

DOI 10.31558/2307-2318.2018.3.7

УДК 316.4

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### **IDENTIFICATION AND CONDITIONS OF FORMATION OF THE MIDDLE CLASS IN UKRAINE TAKING INTO ACCOUNT WORLD SOCIAL TRENDS**

The criteria of identification of the middle class are determined, objective and subjective approaches of the middle class are considered. The main features of the Ukrainian middle class are considered, as well as factors that may contribute to the emergence of a significant middle class. The existing specifics in the state concerning "norms" on income, quality of housing and education level are explored. Dependence of income inequality in the studied countries was revealed, which allowed to assume that there is a significant influence of state institutions and politics on the formation of inequality. The deterrent factors of the formation and development of the middle class in Ukraine are determined. It has been found that the distribution of income within countries significantly affects the eradication of poverty on a global scale. Noted that the change in inequality of incomes and inequalities in property in the world requires significant changes in tax policy nationally and globally.

It is substantiated that progressive taxation is an effective tool for combating inequality in income and property inequality.

**Key words:** middle class, incomes, poverty, identification criteria, self-identification, status positions.

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### **ІДЕНТИФІКАЦІЯ ТА УМОВИ ФОРМУВАННЯ СЕРЕДНЬОГО КЛАСУ В УКРАЇНІ З УРАХУВАННЯМ СВІТОВИХ СОЦІАЛЬНИХ ТРЕНДІВ**

Визначено критерії ідентифікації середнього класу, розглянуто об'єктивний та суб'єктивний підходи визначення середнього класу. Розглянуто головні особливості українського середнього класу, а також проаналізовано чинники, які можуть сприяли виникненню значного прошарку середнього класу. Досліджено існуючу специфіку у державі щодо «норм» за доходами, якістю житла та рівня освіти. Виявлено залежність нерівності в доходах у досліджуваних країнах, що дозволило припустити про існування значного впливу державних інститутів і політики на формування нерівності. Визначено стримуючі фактори формування та розвитку середнього класу в Україні. Виявлено, що розподіл доходів всередині країн значно впливає на викорінення бідності в світовому масштабі. Зазначено що зміна в нерівності в доходах і з майновою нерівністю в світі вимагає значних змін у податковій політиці в національному та світовому масштабі.

Обґрунтовано, що прогресивне оподаткування являє собою ефективний інструмент боротьби з нерівністю в доходах та майновою нерівністю.

**Ключові слова:** середній клас, доходи, бідність, критерії ідентифікації, самоідентифікація, статусні позиції.

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## ИДЕНТИФИКАЦИЯ И УСЛОВИЯ ФОРМИРОВАНИЯ СРЕДНЕГО КЛАССА В УКРАИНЕ С УЧЕТОМ МИРОВЫХ СОЦИАЛЬНЫХ ТЕНДЕНЦИЙ

Определены критерии идентификации среднего класса, рассмотрены объективный и субъективный подходы определения среднего класса. Рассмотрены основные особенности украинского среднего класса, а также проанализированы факторы, которые могут способствовали возникновению значительной прослойки среднего класса. Исследовано существующую специфику в государстве по «нормам» доходов, качеством жилья и уровня образования. Выявлена зависимость неравенства в доходах в исследуемых странах, что позволило предположить о существовании значительного влияния государственных институтов и политики на формирование неравенства. Определены сдерживающие факторы формирования и развития среднего класса в Украине. Выявлено, что распределение доходов внутри стран значительно влияет на искоренение бедности в мировом масштабе. Определено, что изменение неравенства в доходах и имущественного неравенства в мире требует значительных изменений в налоговой политике в национальном и мировом масштабе.

Обосновано, что прогрессивное налогообложение представляет собой эффективный инструмент борьбы с неравенством в доходах и имущественным неравенством.

**Ключевые слова:** средний класс, доходы, бедность, критерии идентификации, самоидентификация, статусные позиции.

**Problem statement.** The middle class is the social base of a market economy and political democracy. “Middle class” is a rather vague concept. In developed democratic countries, the main criterion for a person’s belonging to this class is a certain income derived from legal sources and ensuring a decent standard of living. When the middle class is in the majority, the state has the necessary prerequisites for stable development in a market economy and political democracy.

The formation of the middle class in Ukraine has just begun, which is why the analysis of approaches to identification and world experience in the formation of the middle class is useful for the development of the Ukrainian economy.

