

Oryginalna praca badawcza

DOI: 10.34858/SNB.1.2020.009

Klwdia DUBYCH

Ukrainian State Employment Service Training Institute

ORCID: 0000-0002-7403-9771

e-mail: kdubych@ukr.net

Nataliia SEROHINA

Ukrainian State Employment Service Training Institute

ORCID: 0000-0002-4491-4723

e-mail: nataliseryogina79@gmail.com

THE SHADOW LABOUR AND EMPLOYMENT MARKET IN UKRAINE – THE THREATENING TREND TO ITS NATIONAL SECURITY

SZARA STREFA RYNKU PRACY I ZATRUDNIENIA NA UKRAINIE – ZAGRAŻAJĄCY TREND W BEZPIECZEŃSTWIE NARODOWYM

Zarys treści: Obecny stan szarej strefy rynku pracy to zagrażający trend w bezpieczeństwie narodowym Ukrainy, gdyż bezpośrednio wpływa na rozwój społeczno-gospodarczy społeczeństwa. Zatrudnienie w szarej strefie traktowane jest jako nielegalne angażowanie się pracownika w działalność gospodarczą przez pracodawcę. W związku z tym uzasadniamy, że rynek pracy ze swym destrukcyjnym rozwojem może zagrażać interesom narodowym Ukrainy, gdyż obejmuje całą ludność pracującą państwa i tworzy jego potencjał gospodarczy. W celu zidentyfikowania wielkoskalowych problemów rynku pracy, szeregu czynników zacięniających rynek pracy i zatrudnienia, w tym regulacje polityczne, gospodarcze, społeczno-demograficzne, zastosowano analizę PESTL. Badanie wykazało, że negatywny i destrukcyjny wpływ tych czynników dotyczy nie tylko rynku pracy i zatrudnienia, ale także gospodarki, ochrony socjalnej, sytuacji demograficznej i rozwoju społecznego całej Ukrainy, co zagraża bezpieczeństwu narodowemu Ukrainy.

Słowa kluczowe: państwo, bezpieczeństwo narodowe, interesy narodowe, zagrożenia bezpieczeństwa narodowego, polityka państwa szara strefa rynku pracy, zatrudnienie, analiza PESTL

Key words: state, national security, national interests, threats to national security, state policy, shadowing, labour market, employment, PESTL-analysis, factors

Introduction

Ukraine, as a sovereign democratic state, according to its Constitution and other normative legal acts, guarantees a set of legislative and organizational measures aimed at permanent protection of the vital interests of citizens, society and state, which ensures sustainable development of society, and timely detection, prevention and neutralization of real and potential threats to national interests. Given this, the labour and employment markets are within the orbit of national interests, especially when they begin to develop destructively and pose a threat to social development and the state itself.

The shadowing of the labour and employment market is a serious challenge for the development of modern society, both in the individual countries of the world and globally. The *Organization for Economic Co-operation and Development*¹ (OECD) estimates that there are 1.2 billion official jobs in the global economy, while 1.8 billion are employed in the informal sector. Data from the International Labour Organization (ILO) show that the largest share of shadow employment in the world labour markets are in countries with low or average incomes: more than 50% of the labour forces of these countries are covered by informal labour relations².

The transfer of a significant part of the employed population from the official to the shadow sector of the labour market is also true in Ukraine. Thus, according to published data of the State Statistical Service of Ukraine, in 2019, the number of informally employed was almost 4.0 million people, which was 24.3% of the employed population, whereas before 1990 shadow employment covered 2–6% of the population of Ukraine. That is, the domestic labour and employment market has a steady and clear tendency to spread shadowing, which threatens the vital economic interests of Ukraine and national security in general³.

Retrospective analysis of the shadowing of the labour market and its impact on the national security of Ukraine

Examining the shadowing of the labour market through the prism of national security, it is necessary to investigate what is included in the concept of “national security,” “national interests” and “threats to national security.” In our opinion, it is expedient in our study to define “national security” in the Terminological Dictionary of the authors Chubenko A.G., Loshitsky M.V., Pavlov D.M. and others⁴.

¹ Notes. The Organization for Economic Co-operation and Development (OECD) is an intergovernmental economic organization with 37 member-countries, founded in 1961 to stimulate economic progress and world trade area.

² T.A. Tishchuk, Yu.M. Kharazishvili, O.V. Ivanov, (2011) *Shadow economy in Ukraine: scales and directions of overcoming*, 96, pp. 5–47.

³ N.M. Kraus (2014), *Determinants of the shadow economy in innovative economic conditions*, 148, p. 114.

⁴ N.M. Kraus (2014), *Determinants of the shadow economy in innovative economic conditions*, 148, p. 265.

National Security of Ukraine – a set of legislative and organizational measures aimed at permanent protection of the vital interests of citizens, society and the state, which ensures sustainable development of society, and timely detection, prevention and neutralization of real and potential threats to national interests, etc., and *national interests* – vital material, intellectual and spiritual values of the people of Ukraine as a bearer of sovereignty and the only source of power in Ukraine, determining the needs of society and the state, the implementation of which guarantees the state sovereignty of Ukraine and its progressive development; *threats to national security* – existing and potentially possible phenomena and factors that pose a danger to the vital national interests of Ukraine⁵.

