

**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

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**DIRECTIONS FOR REDUCING POVERTY IN  
UKRAINE THROUGH THE POWERFUL  
MIDDLE CLASS FORMATION****НАПРЯМИ ЗМЕНШЕННЯ МАСШТАБІВ  
БІДНОСТІ В УКРАЇНІ ШЛЯХОМ  
ФОРМУВАННЯ ПОТУЖНОГО  
СЕРЕДЬНОГО КЛАСУ**

**Urgency of the research.** According to the vast majority of scientists, only a significant quantitative growth and effective middle-class activity will allow Ukraine to move closer to the international standards of quality of life.

Ukraine needs to develop effective measures to reduce poverty through the powerful middle class formation.

**Target setting.** In Ukraine, the poverty peculiarities are a significant reduction in the real incomes of the majority of employed persons, who, at the same time, maintain a relatively high social status, as well as a significant difference in incomes between the richest and poorest citizens.

**Actual scientific researches and issues analysis.** Such well-known scientists as Ye. Holovakha, V. Hoshovska, E. Libanova, O. Makarova, M. Mishchenko, M. Panina, T. Rudnytska, L. Cherenko and others have made a significant contribution to the development of the issue of formation and functioning of the middle class and the poverty reduction.

**Uninvestigated parts of general matters defining.** At the same time, the peculiarities of the domestic poverty and middle class do not allow to simulate the state policy, to predict management decisions and their consequences, to evaluate the efficiency of state administration, etc.

**The research objective.** The main objective is to study the possibility of reducing poverty in Ukraine through the powerful middle class formation in order to develop directions for improving the state policy in this field.

**The statement of basic materials.** In the article the peculiarities of the middle class formation in Ukraine are considered. A poverty analysis is conducted. The directions for the state policy improvement are proposed, which will create conditions for reducing poverty and forming a powerful middle class.

**Conclusions.** The implementation of the proposed measures in the income policy and social protection will create conditions for reducing poverty through the powerful middle class formation in Ukraine.

**Keywords:** middle class; poverty; income policy; social polarization; demonopolization; deoligarchization.

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**Актуальність теми дослідження.** На думку переважної більшості вчених, лише значне кількісне зростання та ефективна діяльність середнього класу дозволять Україні наблизитись до міжнародних стандартів якості життя.

Україна потребує розробки ефективних заходів зменшення масштабів бідності шляхом формування потужного середнього класу.

**Постановка проблеми.** Особливостями бідності в Україні є значне скорочення реальних доходів більшості працюючих осіб, які при цьому зберігають відносно високий соціальний статус, а також значна різниця у доходах між найбагатшими і найбіднішими громадянами.

**Аналіз останніх досліджень і публікацій.** Значний внесок у розвиток питання формування та функціонування середнього класу та зниження рівня бідності зробили відомі вчені Є. Головаха, В. Гошовська, Е. Лібанова, О. Макарова, М. Міщенко, М. Паніна, Т. Рудницька, Л. Черенко та інші.

**Виділення недосліджених частин загальної проблеми.** У той же час особливості вітчизняної бідності та середнього класу не дозволяють моделювати державну політику, прогнозувати управлінські рішення й їх наслідки, здійснювати оцінювання ефективності державного управління тощо.

**Постановка завдання.** Основним завданням є дослідження можливості зменшення масштабів бідності в Україні шляхом формування потужного середнього класу з метою вироблення напрямів удосконалення державної політики у зазначеній сфері.

**Виклад основного матеріалу.** У статті розглянуто особливості формування середнього класу в Україні. Проведено аналіз стану бідності. Запропоновано напрями вдосконалення державної політики, які створюють умови для зниження масштабів бідності та формування потужного середнього класу.

**Висновки.** Реалізація запропонованих заходів у сфері політики доходів і соціального захисту створить умови для зменшення масштабів бідності шляхом формування потужного середнього класу в Україні.

**Ключові слова:** середній клас; бідність; політика доходів; соціальна поляризація; демонополізація; деолігархізація.

**Urgency of the research.** The middle class is the main part of the social structure of a democratic society with a developed market economy. Instability in the socio-economic and political spheres in Ukraine complicates the process of the powerful middle class formation and reducing poverty. Mass

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poverty and excessive inequality reduce the public trust in the government and endanger the social stability and national security of the state.