**Analysis of research and publications.** The problems of studying the conditions of formation and development of the middle class as one of the most important goals of socioeconomic transformations are dealt with by Ukrainian authors - Y. Zaytsev, V Savchuk, E. Golovakha, E. Libanova, T. Kovalchuk, A. Amosha, I. Buleev, N. Prokopenko, O. Simonchuk. The problems of the formation of the middle class in the United States are attributed to the publicity of such American economists, by P. Krugman [7], C. Gold and B. Margot.

At the same time, the lack of thorough research of the middle class as an economic entity and its role in reforming the Ukrainian economy and ensuring economic growth makes the study relevant.

**Setting goals.** The purpose of the study is to determine the criteria for identifying the middle class as an economic entity, to determine the effective prerequisites for the formation of the middle class, to develop recommendations for solving the problems of the formation of the middle class in Ukraine.

**Main material.** In modern conditions of development, in Ukraine, the middle class should be the key to the future prosperity of the country. But clear criteria for assessing the

middle class are not pronounced. There are two approaches to the definition of the middle class: subjective and objective (Figure 1).

Seeing that consumption is the main criterion, the middle class includes those who:

- own at least the minimum set of property that ensures a comfortable life. For Ukrainian society it is ownership of housing, a set of high-quality household appliances;
- have a cash income that allows you to provide not only the minimum needs, but also the consumption of things and services that are not the subject of necessities.

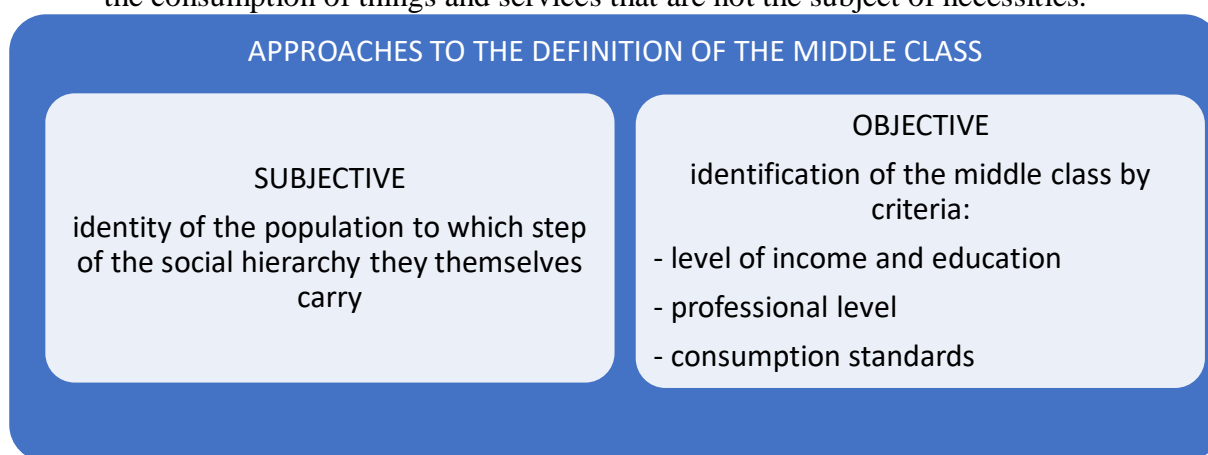


Figure 1 Approaches to the definition of the middle class

In Ukraine, the availability of real estate cannot be a criterion of belonging to the middle class, since most citizens live in privatized apartments, which were received in Soviet times. Conversely, the lack of a personal car can be the result of the fact that now people are investing in education or new housing.

Each country has its own specificity and “norm” in terms of income, housing quality and level of education. There are three main features: the level of material well-being, social status and self-identification.

According to the results of a study conducted by the Gorshenin Kiev Institute of Management Problems, one-third of Ukrainians are subjectively classified as middle-class [3].

The study used the traditional for many studies five-point scale of self-assessment of the financial situation:

- forced to save on food;
- enough for food. To buy clothes you need to accumulate or borrow;
- enough for food and clothing. For more expensive purchases you need to accumulate or borrow;
- enough for food, clothing and expensive purchases. For purchases like a car and an apartment, you need to accumulate or borrow;
- I can allow any purchase at any time.

Considering the opinion of the citizens themselves, the middle class in Ukraine is quite numerous. Moreover, studies show that in Ukraine there are two middle classes - the capital and the all-Ukrainian. Capital earns from 500 to 2000 cu and saves from 5 to 30% of income. All-Ukrainian lives on income - from 300 to 600 cu, it can postpone 1-2%, has a rest once a year, the car is mostly domestic [4].

