

# Transition to a New Economy: Transformation Trends in the Fields of Income and Salary Functions

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**Abstract.** The rapid spread of information technologies and other phenomena in the new economy causes significant changes in the social and employment spheres. The objective is mainly to analyze and systematize the peculiarities of labor and payment for it in the new economy. In this paper are used the analytical grouping method for characterizing salary functions, as well as changes in the social and labour sphere that take place in the new economy, correlation-regression analysis to determine the relationship between average income and factors affecting its level. The results of the paper show three important findings. Firstly, the gradual changes in the content of labour and forms of its organization that happen in modern conditions under the influence of dissemination of information and communication technologies require new approaches to income adjustment. Secondly, the authors also found that the fair employee compensation, ensuring productive employment in modern conditions, is a challenge not only of the national but also of international scale. Thirdly, the prospective directions of reducing inequality and social tension in society is the guarantee of the basic unconditional income; progressive tax on all types of income; reduction of the length of working time while maintaining payments and improving productivity.

## INTRODUCTION

The rapid dissemination of information technologies and other phenomena in the new economy causes significant changes in the social and employment spheres. The noted events are primarily related to the changes in the content of work and forms of its organization, the emergence of new professions, in particular in the IT field, extensive development of high-

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technology sectors of the economy, the expansion of opportunities for the formation and use of human capital, an increase in the options of human choice, but also the emergence of new risks. Gradual changes in the content of work and its organization forms also result in the transformation of the integrity and functions of remuneration. New criteria for assessing the personal labour input of employees lead to changes in compensation, forming different, rather diversified sources of income. A modern employee with the help of information and communication technologies can simultaneously participate in many projects. In the new economy, the diversity and flexibility of the employment conditions increases, an employee can enter into individual contracts. Furthermore, in the new conditions, the employee has the highest degree of freedom and independence, professional networks of specialists and freelancers are becoming widespread, and the decentralization of business processes and management increases. However, changes in the social and employment sector, inherent in a new economy, can also result in a decrease of employment stability, less social guarantees for employees, an increase in the inequality of compensations and incomes in general.

During the 20<sup>th</sup> century, work from hard duty to satisfy the needs of survival gradually turned into a way of development and self-actualization. It happened for the following reasons: the majority of the population was engaged in hired labour; work and profession became the axis of human existence, determining the position in a society, income, lifestyle, social circle, etc.; the changes lead to the formation of a special employment democracy, employment values; people started to view employment as a source of property and well-being, it became the centre of economic progress.

At the same time, tireless work and its ever-increasing productivity leads to a steady decline in demand for human resources. Fewer people can produce more and more goods and services (just in the past 150 years, labour productivity has grown more than 50 times). Due to the automation of production and the development of robotics, deserted manufacturing sites are no longer surprising. According to forecasts, in the next decades, there will be an ongoing decline in manufacturing employment and it will approach the mark of 2-3%. The emergence of each new, more efficient workplace destroys dozens and hundreds of old ones. Therefore, modern economic growth, based on scientific and technological progress, is “growth without jobs.” The overall objective of the paper is to analyze and systematize the peculiarities of labor and payment for it in the new economy, to investigate the gradual transformation of its functions, to identify the trends in changes of incomes of the population under the influence of the computerization of human life, and to substantiate the directions of agents’ adaptation to these changes at different levels.

## **PRESENTATION OF THE MAIN MATERIAL**

### **Salary and Wage Functions in Traditional and New Economy**

At the same time, we cannot argue that, in modern conditions, there are revolutionary changes in the social and employment sphere. These, albeit very deep transformations that take place are, rather, *evolutionary*, as they are a natural consequence of social development – technological, economic, social progress, which has acquired special, inherent features with the advent of computer and the development of global Internet.

Considering the transformation of the classical functions of salaries and wages in the context of the transition to a new economy, it is necessary to distinguish the following distinctive features. Thus, society increasingly expects business to fulfill the principle of social responsibility and participation in solving important social issues. It is this principle that should become the basis for the image and mission of the company. 77% of the interviewed respondents called social responsibility an important or very important business component. Despite the connection between the social impact and financial performance of the company, only 18% of respondents regard social responsibility as the main priority of the corporate

strategy. 34% of companies do not have enough social programs or such program's lack financing, and 22% do not pay attention to it at all.

