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STATE SUPPORT OF SMALL ENTERPRISES AND MIDDLE CLASS

The article substantiates the processes of the mechanisms formation of the middle class formation and development as a necessary condition of the functioning of competitive small enterprises in case of the economic transformation of Ukraine. It defined the components of public policy formation of the middle class in conjunction with the development of small enterprises: state regulation of wages and incomes of population; economic inequality in society; creating favorable environment in the enterprise sphere; monitoring and legislative regulation of the cost of living; the cost of living indicators that are included in government regulation system; social guarantees in the regulation sector of income and welfare of population.

Keywords: middle class, small enterprises, competitiveness, economic inequality, policy of income redistribution, state support of small enterprises.

Ефремова А. Государственная поддержка малого предпринимательства и среднего класса. Обоснованы процессы формирования механизмов становления и развития среднего класса как необходимого условия функционирования конкурентоспособного малого предпринимательства в условиях трансформации экономики Украины. Определены составляющие государственной политики формирования среднего класса во взаимосвязи с развитием малого предпринимательства: государственное регулирование сферы оплаты труда и доходов населения;

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экономическое неравенство в обществе; создание благоприятной среды в сфере предпринимательства; мониторинг и законодательное регулирование стоимости жизни населения; стоимостные показатели уровня жизни, что включены в систему государственного регулирования; социальные гарантии в сфере регулирования доходов и благосостояния населения.

Ключевые слова: средний класс, малое предпринимательство, конкурентоспособность, экономическое неравенство, политика перераспределения доходов, государственная поддержка малого предпринимательства.

Background. During the overcoming of the systemic crisis in Ukraine is particularly relevant a question of necessity of social and economic transformation and the formation of a strong middle class, which requires the solving of the problem of studying the economic characteristics of the middle class and its role in the economic life of the country.

At the current stage, developed countries rely on the middle class, which is 60 % of the population. It is a major productive force, a main consumer of goods and services, an essential part of the investment potential, acts like a driving force of reforms, provides technological, social and economic progress.

The middle class formation, as is clear from the history of developed countries, was not an easy process, where a significant role belonged to economic and regulatory standards initiated by the state as a social institution. The strategic aim of these reforms was a creation a socially oriented market economy, which a middle class had to be the main subject. However, the middle class, similar to developed countries, in Ukraine has not yet been created. Accordingly, there is a need to find effective mechanisms of formation, development and use of middle class possibilities in the implementation of transformations in social and economic system of Ukraine [1].

Analysis of recent research and publications. Scope of the study of the middle class is very diverse. The problems of the middle class and the development of social and economic systems are devoted the works of many foreign scholars, including: A. Akayev, A. Sarygulov and V. Sokolov [9], O. Balakay and B. Kusmarov [5], N. Birdsall [4], P. Lunt and W. Warner [3].

However, the process of Ukraine economy transforming has raised a question of the research need of the middle class formation and the development of competitive small enterprise interconnection problem because subjects of small enterprise are an important part of the formation and functioning of the middle class.

Researching the problem of middle class formation as a necessary condition of a competitive small enterprise functioning in the conditions of market transformation of economy in transition, noted the scientific developments of modern scientists, as I. Angelko and G. Lech [6], O. Andronik [8], V. Geyets [1], Y. Zhalilo [14], V. Klimenko and G. Lozova [11], T. Kovalchuk [7], E. Libanova [10], G. Yatsyuk [2].

At the same time, despite the considerable amount of works from the researched subject, it should be noted that for the effective solution of this problem it is important to analyze the institutional features of formation of small enterprise sector in Ukraine and studying the world experience, generalization of which could be useful for creating favorable conditions of its development.

The **aim** of the research is analysis of the formation mechanism of the middle class formation and development as a necessary condition of the competitive small enterprise functioning in economic transformation.

Materials and methods. The study was conducted on the basis of scientific works of foreign and domestic scientists on the theory of middle class formation and small enterprises functioning. The study entrusted with general scientific and special methods of cognition: abstract logic – for professional analysis of scientific literature, theoretical generalization and forming conclusions on the economic nature of middle class and its developing; decomposition – to disclose the purpose of the study and setting goals; analysis and synthesis – to determine the impact of small enterprises on the middle class formation; statistical and economic – for the prediction of the population living level on the basis of certain indicators of macroeconomic development of Ukraine and its entrepreneurship.