Depending on the approach and choice of criteria, the assessment of the Ukrainian middle class ranges from 10 to 40%. At the same time, Western sociologists do not face this problem: regardless of the approach, about two thirds of the population fall under the notion

of “middle class”. Because in Western societies there is a high coherence of status positions: the correspondence of contributions (education, professionalism) and remuneration (income, prestige, power) (Table 1). In contrast to the Ukrainian society, in which there is no direct link between the professional educational status, income, prestige and social self-esteem. Those professional groups that in Western Europe and the USA massively enter the middle class (teachers, doctors, scientists) have a low income in Ukraine, and those Ukrainians who identify themselves as middle class often do not have a enough level of education and professionalism.

Table 1 The distribution of national income and gross domestic product, 2016: Purchasing Power Parity [8]

|                            | Population (million) |      | GDP (trillion PPP € 2016) | National Income (trillion PPP € 2016) |      | Per adult National Income (PPP € 2016) | Equivalent per adult monthly income (PPP € 2016) |
|----------------------------|----------------------|------|---------------------------|---------------------------------------|------|----------------------------------------|--------------------------------------------------|
|                            |                      |      |                           |                                       |      |                                        |                                                  |
| World                      | 7 372                | 100% | 92                        | 78                                    | 100% | €16 100                                | €1 340                                           |
| Europe                     | 747                  | 10%  | 19                        | 16                                    | 20%  | €27 100                                | €2 260                                           |
| incl. European Union       | 523                  | 7%   | 16                        | 13                                    | 17%  | €31 400                                | €2 620                                           |
| incl. Russia/Ukraine       | 223                  | 3%   | 3                         | 3                                     | 4%   | €16 800                                | €1 400                                           |
| America                    | 962                  | 13%  | 23                        | 19                                    | 25%  | €29 500                                | €2 460                                           |
| incl. United States/Canada | 360                  | 5%   | 16                        | 13                                    | 17%  | €50 700                                | €4 230                                           |
| incl. Latin America        | 602                  | 8%   | 7                         | 6                                     | 8%   | €15 400                                | €1 280                                           |
| Africa                     | 1 214                | 16%  | 4                         | 4                                     | 5%   | €6 600                                 | € 550                                            |
| incl. North Africa         | 240                  | 3%   | 2                         | 2                                     | 2%   | €11 400                                | € 950                                            |
| incl. Sub-Saharan Africa   | 974                  | 13%  | 3                         | 2                                     | 3%   | €5 100                                 | € 430                                            |
| Asia                       | 4 410                | 60%  | 44                        | 38                                    | 49%  | €12 700                                | €1 060                                           |
| incl. China                | 1 382                | 19%  | 18                        | 15                                    | 19%  | €14 000                                | €1 170                                           |
| incl. India                | 1 327                | 18%  | 7                         | 6                                     | 7%   | €7 000                                 | € 580                                            |
| incl. Japan                | 126                  | 2%   | 4                         | 3                                     | 4%   | €31 000                                | €2 580                                           |
| incl. Other                | 1 575                | 21%  | 16                        | 14                                    | 18%  | €14 200                                | €1 180                                           |
| Oceania                    | 39                   | 1%   | 1                         | 1                                     | 1%   | €31 700                                | €2 640                                           |
| incl. Australia and NZ     | 29                   | 0,4% | 1                         | 1                                     | 1%   | €38 200                                | €3 180                                           |
| incl. Other                | 10                   | 0,1% | 0,03                      | 0,03                                  | 0%   | €5 600                                 | € 470                                            |

In developed countries, the middle class is more than 70%. In America, the middle class wages start at \$ 1,500 per month and do not have the top bracket. Therefore, in the United States they say that 95% of Americans belong to the category of "Middle". In Germany, people with a monthly income of about \$ 5,000 belong to the middle class. In Italy, the middle class is not distinguished by income level - belonging to it determines the level of education of a person. For example, an Italian plumber can earn more than a doctor. But in the eyes of society they belong to different social groups. In China, the middle class is determined by the ability to purchase a vehicle. Today, less than 1% of the population belongs to the middle class.