### Transformation Trends in the Field of Income and Salary in the Transition to a New Economy in the EU Member States and Ukraine

In order to identify and assess the transformation trends in the field of incomes and employee compensation in the transition to a new economy, we examined the interconnections and dynamics of the average income and the main factors influencing it (working time, average duration of training and social transfers), in the EU member states and in Ukraine. The distribution of annual income in the Eurozone is rather uneven: so the income in the "richest" and "poorest" countries can vary 10-20 times. In Ukraine, we determined this indicator, taking into account the average annual euro rate for the relevant year; the rapid drop in the course of the national currency in crisis years had a negative effect on the dynamics of average annual incomes.

**Table 1.** Change of Average Income in EU Member States and Ukraine in 2008-2016, Euro per year.

Country	Year								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Belgium	17,985	19,313	19,464	20,008	20,280	21,483	21,705	21,654	22,295
Bulgaria	2,171	2,828	3,017	2,914	2,860	2,924	3,311	3,332	3,151
Czech Republic	6,068	7,295	7,058	7,451	7,791	7,694	7,622	7,423	7,838
Denmark	24,161	25,029	25,668	26,944	27,184	27,444	27,861	28,364	28,665
Germany	18,309	18,586	18,797	19,043	19,595	19,582	19,733	20,668	21,275
Estonia	5,547	6,209	5,727	5,598	5,987	6,579	7,217	7,889	8,645
Ireland	22,995	22,445	20,512	19,726	19,748	19,856	20,169	21,688	22,407
Greece	10,800	11,496	11,963	10,985	9,513	8,371	7,680	7,520	7,500
Spain	13,966	14,795	14,605	13,929	13,868	13,524	13,269	13,352	13,681
France	18,899	19,644	19,960	19,995	20,603	20,924	21,199	21,415	21,713
Croatia	:	:	5,810	5,579	5,377	5,078	5,225	5,453	5,726
Italy	15,640	15,605	15,964	15,971	15,979	15,733	15,759	15,846	16,247
Cyprus	16,024	16,451	16,180	16,990	16,927	15,873	14,400	13,793	14,020
Latvia	4,740	5,355	4,488	4,195	4,450	4,666	5,203	5,828	6,365
Lithuania	4,111	4,715	4,030	3,857	4,337	4,698	4,823	5,180	5,645
Luxembourg	30,917	31,764	32,333	32,538	32,779	33,301	34,320	35,270	33,818
Hungary	4,400	4,739	4,241	4,493	4,696	4,449	4,512	4,556	4,768
Malta	10,009	10,503	10,435	10,862	11,449	12,093	12,787	13,493	13,572
Netherlands	19,522	20,156	20,292	20,310	20,562	20,839	20,891	21,292	22,733
Austria	19,413	20,469	21,058	21,463	21,807	22,073	23,211	23,260	23,694
Poland	4,155	5,097	4,405	5,025	5,060	5,164	5,336	5,556	5,884
Portugal	8,143	8,282	8,678	8,410	8,323	8,177	8,229	8,435	8,782
Romania	1,952	2,172	2,036	2,091	2,049	2,016	2,155	2,315	2,448

Slovenia	10,893	11,864	11,736	11,999	12,122	11,852	11,909	12,332	12,327
Slovakia	4,792	5,671	6,117	6,306	6,927	6,737	6,809	6,930	6,951
Finland	19,794	20,962	21,349	21,826	22,699	23,272	23,702	23,763	23,650
Sweden	20,217	20,477	18,897	21,584	23,852	25,401	25,838	25,306	25,164
UK	18,923	16,262	17,106	17,136	19,166	18,694	20,528	21,028	21,136
Iceland	32,206	22,362	18,320	18,973	19,361	21,234	22,487	24,554	28,379
Norway	31,798	33,737	32,399	36,453	40,106	42,909	43,775	41,483	39,573
Switzerland	26,987	28,958	30,666	33,936	39,407	40,791	38,162	39,586	44,253
Turkey	2,903	3,049	2,754	3,326	3,222	3,438	3,497	3,386	:
Ukraine	2,374	1,797	2,284	2,474	3,123	3,217	2,134	1,675	1,651

Source: Calculated and formulated by the authors basing on Eurostat (2018), State Statistics Service of Ukraine (2018), National Bank of Ukraine (2018).

The variation in the hours worked per week of full-time employment is significantly lower than among EU member states, but its dynamics in 2008-2016 indicates a gradual decrease in the number of hours worked against the rising incomes. The average length of training varies considerably more: from 10.9 years in Italy to 19.0 years in Iceland in 2016.

We determined the strength of a relationship between the average income and the factors affecting it in the EU and Ukraine on the basis of a correlation-regression analysis.

**Table 2.** Relationship between Average Income and the Factors Affecting It in Individual EU Member States and Ukraine.