Terminological analysis of the encyclopedic literature⁶ established that *shadow* (informal) *employment is*: illegal involvement of an employee in economic activities by the employer. Shadow employment is an illegal format of labour relations, which is usually initiated by the employer or employee for the purpose of non-payment of taxes or evasion of the law.

ILO experts also single out *informal employment* as a form of employment that does not provide legal or social protection to workers at work, thereby increasing their economic vulnerability. The terms shadow (informal) employment and employment in the informal economy are considered to be identical. Analogues of this term in English are also: unreported, unreported or informal employment; hidden under the table; cash-in-hand payment; part-time work or work on the side (combination of full-time work with part-time work or combination of work and study at an educational institution) (moonlighting). Some Western economists view shadow employment as part of an underground economy or a non-observed economy. It should be noted that there is currently no generally accepted approach to the definition of “shadow” employment and related concepts.

Shadow employment is related to the *shadow* (informal) *economy*, which is understood as a type of economic activity aimed at illegal income generation, evasion of state and non-state control and payment of taxes. There are underground economies, fictitious economies and criminal economies, in which the shadow format of employment prevails.

The shadow labour and employment market – is an illegal activity associated with the reality of informal employment – the use of employees’ labour without employment contracts and agreements, payment of wages “in envelopes,” tax and social security contributions evasion, unpaid overtime, no sick leave or paid vacations, and violation by employers of other requirements of labour legislation.

The effectiveness of the state policy of de-shadowing depends on a clear, complete and objective identification of the factors influencing the studied phenomenon, their thorough analysis, systematization and assessment of their priority based on the use of

⁵ N.M. Kraus (2014), “Determinants of the shadow economy in innovative economic conditions”, – 148 p. P. 265.

⁶ *Encyclopedia of public administration*, in 8 volumes, (2011), V.M. Knyazev, I.V. Rozputenko, – p. 748. Pp. 659–660.

adequate scientific research methods. According to the authors, these tasks can be effectively solved with the help of; *PESTL-analysis*⁷, which is widely used by modern researchers and analysts of public policy to identify large-scale problems; comprehensive study and evaluation; comprehensive generalization of the environmental impact on the phenomenon; process or policy.

The shadow labour and employment market is determined by a number of factors that can be grouped into *external (exogenous) and internal (endogenous)*. External factors in comparison with internal factors have greater significance, weight and priority given the scale of their impact on the phenomenon under study. Internal factors can be determined by the human factor, subjectivity, while external factors are, on the contrary, objective in nature and are determined by economic and social policy, legislation and so on. Exogenous and endogenous factors, despite their differences, in particular in nature, specificity and priority of impact, are interrelated.

The argument for the application of PESTL-analysis is the national scale of coverage and the urgent need in society for an immediate solution to the problem of the shadow labour market. The obtained results of PESTL-analysis will allow: segmentation and better presentation of the range of factors (microenvironments) of shadowing of the labour and employment market; comprehensive comprehension the problems of the object of study; identification of the relationship between them; ability to formulate proposals for de-shadowing the labour and employment market; will contribute to the definition of mechanisms, tools and priorities of the relevant state policy; the development of regulations, concepts, strategies, etc.

The chronological boundaries of PESTL analysis are 2010–2019.

Based on the method of application of PESTL-analysis⁸, we will define microenvironments and factors of the shadow labour and employment market of the population in Ukraine, and further factors, the main ones being: political; economic; socio-demographic; regulatory.

Microenvironments and factors of the shadow labour and employment market may be unstable and under certain circumstances change. The authors share the point of view of G. Johnson, K. Skulz, R. Whittington and other researchers⁷ that the priority of certain factors, relevance and validity of the results of PESTL analysis may be limited in time and sometimes characterized by subjectivity. We will consider the factors, assess their impact on the shadow labour and employment market in Ukraine, and identify and analyse the problems that exist in the relevant macro-environments.

The political factor significantly affects the shadow labour market and employment. This is explained by the fact that in Ukraine the subjects of development, adoption of state policy in the labour and employment market, relevant government programmes and measures, their funding and proper control over their implementation lack an adequate understanding of relevant issues.

⁷ *Notes.* **PESTL** (acronym – Political, Economic, Social, Technological, and Legislative) is a type of scientific analysis. Depending on its specifics of the issue investigated in a study, the dimensions, categories of the PESTL analysis can be enlarged by others one, such as Demographic, Environmental, Institutional, Ethnic, Cultural, Geographical, etc.

⁸ G. Johnson (2008), *Exploring Corporate Strategy*, – 664 p. Pp. 3, 53–56.