Results. The analysis of the theoretical foundations of the middle class formation indicates that in the process of market economy formation, the middle class formation was conducted in several stages that reflected the essence of the relevant social and economic processes. At the first stage, the middle class formation was reflected the spreading of small commodity production, which was based on labor private ownership. This inter-connection of labor and property defined the limits of the middle class, separating it from representatives of other classes – owners of production means and employees. The second stage of the middle class formation began with the mid-twentieth century, when the economic basis of society began to acquire a postindustrial development direction. In the post-industrial society has gradually changed the concept of a single middle class to the concept of "old" and "new" middle classes [2].

In our opinion the most exact qualitative characteristics of the middle class, which fully reflects its essence, place and role in society as a stabilizing social group, were given by American researchers William P. Warner and Lunt almost seventy years ago [3]. These quality characteristics are:

- significant amount of income and property;
- relative personal autonomy, initiative and high economic activity;
- inherited cultural potential associated with getting a good education;
- high score family as values.

The process of the middle class formation in the western countries took objective, comprehensive character and held under conditions of stable

and long-term processes of economic growth, improving the welfare of the population and their educational level, mental and consolidation of basic values in society, inherent to the middle class. The economic policy of western countries was conducted usually in the interests of the middle class, in particular, were created the conditions for the growth of entrepreneurs number in the sphere of small enterprises.

However, as the further economic development has shown, the middle class formation in different countries bore unequal character. Moreover, on the edge of XX and XXI centuries it became obvious that many developed countries were not able to support qualitative characteristics of the middle class, as there are contradictions of the middle class definition:

- *The tendency of blurring and reduction of the middle class.* An indirect indicator of such blurring are the changes in Gini coefficient, which rose for United States from 0.4 in 1990 to 0.44 in 2015, while the value of this ratio for France during the same period fell from 0.36 to 0.25, and for Japan and the Netherlands remains unchanged.

- Initiated mainly by international financial institutions *the attempt to artificially expand the boundaries of the middle class by assigning it to those whose average daily income ranges from 2 to 10 dollars.* If its followed such approach, then for today in the world to the middle class can be attributed about 1.8 billion of people. The divisiveness of such approach is obvious, especially in the context of combating against poverty, given that the US poverty border is set on the level of daily income in 13 USD, and in developing countries – only 2 USD.

However, partly artificial expanding of the middle class boundaries also affects to the determination of those who belong to the "rich". By the definition of N. Birdsall, to the middle class should be referred everyone whose daily personal income is not lower than 10 USD [4].

In Ukraine the middle class share has been decreasing over the last twenty years. High speed of market reforms and the impossibility of realization of many social functions by the government led to a sharp economic inequality in society. There was an actual decrease in social level and, consequently, a sharp reduction in the number of a middle class. As a result, a becoming of significant variations in dynamics, the number and proportion of middle class share according to the subjects of the state [5].

The middle class is formed in the specific economic conditions, a social development dynamic, particularly of economic inequality has a significant impact on this process. Thus, despite the considerable social costs, Scandinavian countries (Norway, Finland, Sweden and Denmark) show steady growth and positive economic indicators. In fact, these countries actually characterized as the societies of general welfare, have proved once again that for the complete functioning of the state social stability and striving to provide a worthy quality of life for all their citizens are essential [2].

However Ukraine, as a country with developing transition economy, working towards the process of polarization that is reflected in the simultaneous increasing of secured and needy number of population segments and also in the growth of a gap between their incomes. Herewith, the part of middle class representatives is being moving to the upper and lower corners of the income distribution, and the middle class – as a major stabilizing force of society – is being eroded.

According to the analysis of the structure of Ukraine's incomes, almost 4/5 of all personal incomes are formed by salaries and social benefits and other current transfers, a little more (1/5) – by profit and mixed income and property income. In addition to income, the number and quality of the goods that can be bought by the population for income which it's obtained also affects on the level of living. First of all, the costs of households can be described as the actual expenses of financial and commodity resources allocated to material and spiritual needs satisfaction of their members and are necessary to ensure the vital activity and development of the household [6].