One of the main features of the Ukrainian middle class can be considered the difficulty with its identification. If the researcher is an economist, he will speak of "middle classes" as middle-income groups. If this is a sociologist - how people feel in the social space and about their education. Some proceed from the fact that, in terms of incomes of Ukrainians, it is impossible to compare with the American middle class. Others believe that Ukraine has a high degree of coverage of the population with higher and secondary special education, and therefore, judging by this criterion, the whole country belongs to the middle class.

In developed countries, it is the middle class that creates, earns, consumes, pays contributions to the pension fund, accumulates capital in banks and, as a result, modernizes production and marketing, ensuring the competitiveness of goods and services, maintains a dynamic balance between supply and demand, contains vulnerable social strata of society ( pensioners and the younger generation) and provides innovative development of the state. Its quantitative predominance over the poorest and richest classes in developed industrialized countries is a sign of public welfare.

So, the middle class is the basis of the United States. Formation of the middle class in the United States became possible thanks to the conduct of the 30's of the twentieth century. The new course of economic policy and the corresponding reform of the legislative and regulatory framework: social security and unemployment insurance, the Law "On Fair Labor Standards", the Law "On the National System of Labor Relations"; significant reforms in the banking and financial sector.

Also, a prerequisite for the emergence of a significant middle class in the US is the growth of a strong trade union movement and the adoption of G.I. Bill - a law that offered a number of benefits to demobilized veterans of the Second World War.

The end of the Second World War is considered to be the beginning of the history of the modern American class. It was then that millions of demobilized troops received money for training, creating their own businesses and purchasing their own homes. From 1944 to 1950, housing construction increased from 114 thousand to 1.7 million new households. The construction boom was accompanied by rapid population growth, the so-called baby boom. The welfare of the average American during this period has grown rapidly. Between 1946 and 1967, labor productivity in the United States grew by 104 percent, while at the same time, the earnings of workers during this period increased accordingly. More and more families could afford private plots, cars, black and white TVs and other home appliances [6].

28 years in the period from 1945 to 1973 have become the years of the "Golden Age of the American Middle Class", when inequality of income has reached its minimum level in the history of the United States. At this time, the share of the wealth of the highest class has decreased from 40% to 9%. All this contributed to the formation of a large mass of wealthy middle class people [7].

The deterrent in the development of the middle class, experts believe that inflation "eating" the real increase in income, as well as disproportion in their distribution.

Inequalities in incomes have increased in recent decades in almost all countries, but at different rates; this suggests that institutions and policies are affecting the formation of inequality. After 1980, income inequality grew rapidly in North America, China, and moderately in Europe (Fig. 2). In the broader historical perspective, this growth of inequality marks the end of an egalitarian regime that took different forms in these regions after the Second World War.

Observed since 1980, differences in trends between countries show that the dynamics of income inequality in each country are determined by the characteristics of the institutional

and political context. This is illustrated by the difference between the trajectories along which the former communist countries or countries with a high degree of state regulation developed.

The trajectory of income inequality observed in the United States is largely due to significant inequalities in education, combined with a decrease in the progressive nature of the tax system at the time when the highest growth in remuneration for work, starting in the 1980s, and most high capital income in the 2000s. In the same period, the progressiveness of the tax system declined in Europe, but to a lesser extent, while inequality in wages was mitigated by educational and payroll policies, which, to a certain extent, favored low- and middle-income groups. In both regions, income inequality between women and men has decreased, but remains particularly noticeable at the top of the distribution.