Country	Hours Worked per Week of Full-Time Employment	Average Length of Training	Social Transfers
Belgium	0.804	0.948	0.888
Bulgaria	-0.762	0.817	0.608
Czech Republic	-0.775	-0.814	0.561
Denmark	0.134	-0.050	-0.370
Germany	-0.808	0.868	0.594
Estonia	-0.807	0.588	-0.538
Ireland	0.100	-0.664	-0.589
Greece	-0.876	-0.824	-0.654
Spain	0.421	-0.782	-0.722
France	-0.806	0.965	0.849
Croatia	0.383	-0.455	-0.075
Italy	-0.407	0.392	0.612
Cyprus	-0.511	-0.537	-0.555
Latvia	-0.068	-0.253	-0.195
Lithuania	-0.261	0.733	-0.783
Luxembourg	0.623	0.718	0.681
Hungary	0.017	-0.040	-0.253
Malta	0.258	0.191	0.498
Netherlands	0.205	0.637	0.536
Austria	-0.984	0.925	0.922
Portugal	-0.280	0.115	0.279

Romania	-0.652	-0.370	0.599
Slovenia	-0.919	0.287	0.759
Slovakia	0.458	0.661	0.759
Finland	-0.856	0.463	0.869
Sweden	-0.826	0.326	0.857
UK	0.500	0.341	0.618
Iceland	0.907	-0.190	-0.480
Norway	-0.384	0.746	0.804
Switzerland	0.426	0.935	0.955
Turkey	-0.804	0.856	0.172
Poland	-0.747	0.808	0.895
Ukraine	0.000	0.000	0.963

Relationship strength according to the correlation coefficient:

- weak;  
 - moderate;  
 - significant;  
 - strong;  
 - very strong.

(0.10—0.29)   (0.30—0.49)   (0.50—0.69)   (0.70—0.89)   (0.90—0.99)

“+” - the relationship is direct, “-“ - the relationship is inverse.

Source: Calculated by the authors according to the data in Eurostat (2018), State Statistics Service of Ukraine (2017, 2018), United Nations Development Program (2018), National Bank of Ukraine (2018).

The results of the conducted analysis are the most important part; they indicate that under present conditions, the cumulative income does not depend on the time spent at the primary place of employment. Wages, salaries and traditional employment gradually lose their fundamental importance in the life of a modern person in the era of digital technology. The income sources are gradually being diversified. The paper revealed a rather interesting trend: the increase in the length of training in the system of classical formal education no longer guarantees high incomes throughout life (in some countries within the study, the relationship between the length of training and income is even inverse). We observed the strongest impact of social transfers on incomes of the population in Ukraine, Switzerland, Austria, Belgium, Finland and France.

## CONCLUSIONS

In the paper, we obtained empirical results that confirm the abovementioned theoretical hypotheses about the dynamic changes in the social and employment sphere and society in general; and the world community as a whole, the public administration of each individual country and every real or potential employee in particular have to prepare for it carefully. The changes in the social and employment sphere, associated with the spread of processes and phenomena, briefly summarized by the phrase "new economy", require in-depth research from the side of science, as well as increased attention from the managers at all levels – from personal to global one.

The social and employment sphere undergo the following major changes:

- ✓ Rapid growth of productivity;
- ✓ A rapid change in the labour market demand with its general decline;
- ✓ Change in the forms and systems of labour organization towards increasing flexibility and instability;

- ✓ Corresponding change in the main functions and forms of remuneration towards individualization, contract basis, dependence on the outcome;
- ✓ Transformation of the value system of modern employees and the loss of salary's positions as the foremost motivator of hired employment;
- ✓ Differentiation of the income system, increasing the role of social transfers in the absence of jobs;
- ✓ Changing requirements for vocational education in terms of its specialization, intensification, accessibility and mobility as the main social elevator in an era of change;
- ✓ Further globalization and increasingly active redistribution of all resources around the world, including intellectual human capital.

Such radical transformations affect the lives of each person, opening up new opportunities and, at the same time, putting forward new threats. The global community as a whole, every single society, state, enterprise, every person must prepare themselves for such changes, because they simply cannot avoid them.

The study revealed a significant transformation of all wage functions in the transition to a new economy.

In such conditions, fair employee compensation and ensuring productive employment is a challenge not only of the national but also of international scale. Prospective directions of reducing inequality and social tension in society is the guarantee of the basic unconditional income; progressive tax on all types of income; reduction of the length of working time while maintaining payments and improving productivity. In addition to avoiding social dangers, it would be a proactive progressive function of expanding human development opportunities.

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