According to the vast majority of scientists, only a significant quantitative growth and effective middle-class activity will allow Ukraine to move closer to the international standards of quality of life. Thus, the task is to make the middle class not only grow up quantitatively and improve qualitatively, but also take an active part in the civil society formation and not be alienated from the process of the government formation. Then it will become the locomotive of economic and social progress.

**Target setting.** The world experience shows that the middle class formation depends on the stable processes associated with sustainable economic growth, promoting the development of small and medium-sized businesses, reducing social polarization of society and raising the educational and qualification level of citizens. At the same time, in 2017 Ukraine remains among the top ten poorest countries [1], 60% of Ukrainians are below the poverty line [2], that is, we can talk about mass poverty, because it relates to entire strata and groups of the population. Even according to official statistics, the poverty rate for families with 3 children – 49%, among employed persons - 18.9%, among children under the age of 18 - 29.3%, and among pensioners - 21.2% [3]. So there is a high incidence of poverty and the social structure of society is far from optimal.

In Ukraine, the poverty peculiarities are a significant reduction in the real incomes of the majority of employed persons, who, at the same time, maintain a relatively high social status, as well as a significant difference in incomes between the richest and poorest citizens. Thus, according to experts [4], the inequality between 1% of the wealthiest people and 50% of the poor population for Ukraine is 44.5, for Kyiv - 95.1, and for Europe this figure is 11.7. It should be taken in account that oligarchs-monopolists and the most influential corruptors are out of official statistics, since most of their revenues are transferred to offshore accounts. From 1991 till 2016 USD 148 billion have been transferred from Ukraine to offshore accounts [5] that is equal to the size of five state budgets of Ukraine in 2017.

**Actual scientific researches and issues analysis.** Such well-known scientists as Ye. Holovakha, V. Hoshovska, E. Libanova, O. Makarova, M. Mishchenko, M. Panina, T. Rudnytska, L. Cherenko and others have made a significant contribution to the development of the issue of formation and functioning of the middle class and the poverty reduction.

**Uninvestigated parts of general matters defining.** There is no clear definition of the middle class among scientists. According to the classical approaches, the middle class consists of small and medium owners, farmers, managers, government officials, scientists, doctors, lawyers, a highly paid part of engineers and technicians, freelancers, etc. The main criteria of the middle class are: economic independence (income level, immovable and movable property); the potential of social mobility; characterization of status aspects of lifestyle (level and quality of consumption, living environment, leisure, circle of communication, values, social mood); high self-esteem based on awareness of one's significance in the public life [6].

At the same time, the peculiarities of domestic poverty and actual nominal belonging to the middle class of typical representatives of certain professions create a deformed picture of the real state of the social structure of society and the number of social groups. The ambiguous interpretation of the middle class complicates the definition of its place and role in social processes, does not allow to simulate the state policy, to predict management decisions and their consequences, to evaluate the effectiveness of state administration, etc. Therefore, we pay particular attention to the study of the current state of the middle class, without which it is impossible to consolidate the society and reduce the depth and extent of poverty.

**The research objective.** The main objective is to study the possibility of reducing poverty in Ukraine through the powerful middle class formation in order to develop directions for improving the state policy in the area of income and social protection.

**The statement of basic materials.** In the analytical report to the Annual Message of the President of Ukraine for 2017, it was recognized that "... the reform of the state income policy" was long overdue [7]. Indeed, this is a very topical issue; at the same time, real state policy measures are largely in contradiction with the stated goals. Let's consider some of them.

After rising energy tariffs, the majority of the population began to receive multibillion state subsi-

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dies, but in fact the final beneficiaries of this system became oligarchs-monopolists, who are the owners of energy supplying companies.

The Ukrainian state is increasingly spending on the business support. The planned annual expenditures for economic activity in 2017 amounted to UAH 97 billion (or 3.4% of GDP) [8]. At the same time, the lion's share of these funds is directly or indirectly received by the enterprises that are owned or controlled by oligarchs-monopolists, and small and medium-sized businesses receive a little.