The data of the survey conducted in 2016 by TNS-Ukraine⁹ show that corruption in senior management and the impunity of corrupt officials are the main reasons for the spread of corruption in Ukraine. Ukraine has not achieved significant results in the fight against corruption during the years of state independence: although senior officials declare it a priority of reforms and social development, the scale of this negative phenomenon in the economy, labour and employment market, and in other spheres of public life, remains the largest threat to the socio-economic development of the country.

Evidence that Ukraine is one of the most corrupt countries in the world is the *Corruption Perceptions Index*¹⁰ (CPI), which is calculated by experts from the International Organization for Transparency International. It is determined that during 1998–2016 the ratings of Ukraine are critically high – they are close to the total number of studied countries.

In 2016, Ukraine ranked 131st out of 176 countries surveyed in the corruption rankings, with a worse score than Nepal, Sierra Leone, Paraguay, Laos, Honduras, and other “problematic” countries, and in 2019 ranked 126th out of 180, including the group of “countries trying to fight corruption,” having the same position as Azerbaijan, Kyrgyzstan and Djibouti (a country in East Africa). The high levels of corruption in Ukraine are evidenced by the expert assessments of *Global Integrity*,¹¹ and in 2016 the European Court of Auditors recognized Ukraine as the most corrupt country in Europe.

The most threatening form of corruption that ‘paralyses’ the labour and employment market in Ukraine is *political corruption*¹², which is caused by conflicts of interest – contradictions between the personal interests of officials in the civil service, the realization of legitimate rights of citizens to work. Examples of political corruption in the labour market are the abuses of power by state officials in order to obtain benefits for private purposes. This type of corruption subordinates state power to the private, corporate interests of corrupt oligarchic clans and criminal groups, as a result of which the effectiveness of the policy of de-shadowing the labour and employment market is reduced. De facto, in Ukraine there are currently no real mechanisms of accountability of politicians for corruption, non-implementation of their declared election programmes, and government officials for non-implementation or improper implementation of approved state strategies, programmes, etc., which leads to formalism, bureaucracy and imitation.

⁹ Kantar Group Company (2017), *Ukrainians named the main obstacle to the country's development*, electronic resource, access mode: <https://tns-ua.com/news/ukrayintsi-nazvali-golovnu-pereshkodu-na-shlyahu-rozvitku-krayini>, 37.

¹⁰ Notes. The **Corruption Perceptions Index (CPI)** scores and ranks countries/territories based on how corrupt a country's public sector is perceived to be by experts and business executives. It is a composite index, a combination of many surveys and assessments of corruption, collected by a variety of reputable institutions. The CPI is the most widely used indicator of corruption worldwide. **CPI** is a peculiar ‘barometer’ of society's attitude to corruption, based on which foreign investors, bankers, and international businessmen make decisions about investing, lending, trading, and so on.

¹¹ Notes. **Global Integrity** annually assesses the levels of corruption in the world based on a survey of citizens, foreigners, entrepreneurs and analysts living in the countries studied.

¹² Notes. **Political corruption** is the illegitimate use by public authorities (politicians, government officials) of the given opportunities and powers for private or group gains (material, social, etc.).

Examples of political corruption in combination with bureaucracy and bribery are a “cancerous tumour” of the labour and employment market, which distort its functioning, spread shadow schemes of economic relations and cultivate an antisocial culture of labour relations. This thesis can be confirmed by the results of scientific research obtained by World Bank experts S. Johnson, D. Kaufman and P. Zoido-Lobodan¹³, which prove that it is the political factor (the format of the state’s influence on the economy, the political will of its senior officials) that determines the share of the economy that “drifts into the shadows.” It has been proven that countries with high levels of corruption tend to have a larger shadow economies and shadow labour markets and employment.

Thus, the political factor is, according to the authors, the most important of the studied exogenous factors. Extrapolation of the results of the World Bank experts’ study¹⁴ to the subject of this study gives grounds to argue that the solution to the problem of the shadow labour market and employment in Ukraine lies in the political sphere – this is a priori a political issue that cannot be solved without political will and support from senior officials of the state, political parties and the public. Combating and preventing corruption in the labour market is a vector of state policy in this area.

The high level of public confidence in the state testifies to its authority in society, the low level of corruption of officials, confidence in their ability to effectively and efficiently spend taxpayers’ funds and manage budget expenditures. At the same time, the shadow labour and employment market leads to insecurity of social and labour relations of informally employed people, low quality living standards of citizens and a decrease in their confidence in public authorities and can lead to acts of disobedience and confrontation, which in turn can become a threat to the national security of Ukraine on the basis of internal signs of threat¹⁵.

The results of a nationwide survey conducted by the Democratic Initiatives Foundation¹⁶ show that law-abiding behaviour, moral norms and values are mostly levelled among business entities and citizens of Ukraine. The practice of legal nihilism is widespread – a form of deformation of the legal consciousness of citizens, which is characterized by their conscious disregard for legal norms. In addition, levels of trust in public authorities in Ukraine are critically low and tend to deteriorate. Under such conditions, the promises of politicians and government officials to carry out reforms, their assurances to improve the living standards of citizens, to provide public goods in exchange for taxes paid are sceptically and negatively perceived in society, causing resistance.