In case of income inequality increasing in Ukraine today it is due to additional excessive enrichment of the richest when high incomes is growing indefinitely, and income of low and middle segment of the population is not significantly changing or even falling. This process is usually interrupted by large cyclical crisis that happens once in 30–40 years, accompanied by a deep recession in the economy, mass unemployment and prolonged depression. Under these conditions, the government began to take measures against poverty and for reduction of inequality in income distribution through the adoption and realization of social programs [7].

A similar cyclical crisis that intensified economic crisis we observe in Ukraine. In general structure of cash incomes the largest share in 2014 indicators such as wage and social assistance were taken (*figure 1*). It was concluded that since the wage is almost the only source of population income increase, the decline in production, forced underemployment and unemployment growth led to a decline in real population income [8].

It is established that the quantity of the population with middle level of income concedes not only the indicator of the pre-crisis 2007, but the indicator of 2002, indicating enhancing processes that led to the deterioration of social structure (*table 1*). Thus, the growth of income share from labor activity in the structure of total household income confirms the conclusion about importance of employment as a major factor of improving financial status of population [8].

State Statistics Service announced that compared with 2014 Ukrainian real income in 2015 decreased by 22.2 %. Also, the State Statistics Service noted that in the income structure in 2015 Ukrainian wage was 39 %, while in 2014 its share was higher – 40.5 %. Social payments in the structure of income were 37.8 % in 2015 against 37.1 % in 2014 [5].

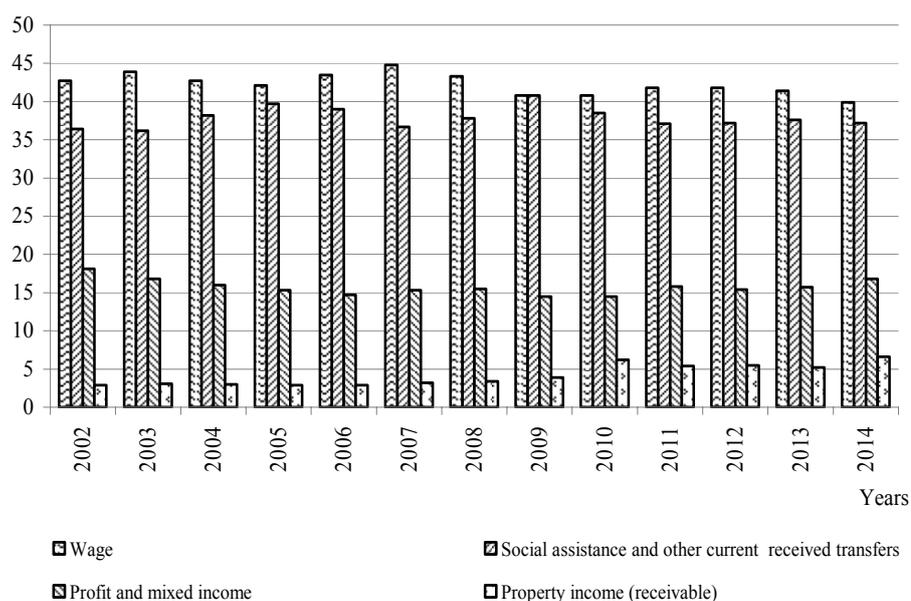


Figure 1. Dynamics of different types of incomes specific share in Ukraine in the 2002–2014 years, %, (compiled according to [8])

Table 1

Quantity and proportion of the population with middle income in the structure of the population of Ukraine, (compiled according to the [8])

Indicator	The quantity of population with middle income, thsd. people				Proportion of population with middle income, %			
	2002	2007	2013	2014	2002	2007	2013	2014
The population with middle income	7432.9	7864.2	6137.4	5470.7	15.6	17.4	14.0	14.6
- with higher education	3205.3	3582.2	3086.7	3709.6	6.7	7.9	9.8	9.9
- with a sufficient status on the labor market	2945.1	3666.4	2945.1	3597.2	6.2	8.1	9.4	9.6
- with higher education and sufficient status on the labor market	2073.8	2584.6	2080.8	2548.0	4.3	5.7	6.6	6.8

The problem of economic inequality can be solved through an effective policy of income redistribution. As an example is the experience of developed countries in Europe and Canada. Thus, through the different social programs, which are based on income redistribution, the poverty threshold can be significantly reduced. The most significant reduction until 2000 s (23–27 %) was achieved in Belgium, Austria and Sweden; in the UK and Germany this decline was about 20 %, in Italy and the Netherlands – 15–17 % in comparison with the previous indicators of these countries [9].