In 2017 the government of Ukraine has increased its state debt up to UAH 2 trillion, which is 80% of Ukraine's GDP, including due to the recapitalization of Privatbank in the amount of UAH 155.5 billion, as one of the oligarchs-monopolists withdrew USD 5.7 billion from PrivatBank [9], the taxpayers will repay this debt for many years.

At the regional level, there are a large number of business structures associated with officials of various levels, as well as with judges, prosecutors, law enforcers, customs officers, etc., who successfully work under their protection in non-competitive conditions, causing not less harm to the country than oligarchs-monopolists.

If we consider the events of the Crimea annexation and hostilities in Donbas through the prism of income policy, it should be noted that one of the main reasons for such course of events was that the level of average salaries and social guarantees in Russia has been and remains higher than in Ukraine. According to Doing Business rating, for three years of reforms Ukraine loses Russia in terms of the business environment development [10]. It is a comfortable business environment that is essential for the powerful middle class formation in Ukraine.

For solving the problems with the Crimea and Donbas there is a striking example for Ukraine that is based, first of all, on an effective income policy. The rapid development of the economy of the Federal Republic of Germany in the postwar period, high levels of income and social standards led to the massive escape of citizens from the socialist Germany, and eventually to the fall of the Berlin Wall and the accession of the German Democratic Republic to the Federal Republic of Germany.

We come to the conclusion that the real income policy in the times of Ukraine's independence worked as above, that is, the society is poor and deeply polarized in terms of incomes, and the income policy works for the benefit of oligarchs-monopolists that obviously does not contribute to the middle class formation and reducing poverty.

In the Message of the President of Ukraine to the Verkhovna Rada (2017) it is said: "In Ukraine, a creative post-industrial class of the carriers of such European values as freedom, responsibility and activity was formed" [7]. Obviously, this is a middle class, because in our point of view, the middle class has played the main role in the Revolution of Dignity.

According to E. Libanova, only 10-12% of citizens of Ukraine meet the peculiarities of the middle class in Ukraine [4]. Thus, unlike developed countries, first of all European, where the middle class is 50-70% of the population, in Ukraine there is a small number of it. And the main reason for this, in our opinion, is that the strengthening of the middle class contradicts the long-term interests of the Ukrainian political elite, since with the appearance of the powerful middle class there will be an active player who will defend the civil society's interests and control the actions of the ruling elite.

In the formation of the powerful middle class in modern conditions, it is important to realize that by its nature it is always a social subject interested in supporting social institutions, first of all - the institution of law. In the quest for the stability of society, the middle class is always interested in preventing its polarization by any peculiarities, that is, in ensuring social solidarity and the rule of personal rights.

In the above-mentioned Message, the President of Ukraine said that the middle class needs support. In addition, it has been stated that all tax and budget innovations should be aimed primarily at the middle class development [7].

We believe that reforms of income and financial policies, fiscal and judicial reforms are extremely necessary for the real support of the middle class. Among the primary means of supporting the middle class there are: the real fight against corruption, the adequate labour price establishment, the creation and promotion of a positive image of the middle class.

The income policy in Ukraine can be recognized as effective when the primary fiscal re-distribution of income will work in favour of the powerful middle class formation through the transition of the bulk of

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the poor population to its ranks. The main way is the gradual transition of the poor population to the middle class against the background of the demonopolization and deoligarchization.

Defining the tactical steps to reduce poverty, it should be noted that in 2016 the Poverty Reduction Strategy, which is expected to be implemented by 2020, was approved. The main objective of the Strategy is to gradually reduce poverty, social exclusion and to introduce new mechanisms for its prevention. The goal will be achieved through the implementation of a number of directions and tasks.

We propose some clarifications and accents to the measures defined in the Strategy, as well as modern approaches to solving these problems, taking into account the tendencies of the European social policy, under the European Social Charter, European Social Security Code, Europe 2020 Strategy, Association Agreement between Ukraine and the EU, Strategy of Sustainable Development "Ukraine-2020" and other documents.

