2017), and implements the Action Plan for 2018 for Implementation of the Strategy to Overcome Poverty. According to the Poverty Reduction Strategy, the absolute poverty rate (costs below the actual subsistence level) in 2018 should decrease to 23% (according to the data of nine months of 2015, this indicator was 23.8% of the population), and the level of unemployment rate of the population aged 15-70 by the ILO methodology should fall to 9.2%. According to the official statistics, in 2017 the unemployment rate of the population by the ILO methodology at the age of 15-70 was 9.5% with an employment rate of 56.1%, and the unemployment rate of the working age population was 9.9%, with the employment rate of 64.5%.

According to the World Bank's national methodology for Ukraine (Ukraina Ekonomichnyi ohliad..., 2018), the level of poverty still remains above pre-crisis level, although in 2017 it declined slightly due to the economic recovery and growth of wages and pensions. The poverty level (up to \$ 5.5 per day at purchasing power parity in 2011) is estimated at 5.7% in 2017. The level of moderate poverty dropped to 24.5% in 2017 from 26.7% in 2016 (compared to 14.1% in 2013) due to higher minimum wages, growth of wages in the public sector and pensions.

#### **4. Manifestations of social injustice in the labour market**

The high percentage of the population below the poverty line is the result of social injustice in the labour market. The Ukrainian labour market is characterized by the following manifestations of social injustice: gender inequality in wages and different employment opportunities, income disparities in various sectors and regions, increased gap between the income of rich and poor, age discrimination in employment, inconsistency between compensation for adverse working conditions and necessary expenses for labour rehabilitation, disproportions in labour demand and supply by age, qualifications in different sectors and regions, legal insecurity in informal, incomplete, and flexible forms of employment. The painful issue for elderly is disproportions in the level of pensions in different years.

The growth of social injustice in wages affects the growth of mobility of labour resources both within the country and beyond its borders. By the level of payment, the national labour market is currently uncompetitive

compared to the labour markets of European countries. The transformation of labour markets from excess labour markets to tight labour ones leads to an increase in their transaction costs.

According to the studies of the Social Integration and Reconciliation Index, in Donetsk and Luhansk oblasts, the level of inclination to migrate among adolescents is 6.8 on a scale from 0 to 10, where 0 means that nobody thinks of migration and 10 means that everyone wants to leave the region (Indeks sotsialnoi zghurtovanosti..., n.d.). Teens are the greatest value of every community, they realize its future plans, share the values, attitudes, and social norms of the parents. Adolescents have a higher inclination to migrate than adults, compare that the inclination to migration according to the results of the general population survey of Donetsk and Luhansk regions is 4.1 and 4.4, respectively. In turn, girls are more inclined to think of migration than boys. Based on the results of the survey, the main reasons for the desire to leave the region are the impact of negative psychosocial factors, individualistic values, quality of life, and entrepreneurial aspirations. Low wages, youth unemployment, and lack of widespread choice of employment in rural areas push young people to find better living conditions and work in other cities, further reducing the opportunities for the social and economic development of their communities.

For the modern labour market, typical are situations where a high percentage of people's unemployment in certain regions is accompanied by a high demand for labour by employers. This situation is the result of the mismatch of vocational education with the actual needs of the regional labour market. The outdated material and technical base, the so-called “old school” in the methods of work of the teaching staff, the discrepancy between the expectations of young people of “Generation Z” (“digital generation”) and traditional approaches to teaching and learning in the system of higher and vocational education, high youth unemployment, which reduces the motivation of young people to study, have a negative impact on the quality of training of young experts and professionals. The development of the material and technical base of educational institutions, the introduction of innovative forms of training, new modern interactive technologies, the formation of competencies demanded in the labour market, will accelerate the transformation of the sectoral structure and balance the needs of the quality workforce and its supply, timely take into account the changes of needs on the labour market and reduce youth unemployment.