Determining the ways to overcome and lower the poverty line of these countries was found that one of the most important elements of the new economic policy has become a significant reduction in public spending, including social purposes and the simultaneous reduction in tax rates for commercial activity.

However, Ukraine in terms of income inequality is far ahead not only the countries which have moderate or weak inherent inequality, and even the US, which is recognized as the country with high inequality. Thus, according to Thomas Picketti, earnings of the poorest 50% of taxpayers in the Nordic countries in 1970–1980 (during the lowest inequality) accounted for 35 % of total labor income, in Europe (2010) – 30 % in the US (2010) – 25 %, and in Ukraine (2015) – only 15 %. In case of full equality they would be equaled 50 %, according to the share of this group in the total number of taxpayers. Instead, the earnings of the richest 10 % stood in the Nordic countries 20%, in Europe – 25 % in the US – 35 %, and in Ukraine – 39 % (in the condition of full equality they had to be 10 %).

Unacceptably low (even by the national standards of official wage) earnings of at least half of the employees is a characteristic feature of inequality in Ukraine. Thus, in the Nordic countries the average wage of the poorer 50 % is 70 % from the average wage, in Europe – 60 % in the US – 50 %, in Ukraine – only 30 %. The second feature is the extremely high wage gaps of 1 % of most highly paid employees and the rest of the workforce. In particular, in the Scandinavian countries earnings of this relatively small group exceed the average in 5 times, in European countries – in 7, in the US – in 12, and in Ukraine – in 13 times [7; 10].

Accordingly, the difference in wages of the most secured 1 % and the poorest employees 50 % in Ukraine are fantastically high: in the Scandinavian countries the average earnings of the most highly paid employees 1 % exceeds the average wage of less paid employees 50 % 7.1 times, in European countries – 11.7, in the US – 24, in Ukraine – 43.3 times. And that's only officially paid wages from which taxes have been fully paid officially. There are many reasons to believe that the account of unregistered income will increase of not poorer, but wealthy sector of Ukrainian society – which completely corresponds to the world practice (*table 2*) [7; 10].

Based on the analysis of factors influencing middle class formation (economic, political, legal, social, spiritual, social and economic) the necessary conditions for the formation of a strong middle class in Ukraine have been identified:

- development of real market relations in society;
- creation of favorable conditions for small enterprises;
- intensive development of scientific informative scope and necessary reorientation of social and economic policy and financial system of the state [11].

Taking into consideration these conditions, we have developed a conceptual scheme of the formation, composition and structure of the middle class in system of social and economic development of Ukraine (*figure 2*).

**Evaluation of common population inequality
of various types of the countries according
to the wages (source [10])**

Group by incomes	The ratio of average earnings in the group with average earnings of poorer payers half, times			
	Scandinavian countries, 1970–1980 (weak inequality)	European countries, 2010 (moderate inequality)	USA, 2010 (High inequality)	Ukraine, 2015 (Extreme inequality)
40 % of taxpayers with average earnings	1.6	1.9	2.0	3.8
10 % of the most wealthy	2.9	4.2	7.0	13.0
9 % of poorer from the most secured	2.4	3.3	5.1	9.6
The richest 1 % from the most secured	7.1	11.7	24.0	43.3

The theoretical foundations of the middle class in the system of social and economic development of Ukraine make it possible to distinguish small enterprises as the main raising element of middle class. As the effective development of competitive small enterprises firstly increases the number of small entrepreneurs that have historically been members of the old middle class. Secondly, the obtaining of entrepreneurial income, which depends on the efficiency of entrepreneurial activity, provides a growth of efficient use of production factors, which in its turn, promotes the development of entrepreneurial activity in general and small enterprise in particular, which is one of the conditions of employment growth and GDP volume rising and efficiency increasing of the economy as a whole [12].

The analysis of world experience shows that small enterprise is more resistant to crises and confirms its ability to create new workplaces, value creation of which is considerably inferior to the value of workplaces that are created by the big enterprises and to absorb the excess labor force. Thus, the share of employed in small enterprises in the United States exceeds 50%, in France it is 54 %, in Japan – 78 %. The share of small enterprises sector in the GDP of these countries is significant and is takes accordingly 52 %, 62 % and 55 % [13].