¹³ Democratic Initiatives Foundation, (2016), electronic resource, website, access mode: <http://dif.org.ua/article/2016-y-politichni-pidsumki-zagalnonatsionalne-opituvannya>, 39, pp. 387–392.

¹⁴ Johnson S. *Regulatory Discretion and the Unofficial Economy*, S. Johnson, D. Kaufmann, P. Zoido-Lobaton. *American Economic review*, 44. Pp. 387–392.

¹⁵ *International Journal of Emerging Trends in Engineering Research* (2020), “Determination of requirements for protection of radio-electronic means of security management of particularly important state energy facilities from the destructive impact of electromagnetic”.

¹⁶ Democratic Initiatives Foundation, (2016), electronic resource, website, access mode: <http://dif.org.ua/article/2016-y-politichni-pidsumki-zagalnonatsionalne-opituvannya>, 39.

The driving force leading to shadowing and other destructive trends in the domestic labour and employment market is the armed conflict in eastern Ukraine and the annexation of Crimea, which have posed a national threat to the state's integrity and has led to a number of political and socio-economic processes that used to be absent in Ukraine. Thus, in 2014–2015, the problem of employment of the population temporarily displaced from the conflict zone arose sharply. As a result, the shadowing of economic, social and labour relations has intensified, and the practice of informal employment, especially in the territories not controlled by Ukraine, has become even more widespread.

Thus, the political macro-environment is unfavourable, and the impact of the political factor on the processes of de-shadowing of the domestic labour and employment market in Ukraine is negative. The main factors of this are: inconsistency, inefficiency of public policy and shortcomings in the mechanisms of public administration in this area; high levels of corruption; low levels of public confidence in public authorities and state institutions.

The economic factor is important because the labour and employment market are integral components of the national economy. The labour market is an economic mechanism that ensures the coordination of prices and working conditions between employers and employees, the sphere of employment, which forms the demand and supply of labour. In the shadow labour market, illegal labour relations are cultivated between economic agents, and economic activity is carried out covertly, hidden from public authorities and outside their control, and improperly reflected in accounting documents, reports and official statistics. Shadow employment covers all forms of paid work that are not formally registered, are not taken into account by state statistics and tax authorities and are not subject to regulation. Shadow employment is caused by the efforts of economic agents to increase their own profits in violation of current legislation, in particular by deliberately concealing them (tax evasion, social security contributions, etc.) from government agencies. Under such circumstances, the state-regulated order of organization and implementation of economic relations in the labour market is deformed and destroyed¹⁷.

The excessive tax burden on business entities and the personal income of citizens is one of the key economic factors in the shadowing of the labour and employment market in Ukraine, which leads to:

- an increasing number of economic crimes, reducing the level of investment attractiveness of the country, while foreign direct investment and domestic investment has a positive impact on job creation in enterprises and, consequently, on the labour and employment market;
- cases of personal income tax evasion, which is more than 70% of local budgets, increasing tax pressure on enterprises that legally carry out economic activities and depriving them of the opportunity to invest and grow;

¹⁷ *Encyclopedia of public administration*, in 8 volumes, (2011), V.M Knyazev, I.V. Rozputenko, – 748 p. Pp. 659–660.

- significant reduction of the revenue side of the budget, the share of tax revenues, budget deficit, complicating the implementation of financial obligations of the state, inefficiency of state policy to de-shadow the labour and employment market, exacerbation of financial and economic crisis, slowing economic growth¹⁸.

The complex taxation system and high tax rates are factors that largely encourage economic agents to resort to shadow employment schemes in the labour market.¹⁷ De facto, the current tax system in Ukraine, which is focused on maximizing budget revenues, underestimates the negative effects of fiscal pressure on businesses and citizens. Thus, the total tax burden on company profits in the country is 38%: the companies must pay 20% VAT and 18% corporation tax on gross profit. The tax burden on the payroll is on average 93%: for the payment of each 1 UAH in salary the company must pay to the budget 0.93 UAH. Under such conditions, enterprises can, as a rule, work profitably only by tax evasion and shadow employment creates such an opportunity for them.

A serious shortcoming of the domestic labour market, a natural consequence of the above policy, is the improper payment of SDRs. At the same time, 12.2 million pensioners expect timely payment of pensions. The shadow domestic labour market is evidenced by IMF data, according to which out of an economically active population of 18 million people, 16.4 million are employed and only 12.3 million, or 75% of them, are payers of SSC. The EU Report and the UN Development Programme state that in 2025, according to the current demographic trend in Ukraine, which is characterized by an ageing population, the number of retirees will be equal to the number of contributors, and by 2050 the number of the former will exceed the latter by 25%, which could destroy the domestic pension system. Thus, today there are 4 people of retirement age (60/55 years) per 10 people of working age and by 2050 this will be up to 8 people. One of the reasons for this situation is the spread of informal employment, as a result of which only 75% of the total employed population pay pension contributions.