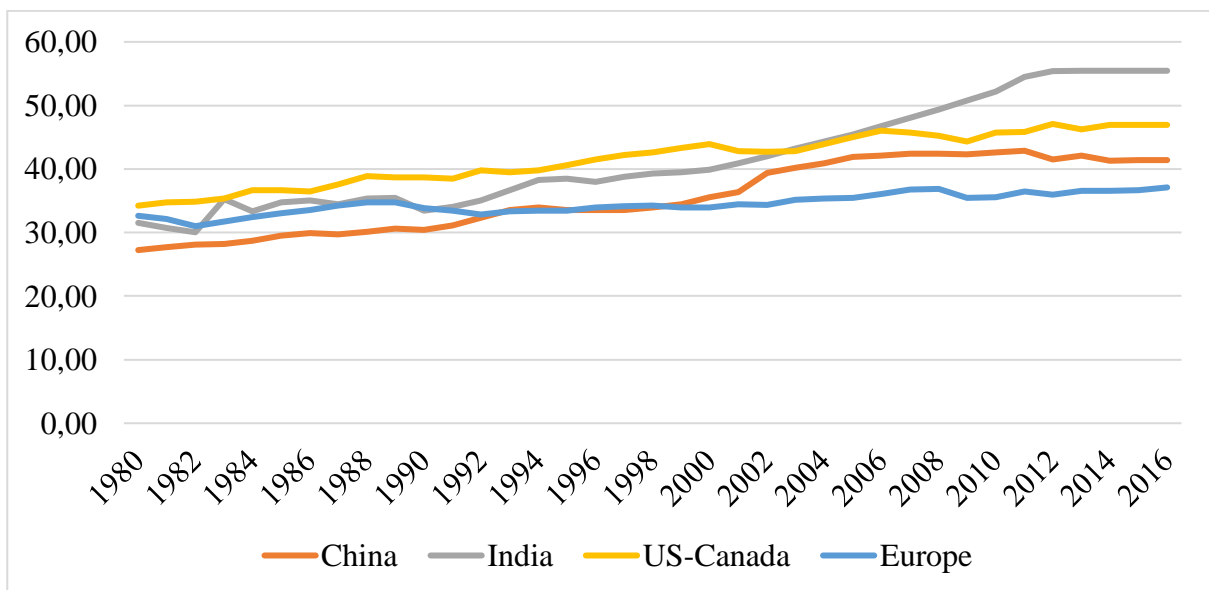


Figure 2 Top 10% income shares across the world, 1980-2016  
Filed by authors for [8]

If the current trends continue, the share of property in the middle class will decrease. If we take as a basis the evolution of China, Europe and the United States combined, from 1980 to 2016 the property share of 1% of the richest people increased from 28 to 33%, while the share falling on the bottom 75% fluctuated around 10% throughout period.

Income inequality will also increase if countries follow the same income inequality path that they followed 1980 — even if we assume a relatively high income growth in Africa, Latin America and Asia over the next three decades. Inequality will increase even more if all countries follow the path taken by the United States from 1980 to 2016. However, inequalities on a global scale will be slightly reduced if all countries follow the path of the EU from 1980 to the present (Fig. 3).

The evolution of income distribution within countries has a significant impact on the eradication of poverty on a global scale. Depending on the chosen trajectory, by 2050 the incomes of the lower half of the world population can range from 4,500 euros to 9,100 euros per year per adult (Fig. 4).

The change in income inequality and property inequality in the world requires significant changes in tax policy on a national and global scale. Many countries will have to review education and wage policies, as well as corporate governance.

Progressive taxation is a proven tool for combating growing income inequality and property inequality. Historical and economic studies have shown that progressive taxation is an effective tool to combat inequality. Progressive tax rates reduce inequality not only after paying taxes, but also before it, depriving those who receive the highest incomes an incentive to achieve an increasing share of growth through the struggle to increase their wages and property accumulation.

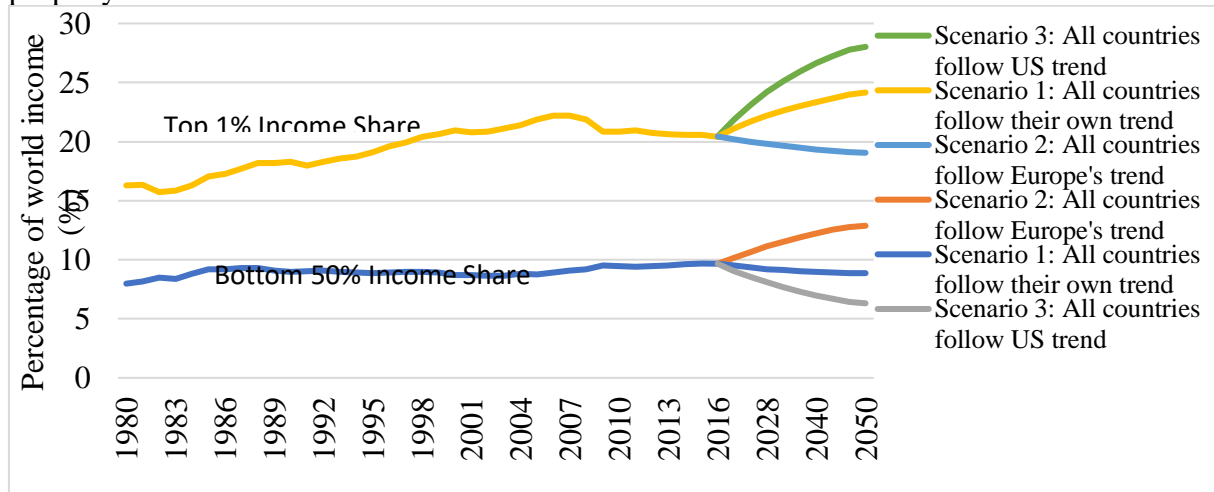


Figure 3 Global income share projections of the Bottom 50% and Top 1% , 1980-2050  
Filed by authors for [8]