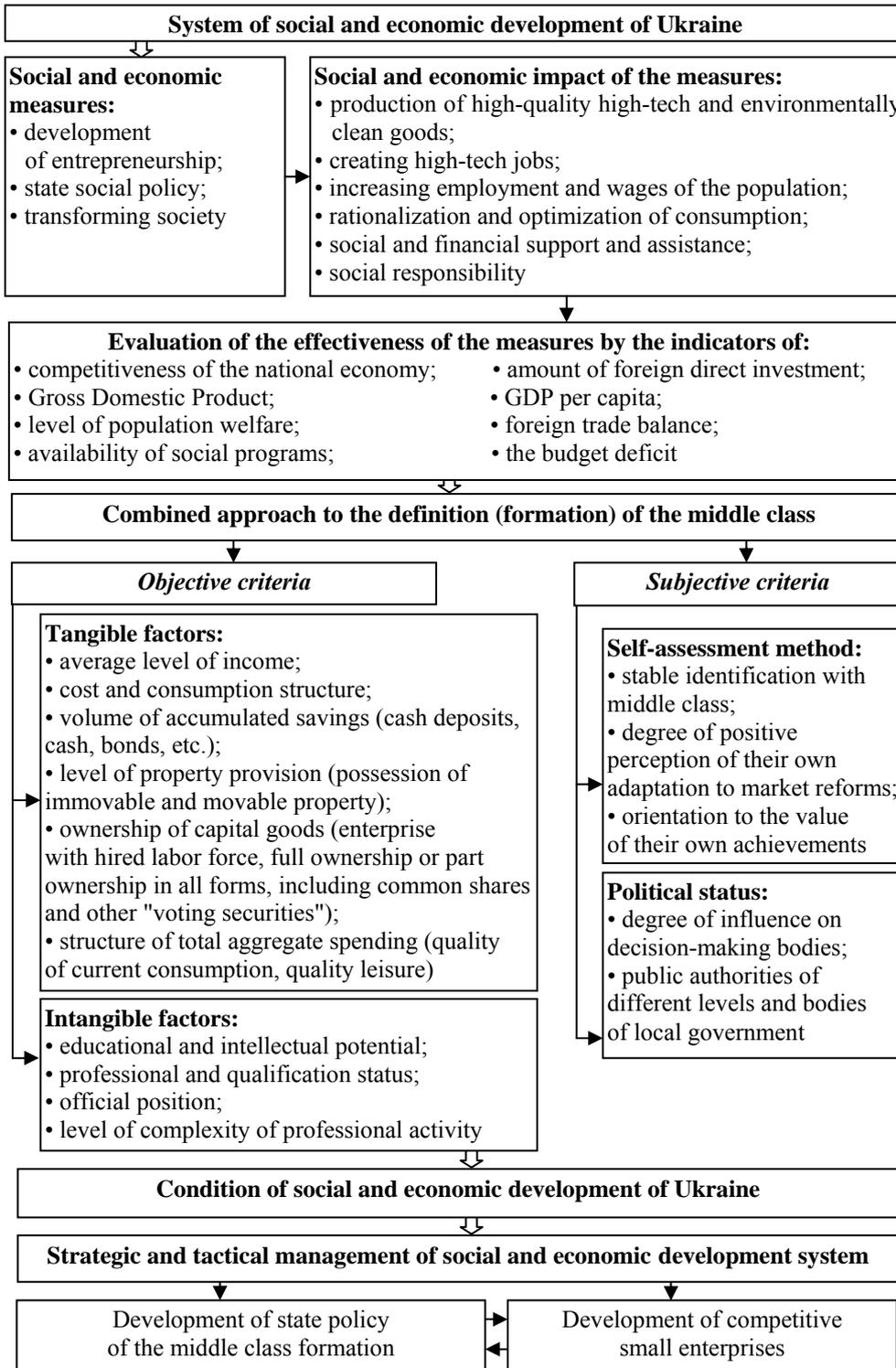


Figure 2. Formation, composition and structure of the middle class in the system of social and economic development of Ukraine
(compiled by the author [8])

Having researched the theoretical foundations of the middle class formation and highlighted a small enterprise as its main producing element we should note that the present practice has significant disadvantages in the mechanisms of regulation of this institution in Ukraine, due to the inconsistent and contradictory policy of small enterprises state support in Ukraine. Under these conditions, the problem of priority decisions and regulatory measures on the definition of the main directions and forms of legal, economic and organizational small enterprises promotion as the driving force of structural adjustment to modernize the economy should be resolved considering the interests of the state and entities.