The economic factor in the shadowing of the labour and employment market is the degree of regulatory intervention by the state in the sphere of economic activity or state regulatory policy. The results of a study¹⁹ conducted by World Bank experts in 49 countries (Latin America, OECD and post-Soviet countries) show that countries with a high level of government regulatory intervention have larger “shadow” economies, which includes the labour and employment market. They also proved that a significant number and high rates of taxes and fees lead to a shadowing of economic relations in the labour market. Carrying out a historical digression of “shadow” economic relations in post-Soviet countries, experts found that their spread was facilitated by the liberalization of the domestic economy. After the collapse of the former USSR, this process in Ukraine took place by abolishing the state centralized system of economic planning, weakening control “from the centre” over economic activity against

¹⁸ N.M. Kraus (2014), *Determinants of the shadow economy in innovative economic conditions*, – 148 p. Pp. 98–99.

¹⁹ Johnson S. *Regulatory Discretion and the Unofficial Economy*, S. Johnson, D. Kaufmann, P. Zoido-Lobaton. *American Economic review*, 44. Pp. 387–392.

a background of bureaucratic red tape, government barriers, high market entry costs, an excessive tax burden and insecurity of economic agents.

Extrapolating the results of the World Bank experts' research to the current realities of Ukraine's economic development, it can be argued that such forms of Soviet style, state regulation of the economy as bureaucratic obstacles, extortion and bribery remain in our country to this day. In conditions of political corruption, inspections and control of the labour and employment market are counterproductive. This is confirmed by the results of a survey²⁰ in which 42% of respondents believe that such control is ineffective and a cause of corruption. Research shows that corrupt officials resort to increasing the number of inspections, increasing taxes and fines, which makes the system of taxes and fines an ineffective public policy tool. The shortcomings in the inspections carried out by the relevant state authorities are the extensive increase in their number, selectivity in the imposition and collection of fines, and the duality of the standards of the domestic system of penalties for violations of tax and labour laws.

Restraining corruption correlates with the quality of regulatory policies that affect the labour and employment market.

The above leads to the conclusion that the high tax burden, ineffective state regulation of economic relations and control exercised by authorized state bodies in Ukraine are economic factors that contribute to the existence of the shadow labour market, encourage individual economic agents not to comply with applicable law and to violate certain norms of labour law.

Socio-demographic factors definitely affect the situation. On the one hand, the shadow sector of the labour and employment market is a kind of "shock absorber" of the negative socio-economic consequences of economic crises: it alleviates the financial situation of the poor, thereby reducing social tensions. On the other hand, shadow employment works against people, as people working in the shadow sector are illegally employed and therefore socially vulnerable. The shadow labour market creates a negative incentive to work, distorts its characteristics, destroys the moral and ethical principles of positive human activity and is a manifestation of social injustice, as it is an antisocial redistribution of income in favour of privileged groups (oligarchic clans, corrupt officials, etc.), which reduces the welfare of society as a whole and undermines the economic security of the state as a whole. In addition, the shadow sector is a favourable environment for attracting and circulating illegal money, involving part of the population in criminal activity.

Before determining the social factors of the shadow labour and employment market in Ukraine, consider the dynamics in the period 2000–2019 of the relevant baseline indicators. Analysis of statistics shows that the dynamic changes are mostly negative:

- the economically active population decreased by 4.35 million people – from 21.15 million people in 2000 to 17.3 million people in 2016 and 16.8 million people in 2019;
- the number of people of working age decreased by 2.89 million people.

²⁰ Kantar Group Company (2017), *Ukrainians named the main obstacle to the country's development*, electronic resource, access mode: <https://tns-ua.com/news/ukrayintsi-nazvali-golovnu-pereshkodu-na-shlyahu-rozvitku-krayini>, 37.

Informal employment in Ukraine, which covers both the informal and formal sectors of the economy, is growing.

- informal employment is most common:
- among vulnerable age groups of employees – young people aged 15–24, people of retirement age (60–70 years);
- in rural areas – 2–5 times more than in urban areas;
- among men.

The study found that the highest proportions of informally employed people are in the West of Ukraine compared to its Eastern and Central parts. This is due to the fact that the western regions of the country are mainly rural and agricultural and in these regions there are developed agriculture, forestry and fisheries sectors, sectors of the national economy where the practice of informal employment is most common.

In fact, informal employment is almost the only source of income for rural residents of Western Ukraine. The vast majority of the rural population voluntarily and consciously resorts to this distorted, abnormal type of employment, which is for them an unalterable strategy to adapt to harsh market conditions and impose on employers a scheme of socio-economic relations, which often violates labour and other legislation. Informal employment is forced and leads to social exclusion and a number of deprivations of informally employed people in everyday life.

However, the above data on the informally employed do not give grounds to draw unambiguous conclusions. Modern British economists K. Williams, J. Round and P. Rogers²¹ question the objectivity of the assessment of the real state of the shadow labour and employment market in Ukraine. Their research shows that the above official statistics are underestimated by a factor of two: the informal sector of the economy accounts for more than half of the gross national product, and such employment is a source of income for 40–54% of Ukrainian households.