Gender inequality in the world in 2017 according to the Gender Gap Index 2017 increased the first time in the history of the calculation of this index since 2006. However, Ukraine improved its position in the world ranking, moving from 69th place in 2016 to 61st place in the ranking of 144 countries in 2017. The level of female and male wages for similar work improved significantly,

rising from 59th to 37th in the ranking (index of equality is 70.5%), the ratio of female to male among lawmakers, officials and managers decreased from 23 to 24 positions (index of equality is 65.5%) (Economic Discussion Club, 2017). According to the official statistics of Ukraine, in the 1st quarter of 2018, the gap between male and female wages amounted to 27.5% (in 2017 for the same period the gap was 27.5%), the largest gap was 69.8% in postal and courier activities, 58.1% – in financial and insurance activities. In turn, women received higher wages than men by 1.7% in the sphere of water transport and by 0.7% in the area of administrative and support services. Compared to the previous year, the gap in female and male wages for similar work decreases, in 2016 it was 34%. Overcoming gender inequality positively affects the country's economy. According to the researchers, achieving a gender parity allows a country to increase its GDP, for example, GDP of Great Britain would increase by \$250 billion, the United States by \$1750 billion, Japan by \$550 billion, France by \$320 billion, Germany by \$310 billion (for Ukraine, such studies were not conducted) (Economic Discussion Club, 2017).

Income disproportions in various industries in 2017 is 8 times (in postal and courier activities, the average monthly salary was 3 851 UAH, which was almost half the average monthly wage in the country, against 31 088 UAH in aviation transport and 12 018 UAH in the field of information and telecommunications) and in different regions is 1.4 times (in 2017 the average monthly salary in Ternopil oblast was 5 554 UAH against 7 764 UAH in Donetsk oblast). These imbalances in the labour market affect the cross-sectoral and territorial mobility of skilled personnel and the growing popularity of specialties in the market for educational services that train specialists for industries with high wage levels. The regional differentiation of wages depends on the specialization of regions and the level of social and economic development of the territory, which is determined by a large number of factors, including investment attractiveness, developed transport infrastructure, quality of implementation of regional development programs, and support of small and medium-sized businesses to create new jobs and promote self-employment of the population.

Special attention should be paid to the phenomenon of informal employment, which in 2017 amounted to 22.9% (3 695.6 thousand people vs. 16 156.4 thousand people aged 15-70) of official employment in Ukraine. Compared to 2016 and 2015, where the level of informal employment was 24% and 26.1% respectively, there is a gradual decrease, which should be considered positively. The reasons for informal employment are various, firstly, in order to improve the financial situation and reduce the poverty rate, the population looks for an extra job and is not interested in formalizing labour relations since it reduces earnings or such conditions are not beneficial to the employer; secondly, under the

influence of globalization and informatization of the economies of many countries, the number of freelancers who agree to work without formalizing labour relations is increasing, often being guided by the choice of employer by its reputational characteristics and their own capabilities and work needs; thirdly, the participants in the informal market are those representatives of the workforce who cannot find official work or it is very difficult to do it (convicted persons, people fired for violations of labour discipline, retirement-age people, people without experience, illegal migrants) and they are ready to perform work under any conditions and for a minimum wage. Failure to settle labour relations, absence of legal employment contracts lead to a violation of employees' labour rights, nonfulfillment of obligations by the employer, the performance of work in improper working conditions, frequent cases of non-payment for performed work because of its non-compliance with employer's expectations. Worldwide growth in informal employment is negatively assessed by international experts due to the high risk of violation of labour rights, tax evasion of employers and loss of social and labour guarantees and insurance job seniority by hired workers, on the one hand, and on the other hand, for certain categories of population, this is the only opportunity for poverty alleviation. Protection of labour rights and social protection contribute to the development of labour potential, minimize the risks in the process of using labour resources and provide equal opportunities and labour standards, in the conditions of informal employment this protection is absent.

The increased gap between the income of rich and poor is characterized by the following indicators: the quintile ratio (ratio of the average income of the richest 20% of the population to the average income of the poorest 20% of the population), which according to the Human Development Report 2016 in Ukraine was 3.3; the Palma ratio (the ratio of the richest 10% of the population's share of gross national income (GNI) divided by the poorest 40% share) is 0.8; Gini coefficient (characterizes the deviation of the actual distribution of incomes of individuals or households in a particular country from absolute equality. It ranges between 0 in the case of perfect equality and 100% in the case of perfect inequality) is 24.1%; coefficient of human inequality equals 7.2 (average index of inequality by three main dimensions of human development); income inequality is 9.2 (based on household survey data, inequality in income distribution, estimated by using the Atkinson inequality index) (Human Development Report, 2016). With such characteristics of human development, Ukraine ranks 84th in the ranking of 188 countries, having lost 3 positions for the year.