First of all, it is important to end the military conflict in Donbas. All efforts shall be aimed at achieving a sustainable economic growth in Ukraine, which includes increasing the competitiveness of the economy on the basis of its modernization, ensuring productive employment, creating modern workplaces with decent wages and implementing a balanced redistribution of public goods. The solution of these problems is not only at the political and economic levels. We also need changes in the public consciousness - it is important to form new standards of social justice, to abandon the philosophy of state paternalism, social dependency, consumer behaviour and making the populist decisions in the social sphere.

In defining further ways to overcome poverty and form the middle class in Ukraine, one should first of all proceed from the premise that the working-age population should be provided with work and decent wages that will eliminate poverty among employed citizens and significantly reduce the poverty rate among socially vulnerable groups of the population. In this regard, the main task of reducing poverty should be the conditions creation for "social elevators", which will be manifested through:

- ensuring a more efficient spending of public finances in the social sphere (nowadays the distribution of budget funds by different spending units and budgeting levels often leads to duplication of social functions; it is important to strengthen the provision of targeted assistance);
- implementing a reasonable and socially fair model of social standards and guarantees (in particular, the revision of the methodology for calculating the subsistence minimum is relevant); creation of an effective pension system for current and future pensioners;
  - introducing compulsory medical insurance;
  - fundamental reform of the benefits system - creation of a system for monitoring the total income of each beneficiary, benefits monetization;
  - decentralization of funding for institutions and establishments providing social services - the concentration should be where it is needed;
  - implementing a unified information and analytical system of social protection for the formation of a register of recipients of various types of assistance and benefits, establishing an information exchange between executive authorities when appointing targeted types of pensions and benefits in order to verify the real incomes of beneficiaries and confirm the right to receive benefits;
  - creating an effective system of complex rehabilitation and social adaptation, monetary and housing support for ATO participants; forming the Unified Information Database of Internally Displaced Persons, providing the socio-psychological and material support;
  - increasing the role and interaction of local self-government bodies and non-governmental organizations, volunteers, international partners; developing the public-private and civil partnership in the social sphere.

The implementation of these measures is a necessary condition for reducing poverty in Ukraine. However, it should be remembered that in 2001 the President of Ukraine already approved the "Strategy for Overcoming Poverty", but the results turned out to be negative. It is obvious that only using measures that improve the social protection system the poverty problems cannot be overcome. It is also necessary to introduce a complex of measures in all spheres of life of the Ukrainian society, the most important of which, in our opinion, are:



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- demonopolization and deoligarchization of the Ukrainian society;
- achieving macroeconomic stability and sustainable economic development, which include inflation of less than 10% per annum, stability of the hryvnia and sustainable GDP growth;
  - achieving the level of minimum wages, minimum pensions and subsistence level in the short term higher than in Russia, and in the medium term achieving the level of basic social standards close to the average European ones;
    - real decentralization, including budget one;
    - elimination of selective state support for individual enterprises that leads to the formation of privileged businessmen and others who bear "the full burden of official and unofficial payments" [4];
    - introducing the international accounting standards and insuring the transparency of capital flows;
    - maximum incentives of employment and active incomes, in particular due to higher rates of passive income taxation;
    - replacing the individual income taxation with the household (family) income taxation, as is customary in many European countries; introduction of a progressive scale of income taxation from 10% to 40%;
    - eliminating the practice of manual control (introduction of the electronic VAT Refund Register in 2017 is the most successful and fundamental reform that has stopped the operation of fraudulent tax shelters);
    - introduction of real criminal liability for non-payment of taxes and for transferring the profits to offshore accounts;
    - carrying out the judicial reform, which will guarantee the protection of legally obtained private property, protection of small and medium businesses;
    - ensuring the legalization of shadow revenues obtained from the property and business through improving the accounting and reporting systems, the creation of the property database that can be used to generate income;
    - introduction of a rigid control system of costs and benefits in order to prevent large-scale unregistered incomes;
    - increasing the revenues of state and local budgets at the expense of a significant expansion of the tax base that is possible only in case of significant increase in the business income, which automatically leads to growth and development of the middle class;
    - demonopolization of key infrastructural sectors of the economy;
    - state guarantees for the citizens' savings and pension savings in the currency equivalent that will become a powerful source of investment in the national economy.

**Conclusions.** The implementation of the proposed measures in the income policy and social protection will create conditions for reducing poverty through the powerful middle class formation in Ukraine.

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