The key social factors of the shadow labour and employment market in Ukraine are poverty, marginalization, social exclusion and limited opportunities to find decent work, especially in rural areas, and low wages and incomes.

The spread of monetary poverty in the country over the past 3 years has led to an increase in consumer prices by 90% and multiple increases in utility tariffs and energy costs. Ukrainians are forced to spend a significant part of their earnings (almost 40%) on food, whilst Europeans spend 13%.

According to the *Social Progress Index*²² in 2016 Ukraine ranked 63rd among 133 surveyed countries of the world²³ and in 2019 was ranked 80th out of 149 countries. Experts at the National Institute for Strategic Studies²⁴ also show that the standard

²¹ C. Williams (2011), *Explaining the Normality of Informal Employment in Ukraine: A Product of Exit or Exclusion?* The American Journal of Economics and Sociology. Pp. 729–755.

²² **The Social Progress Index** is a combined indicator that measures the global achievements in social development by indicators in 3 blocks (basic human needs, basics of human well-being, opportunities for human development).

²³ *Measures to de-shadow the labor market of Ukraine* (2017), electronic resource, website, old. niss.gov.ua/monitor/monitor17/02.htm. 11, p. 17.

²⁴ O.S. Vlasyuk, *National Security of Ukraine: Evolution of Domestic Policy Problems*, – 528 p. Pp. 95.

of living in Ukraine has fallen sharply, while the processes of *marginalization*²⁵ are rapid. Total impoverishment is caused by low wage levels, as a result of which the population is forced to spend more than half of their money on food. Most households do not have enough resources even to pay for housing and communal services. Consequently, socially vulnerable groups (disabled, young people, women, illegal migrant workers, pensioners) who do not have access to the legal labour market, or have difficulty accessing it, follow a strategy of physical survival and readily take on any job, regardless of low wages, difficult working conditions, etc.

On January 1, 2017, the minimum wage was increased to 3,200 UAH, and the subsistence level per person in September 2017 was 1,624 UAH. In 2019 the minimum wage was increased to 4,173 UAH and the subsistence level in 2019 was 2,102 UAH. In 2020 the monthly minimum wage on July 1 was 5,238 UAH, on October 1 it was 5,359 UAH and the subsistence level per person in November 2020 was 2,197 UAH.

In Ukraine the use of shadow wages is spreading. Confirmation of this is the fact that, despite an increase in the average salary to 11,998 UAH in September 2020, the share of labour costs in the accounts for expenditures of domestic enterprises on production for 2 years decreased by 12.1%.

This figure is even lower in industry – 9.3% and agriculture – 7.7%. According to experts, the average share of wages in the cost of production in the EU is 29%, and in the most developed countries it is 35%. The share of wages in the country's GDP also decreased significantly, which is confirmation of the above thesis on the shadowing of wages in Ukraine.

Specifically, the shadow sector of the domestic labour market is a combination of forms of wages for workers, both formal and informal, which provides for partial payment “in envelopes.” According to estimates by the State Fiscal Service of Ukraine, 70–80% of entrepreneurs pay their employees' salaries in envelopes, and monthly shadow surcharges range from 20 billion UAH up to 50 billion UAH. The actual impunity of wage regulation violations contributes to the shadowing of the labour market, which in turn creates an unregulated “black” cash market.

The main factors for the high level of shadow wages in Ukraine are: a significant gap between the cost of labour resources for the employer and the actual amount that the employee will receive for their work; tolerant attitudes of employees towards the practice of receiving unofficial salaries and, accordingly, deprivation of their guarantees regarding pension and social security; seeing the inconsistency between taxes paid and the quality of public services; a sense of the injustice of the pension distribution system associated with the existence of a number of special, “privileged” types of pensions on occupational grounds; the existence of mechanisms that ensure easy withdrawal of funds from enterprises in the illegal sector of the economy in order to pay shadow wages.

²⁵ Notes. **Marginalization** is the process of making a group or class of people less important or relegated to a secondary position. The income ratio of the richest and the poorest population in Ukraine is 37: 1. The UN limit indicator is 10: 1.

A factor contributing to the shadow labour and employment market in Ukraine is the current domestic system of social support, which, despite many years of reforms and attempts to increase the level of its targeting, still remains ineffective. A significant proportion of workers working in the shadow market resort to registration and receipt of various state-established benefits, social benefits, in particular unemployment benefits. Although the procedure for applying for and receiving assistance involves verification of income and targeted assignment, funds are largely received by those who either do not belong to socially vulnerable groups (are not poor) or those who work illegally. Changes and achievements in this system are far from the desired results: the coverage of the poor with social support (55.7%) is lower than the coverage of the entire population (56.3%).