It should be noted that inheritance taxes are absent or close to zero in developing countries with a high level of inequality, which opens opportunities for significant tax reforms. Although the tax system is a key tool in the distribution of income, it faces some obstacles. The most important of these is tax evasion.

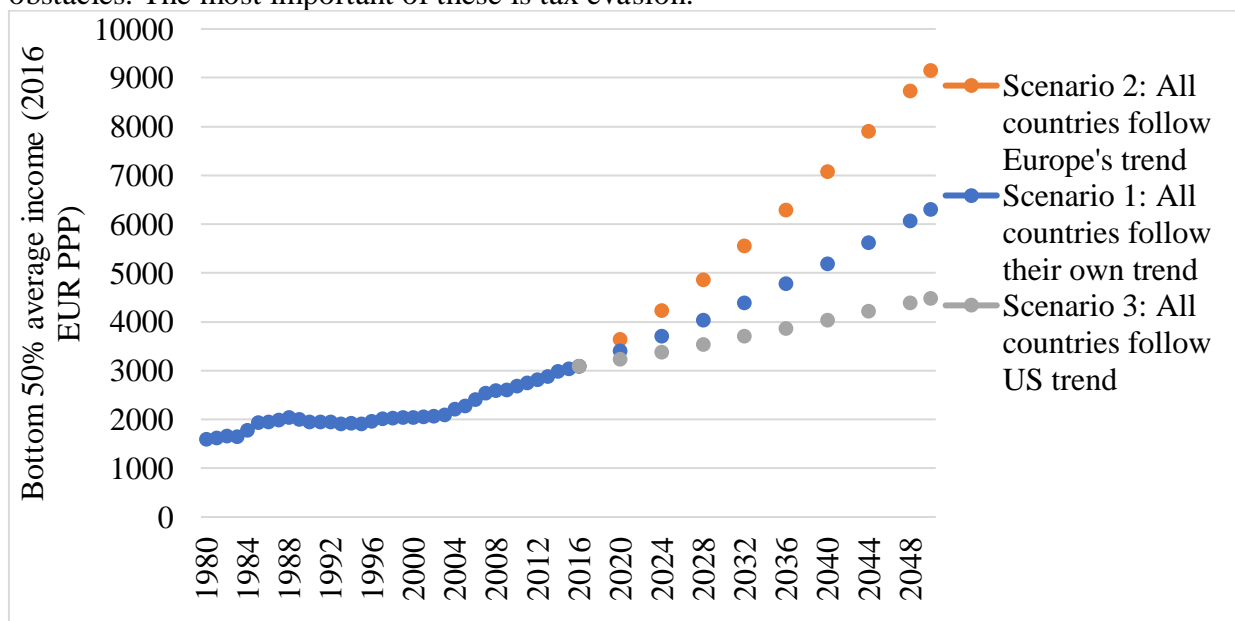


Figure 4 Global average income projections, 1980-2050  
Filed by authors for [8]

Ensuring more equal access to education and to well-paid jobs is key to forming a middle class and increasing incomes for the poorest people. In both rich and developing countries, it is necessary to define transparent and verifiable goals in order to (with

appropriate changes in the system of financing universities and student's enrollment) to ensure equal access to education. Democratization of access to education is a powerful lever, but in the absence of mechanisms that provide people from lower income categories with access to well-paid jobs, education alone will not be enough. A wider representation of workers in corporate governance and reasonable minimum wage rates are also important tools to achieve this goal.

**Conclusions.** Thus, public investment in education, health care and environmental protection is necessary to increase the proportion of the middle class. However, providing them is not easy, because governments in rich countries are poorer and have high levels of debt. To reduce public debt, there are various ways (such as property tax, debt relief or inflation) that governments, which have faced the problem of large debts in the past, used to create better conditions for the younger generation.

**Prospects for further research.** Prospects for further study of the middle class in Ukraine will be the study and determination of the relationship between the level of wages and the availability of higher education.

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