In this case, it's determined that national policy of supporting functioning of small entrepreneurship should be implemented by the unified strategy:

- systematization of legislation on entrepreneurship in Ukraine on the basis of a common understanding of the nature and content of officially approved strategy for public policy development;
- removing administrative barriers on the way of creation and functioning of small enterprises;
- cooperation with international partners (technological and financial assistance, experience exchange, training organization, training of qualified stuff);
- financial and credit support, the main direction of which should be a preference of activities that do not require expenditures from the budget (credit guarantees, the spread of private lending to small enterprises entities);
- direction of tax policy on the formation of a clear, stable and efficient tax system (fiscal incentives to interest local authorities in the development of small enterprises, preferential conditions for businessmen – practices at local and regional level in order to combine theoretical knowledges of students with practical activities) etc. [14].

Conclusion. In the results of economic characteristics comparison of different sectors of society it is determined that the middle class is able to perform a stabilizing and balancing functions in society.

However, middle class formation is an irregular difficult process. According to a historical practice, there are two main ways of its development: the first one is a comprehensive and integrated institutional development of society; second – a system development of policy measures, in particular aimed at accumulating a large part of economic incomes for their efficient redistribution to ensure a harmonious development and establishment of capable middle class.

The researches of theoretical foundations of the middle class in the system of social and economic development of Ukraine make it possible to distinguish small enterprises as the main raising element of middle class. As the effective development of competitive small enterprises firstly increases the number of small entrepreneurs that have historically been members of the old middle class. Secondly, the obtaining of entrepreneurial income,

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Єфремова О. Державна підтримка малого підприємництва та середнього класу.

Постановка проблеми. У період подолання системної економічної кризи в Україні особливо гостро постає питання про необхідність соціально-економічних перетворень і формування потужного середнього класу, що вимагає вирішення проблеми вивчення економічних характеристик середнього класу і його ролі в господарському житті країни.

Метою статті є аналіз процесів формування механізмів становлення і розвитку середнього класу як необхідної умови функціонування конкурентоспроможного малого підприємництва в умовах трансформації економіки.

Матеріали та методи. Під час дослідження практики зарубіжних країн щодо функціонування конкурентоспроможного малого підприємництва використано такі методи: абстрактно-логічний, декомпозиції, аналізу та синтезу, статистично-економічний.

Результати дослідження. Дослідження теоретичних основ формування середнього класу дає можливість виокремити мале підприємництво як найважливіший чинник формування середнього класу. Оскільки, по-перше, збільшується кількість суб'єктів малого підприємництва, які історично були представниками старого середнього класу. По-друге, мале підприємництво більш стійке до криз і підтверджує свою здатність засновувати нові робочі місця, вартість створення яких значно поступається вартості робочих місць у великому бізнесі, та поглинати надлишкову робочу силу. По-третє, отримання підприємницького доходу, який залежить від ефективності підприємницької діяльності, обумовлює підвищення ефективності використання факторів виробництва, що, в свою чергу, сприяє розвитку підприємницької діяльності в цілому та малого підприємництва зокрема, що є однією з умов зростання зайнятості населення, збільшення об'єму ВВП та підвищення ефективності економіки в цілому.

Висновки. Державна підтримка малого підприємництва в Україні постає сукупністю пріоритетних рішень й регуляторних заходів щодо визначення основних напрямів і форм правового, економічного й організаційного сприяння розвитку малого підприємництва з урахуванням інтересів держави та суб'єктів господарювання. Визначено складові державної політики щодо формування середнього класу у взаємозв'язку з розвитком малого підприємництва: державне регулювання сфери оплати праці та доходів населення; державна підтримка у питаннях становлення власників капіталу; створення сприятливого середовища у сфері підприємництва; моніторинг та законодавче регулювання вартості життя населення; вартісні показники рівня життя, що включені в систему державного регулювання; соціальні гарантії у сфері регулювання доходів та добробуту населення.

Ключові слова: середній клас, мале підприємництво, конкурентоспроможність, економічна нерівність, політика перерозподілу доходів, державна підтримка малого підприємництва.