One socio-demographic factor influencing the domestic labour market and the process of shadow employment is *labour migration*. The ongoing economic depression in Ukraine, which is accompanied by job losses and economic decline in many urban areas, which in turn become depressed areas, and lack of real opportunities to officially work in decently paid work encourages a significant part of the economically active population to migrate, both internally and abroad. Areas of high, inward migration become, as a rule, enclaves of shadow labour and employment markets – Ukrainians mostly have to work abroad illegally. Both employees and employers are interested in this, as they can hide their income and profits and avoid control by government services. According to various estimates, the scale of labour migration in Ukraine is 1–5 million people who prefer to work in Poland, the Czech Republic, Italy, Portugal, Greece and other EU countries.

Migrant workers are mainly people from rural areas and aged 20–49, who are the most economically productive labour force. Migrants often only have vocational and secondary education. Such low-skilled workers have few job opportunities abroad, whilst highly qualified professionals are less interested in migrating because of better employment opportunities in Ukraine. Illegal migrants are mainly employed in jobs that do little to improve their skills or to help acquire new skills needed for future productive activities in Ukraine²⁶.

In the period 2013–2019, there was a clear increase in the number of illegal Ukrainian migrants in EU countries and an increasing tendency to bar entry of Ukrainian citizens into the EU, which is indirect evidence of potential shadow employment of Ukrainians in EU countries.

75% of Ukrainian migrant workers who work abroad illegally face problems related to: violations of their rights; non-compliance with working conditions, both in Ukraine and in the host country; irregular working hours; safety violations in work environments which are often associated with risk to life and health; late and incomplete payment of wages; inability to receive full medical care and the risk of health loss due to hard and exhausting work, which, in turn, has a negative impact on mortality rates in the country; the risk inhumane living conditions; becoming victims of human

²⁶ Johnson S. *Regulatory Discretion and the Unofficial Economy*, S. Johnson, D. Kaufmann, P. Zoido-Lobaton. *American Economic review*, 44. Pp. 29, 42–48.

trafficking, particularly young women, who suffer psychological trauma and often loss of their reproductive function²⁷. All the above arguments indicate that Ukraine is losing its labour potential, and without developing a state policy to regulate this process its economic and national security is threatened.

The regulatory factor is the basis for the development and implementation of mechanisms for de-shadowing the labour and employment market, regulation and ensuring the effective functioning of the labour and employment market. As noted above, the shadow labour and employment market is an illegal format of labour relations, which is usually initiated by the employer or employee for the purpose of non-payment of taxes and evasion of the law. In addition, this format of employment violates the human right to work. The normative-legal macro-environment consists of a set of: provisions of the articles of the Constitution of Ukraine, which guarantee the human right to work and define the obligations to pay taxes and fees in the manner and amounts established by law; current legislation, by-laws (Decrees of the President of Ukraine, Resolutions of the Cabinet of Ministers of Ukraine, Orders of the Ministry of Social Policy of Ukraine, etc.), which regulate public relations and activities of state and non-state actors in the field of employment etc.

The main shortcomings of regulatory and legal support, which cause the shadowing of the labour and employment market are as follows.

- 1) *Imperfection, obsolescence of domestic labour legislation*, insufficient compliance of relevant regulations and their provisions with international standards in the field of employment.
- 2) *Low level of effectiveness of anti-corruption legislation* and state programmes in terms of de-shadowing the labour and employment market, as an integral part of state anti-corruption policy.
- 3) *The lack of effective legal mechanisms of public administration to ensure the de-shadowing of the labour market*, compliance with legal social and labour relations in the field of employment - is a consequence of the problem set out above in paragraph 2.
- 4) *Cumbersome taxation system and instability of tax law*. Since the Tax Code of Ukraine, which regulates the application of taxes and fees and defines 135 different taxes and fees, came into force on January 1, 2011, it has been amended by as many as 112 laws!
- 5) *Excessive regulation of business activities and legal insecurity* of business entities from abuse by state regulatory authorities. Although the relationship between public authorities and economic entities must be exclusively legal (the latter must comply only with the legal requirements of the former, ignoring the clearly illegal), in practice there are acute problems in their implementation. Today, any business entity can be inspected by various state regulatory authorities, including fiscal authorities, customs, fire protection, sanitary-epidemiological and environmental services, economic crime

²⁷ E.M. Libanova (2006), *Comprehensive demographic forecast of Ukraine for the period up to 2050*", – 138 p. Pp. 89–91.

agencies, antitrust authorities, labour protection, certification and licensing, intellectual property, land issues, etc. Of course, in conditions of total corruption, the inspection carried out by the controlling state bodies turns from an instrument of state policy into an illegal “source of profit” for corrupt officials, who prefer to increase the number of inspections, increase taxes, fines, etc. Thus, the regulatory factor does not contribute to the legalization of the labour and employment market in Ukraine but, on the contrary, encourages the processes of shadowing.

Conclusions

The study determined that *the national security of Ukraine* is a set of legislative and organizational measures aimed at the permanent protection of vital interests of citizens and society; *national interests* – vital material, intellectual and spiritual values of the people of Ukraine as a bearer of sovereignty and the only source of power in Ukraine; *threats to national security* – existing and potentially possible phenomena and factors that pose a danger to the vital national interests of Ukraine.