According to the World Bank, Ukraine leads among the most equal nations in the world, along with Slovenia and Norway. In 2016, Ukraine had the smallest gap between poor and rich among 140 countries. However,

the methodology of calculating inequality indices in society has its drawbacks; it does not take into account shadow revenues. According to the studies of M.V. Ptukha Institute for Demography and Social Studies, incomes of 10% of the richest and 10% of the poorest Ukrainians, considering the shadow, differ by 40 times (Pozhivanov, 2018). Polarization of society by income does not contribute to strengthening the position of the middle class, increases social instability, inequality in the labour market, and the inclination for migration of the population.

Labour law and collective and contractual regulations should protect labour rights and ensure safe working conditions and decent compensation for work in harmful working conditions. In 2017, 838.6 thousand people in Ukraine (11% of the average number of full-time employees or 28.4% of the number of registered staff as of December 31st) were employed at work with harmful labour conditions, amounting to 93.3% of the indicator of 2015. The number of employees who are eligible for at least one of the types of benefits and compensations for work with harmful working conditions in 2017 is by 7.7% less than in 2015. Employment in areas with harmful working conditions decreases annually, partly due to a decrease in production volumes and a reduction in jobs in the industry with harmful working conditions. The state of working conditions indirectly characterizes the number of days of disability as a result of accidents at work, which in recent years is steadily increasing from 201 thousand in 2014 to 244 thousand in 2017, with the annual reduction in the number of employed population (statistics are given according to the official website of State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>). Low wages and insufficient level of preventive measures to combat occupational diseases reduce the labour potential of the relevant industries.

## 5. Conclusions

1. The international experience shows the existence of a relationship between the level of a country's labour and social capital development and its social and economic development. Social policy, which should be aimed at social protection, eliminating social inequality and injustice, ensuring labour rights and benefits, and creating high social standards play an important role in this process.

2. The growth of labour potential by attracting unemployed and economically inactive population requires creation of the necessary working space for people with disabilities from the employers' side and creation of a system of high-quality social services for the care of the elderly, sick and children, with decent conditions and affordable services to people receiving social benefits from the state's side.

Psychological support for the inclusion of people with disabilities should be introduced starting from

pre-school education and cover all segments of the population in order to change the perception and prevention of the influence of social exclusion factors.

3. Activation of the economically active population needs the stimulation of self-employment and creation of new jobs, improvement of the system of professional development and retraining throughout the working life.

Internally displaced people should be perceived as the most valuable resource of any territory. Involvement of the internally displaced people in the labour potential of the territory requires appropriate public goods at the regional and local level, effective regional programs for housing and work, and enhancing their vocational qualification.

The investment climate of the regions depends on a large number of factors, but for Ukraine political support of the authorities is the most important factor. Foreign and domestic investors are interested in even social and economic dangerous areas of Luhansk and Donetsk oblasts, but the political interests of regional and local authorities do not contribute to the emergence of new investors and new jobs.

4. The support of young people at the stage of vocational education, employment, development of youth entrepreneurship programs, provision of free legal and informational support at the stage of establishing their own businesses and concessional lending and taxation will reduce youth unemployment.

5. The processes of globalization affect the growth of the individual, flexible, informal forms of employment that require protection of labour rights and support of new forms of collective association of workers, such as associations, unions, associations of youth, women, internally displaced people, migrants, workers with flexible working hours, that is, all those groups of people who are most often faced with social injustice. National and regional programs should solve issues of preventing social injustice and ensuring social guarantees and legal support to vulnerable categories of the workforce.

A social unified agreement is a new type of collective and contractual regulation, which should arise through the efforts of all parties in social and labour relations. This agreement must be concluded when performing any work or service (including one-time) to protect all participants in the social dialogue of a flexible and informal labour market.

6. Achievement of gender equality in Ukraine requires developing a gender-sensitive personnel policy at all enterprises and organizations, eliminating wage disparities, and working out state programs promoting gender equality among lawmakers and high-level officials. The highest level of gender inequality in Ukraine concerns political rights and opportunities, which can be eliminated through the creation of schools, clubs, associations, and other forms of associations to educate, support, and promote women in politics.

7. Social support requires the growth of targeting and increasing social guarantees and standards in order to maintain social justice in society. The processes of globalization should be aimed at achieving a balance between social justice and economic efficiency.

8. The digital revolution shifts any boundaries in the labour market, changes the structure of labour demand, introduces new requirements to the competencies

of staff, and offers flexible working regimes. The popularization of sustainable development, social and economic and political crises affected the growth of varieties of social entrepreneurship and volunteerism, and employment in the public sector. Changes in the labour market require appropriate changes in the education system and the collective and contractual regulation of social and labour relations.

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