Terminological analysis of the encyclopedic literature established that *shadow employment – is*: illegal involvement of an employee in economic activities by the employer; type of employment in the informal economy, based on keeping labour relations between employee and employer hidden from public authorities’ scrutiny.

The study identified factors of the shadow labour and employment market, the main ones being:

- *political* – low level of political will and support of the state leadership; chronic and pervasive corruption, especially political, bureaucracy, bribery; low level of public confidence in government; armed conflict in eastern Ukraine, annexation of Crimea, etc.;
- *economic* – excessive tax burden on business entities and personal incomes of citizens, which is an incentive for tax evasion and results in a reduction of the revenue side of budgets; ineffective state regulatory policy;
- *socio-demographic* – total impoverishment and social rejection of the population; limited employment opportunities for decently paid work; low levels of wages and incomes; inefficiency of the current social support system; intensification of external labour migration of young people against the background of a progressively ageing population;
- *regulatory* – violation by business entities of Art. 43 and Art. 67 of the Constitution of Ukraine, norms of labour legislation, imperfection and obsolescence of the latter; inefficiency of domestic anti-corruption legislation and state programmes in terms of de-shadowing of the labour and employment market; lack of effective legal mechanisms for public administration to ensure the de-shadowing of the labour and employment market; complex taxation system and instability of tax law; excessive regulation of business activities and legal insecurity of business entities.

It has been shown that the negative and destructive impact of these factors extends not only to the labour and employment market, but also to the economy, social protection system, demographic situation and social development of the state as a whole. The current challenges posed to Ukraine by the shadow labour and employment market are quite serious and pose a threat to national security, and the tasks associated with eliminating this negative phenomenon require immediate identification, justification and implementation by the state.

Bibliography

- Chubenko A.G., Loshitsky M.V., Pavlov D.M. (2018), *The terminological dictionary on issues of prevention and counteraction to legalization (laundering) of proceeds from crime, financing of terrorism, financing of proliferation of weapons of mass destruction and corruption. Encyclopedia of public administration*, in 8 volumes (2011), V.M Knyazev, I.V Rozputenko.
- International Journal of Emerging Trends in Engineering Research (2020), *Determination of requirements for protection of radio-electronic means of security management of particularly important state energy facilities from the destructive impact of electromagnetic.*
- Johnson S. *Regulatory Discretion and the Unofficial Economy*, S. Johnson, D. Kaufmann, P. Zoido-Lobaton. *American Economic review*.
- Kraus N.M. (2014), *Determinants of the shadow economy in innovative economic conditions*, 148.
- Libanova E.M. (2006), *Comprehensive demographic forecast of Ukraine for the period up to 2050*.
- Onishchenko B.O., Kozachenko G.V., Pogorelov Yu. S. (2016), *Shading of the economy in Ukraine: causes and directions of overcoming. State Statistics Service of Ukraine* (2020), “Statistical Yearbook of Ukraine for 2019”.
- Tishchuk T.A., Kharazishvili Yu.M., Ivanov O.V. (2011), *Shadow economy in Ukraine: scales and directions of overcoming.*
- Vlasyuk O.S. (2016), *National Security of Ukraine: Evolution of Domestic Policy Problems.*
- Williams C. (2011), *Explaining the Normality of Informal Employment in Ukraine: A Product of Exit or Exclusion?* *The American Journal of Economics and Sociology*.
- Democratic Initiatives Foundation (2016), electronic resource, website, access mode: <http://dif.org.ua/article/2016-y-politichni-pidsumki-zagalnonatsionalne-opituvannya>.
- Johnson G. (2008), *Exploring Corporate Strategy. Measures to de-shadow the labour market of Ukraine* (2017), electronic resource, website, old.niss.gov.ua/monitor/monitor17/02.htm. 11.
- Kantar Group Company (2017), *Ukrainians named the main obstacle to the country's development*, electronic resource, access mode: <https://tns-ua.com/news/ukrayintsi-nazvali-golovnupereshkodu-na-shlyahu-rozvitku-krayini>.
- State Statistics Service of Ukraine (2019), *Labour market in 2019*, website. access mode, http://www.ukrstat.gov.ua/druk/publicat/kat_u/publ11_u.htm, Name from the screen.
- Law of Ukraine of July 5 (2012), № 5067-VI as amended, introduced in accordance with 8 Laws in 2013–2016, art. 2565.

Summary

The current state of shadowing of the labour market is a threatening trend in national security of Ukraine, as it directly affects the socio-economic development of society. Shadow employment is considered as illegal involvement of an employee in economic activities by the employer. In view of this, we substantiate that the labour market with its destructive development may endanger the vital national interests of Ukraine as it covers the entire working population of the state and forms the economic potential of the state. With the help of PESTL-analysis, in order to identify large-scale problems of the labour market, the range of factors shadowing the labour and employment market, including political; economic; socio-demographic; regulatory. The study shows that the negative and destructive impact of these factors extends not only to the labour and employment market, but also to the economy, social protection, demographic situation and social development of Ukraine as a whole, which threatens the national security of Ukraine.