



State and Prospects of Development of Welfare Economics in Ukraine

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Abstract

The desire to become an integral part of the European community demands from Ukraine to comply with certain requirements and to conform to the established standards. One of the criteria for compliance is the developed economy, which ensures the interests of the state as a whole and of each member of society separately. For many years our state has been trying to take its "place in the sun" where all its citizens will do well, and everyone will be able to meet his or her needs, despite the fact that they all are different. Ukraine, like almost all post-Soviet states, refers to developing countries, and this factor must necessarily be taken into account when building the modern economy of the country. The economic welfare of a person is determined by many socio-economic factors, such as: level and quality of life, the provision of necessary vital goods, the amount of wages agreed with the necessary and desirable needs. The most important indicator of economic prosperity is the level and quality of life. It is the quality of life that determines the level of provision, the abundance not only of individual citizens, but also of the country, of the nation as a whole. The definition of "welfare" should be traditionally understood as the correspondence between the volume of goods and the volume of needs, the level of implementation of which depends on the level of their manifestation, which is formed under the influence of both internal and external factors, and the financial support necessary for their satisfaction. Factors influencing the presence or absence of welfare and determining its level can be divided into: subjective –psychological features, upbringing, education, environment, outlook, mentality, and objective –the urgent problems of time, the dominant ideology, the type of economic system, economic expectations, and the impact of scientific and technological progress. The urgency of the study of the feasibility of the welfare economics is stipulated by the urgent need to improve living standards through the implementation of the specified model of economics in Ukrainian society, which is currently in a deep protracted crisis, constantly faced with the difficulties of the transition period, the emigration of the able-bodied population and other factors that negatively affect the level of life of the population.

Keywords: Economics Of Welfare, Happiness, Living Standards Of Population, Economic Needs, Human Factor.

1 Introduction

A human being is proclaimed to be the highest social value of the state. Its rights are to be protected, needs are to be satisfied, and interests should be taken into account when building a society which the person lives in. A separate individual, like society as a whole, seeks to increase its own welfare, which is the natural purpose for the functioning of an economic system. Therefore, the problems of measuring welfare and finding the ways to improve it have been in the spotlight of many scholars for a long time starting from the classics of economic theory to well-known contemporary theorists. In general, social welfare is a socio-economic category that combines the economic, social, ecological, cultural and institutional components of the living conditions

of a society and enables to find out the desirable trajectory of social development. The current and prospective levels of welfare are the factors that can hold back or promote social and economic development creating incentives or levelling the desire of members of society to implement the proactive economic behaviour. In addition to the discussion character of the indicator of social welfare, the list of factors influencing its level remains open and controversial and it stipulated the necessity to further study this issue in order to develop effective measures of social and economic policy.

The evolution of economic theory has always occurred under the influence of various shifts in the real world economy. This is a dialectical process of interdependence and mutual influence, which contributes to the accumulation and

formation of new theoretical knowledge. However, the modern economic reality is so diverse and flexible that the speed of its change is ahead of the tempo of its study. The current proliferation of artificial intelligence in the course of innovative discoveries makes it necessary to reconsider the angle at which economic processes are conducted in order to meet the needs of society.

At the present stage of development, society is changing its priorities – it is no longer merely the satisfaction by the material goods obtained as a result of commercial activity, the attention is paid to obtaining aesthetic enjoyment, which in most cases involves the realization of abilities and talents through creative work for people.

The analysis of the mechanism for implementing the welfare economics and the factors influencing it will make it possible to calculate the criteria for assessing the welfare of the population. In the modern world, there are still no generally accepted universal criteria that will serve simultaneously as directions of its implementation of the welfare economy. Despite the importance of this sphere of public life in the domestic science, its development is not sufficiently studied.

2 Methodological Frameworks

With the advent of the 21st century, we are aware that the modern society we live in and try to develop is a consumer society. Life often dictates its own conditions of being in it, and when it is accompanied by a continuous focus on consumption, then the number of dissatisfied people who are not contented with the ever-increasing "standard of living" is inevitably increasing. The phenomenon of so called down shifting can be increasingly observed which is a voluntary rejection of the gained social status, career growth and a deliberate reduction in the level of income in order to free some time for the sake of oneself and the family. Such people appreciate their free time more than money and permanent accumulation of material wealth (17).

Economic growth, as one of the main indicators of the consumer economics, is a rather negative trend, the essence of which is that the values of a consumer society which exist at present cause changes in the general public conscience. According to American economist J. Sachs (11), nowadays all social values are involved in pursuing (in the race) corporate profits which begins to dominate other aspirations: honesty, justice, trust, physical and mental health as well as environmental sustainability. This development tendency is a global threat to human development, because society is gradually becoming aware that the economics which main purpose is to increase consumption and maximize profits does not have a prospect of development and existence. In search of a variant of radical changes, the scientific community of the whole world hopes for new scientific directions – economic theories of happiness and welfare which presuppose another, and in some cases, the opposite ideology of society's development.

The economic theory of happiness (economics of happiness) is one of the new directions of modern research based on the concept of bounded rationality which was proposed by the Nobel laureate H. Simon. The subjective perceptions of an individual about the satisfaction of his life as an economic phenomenon are in the limelight. This theory

is aimed at studying which economic factors and to what extent determine human happiness, how human happiness depends on the level of economic development of a country, which economic parameters reflect the "level of happiness" of society as a whole, how the sense of a person's own happiness affects the effectiveness of his economic activities, and what is the measure of responsibility for the happiness of the individual and the state is (14).

It is difficult to even imagine what kind of connection can be between the two concepts of economics and happiness without mentioning the interdependence and direct impact of happiness on the economics, but not vice versa. In joint work with the American Economist R. Kranton, Nobel Prize Winner G. Akerlof and R. Kranton, repeatedly wrote about the necessity and possibility of recording the peculiarities of self-perception of a person in the economic analysis (1). The level of life satisfaction is one way to determine the level of welfare. The search for happiness of an individual in a society is a prerequisite for the development of the economics of welfare.

The study of how the welfare of people depends on the level of income is one of the new directions of the economy – the welfare economics which emerged on the brink of three sciences: economics, sociology and psychology in the 70's of XX century. A group of American scholars led by R. Easterlin found that the incomes of Americans significantly increased for the period under study, but the quota of happy people did not practically change (3). The received conclusions were called "Easterlin paradox". These studies have caused a widespread resonance in the scientific community, as the conclusions of scientists questioned the traditional desire of society to increase consumption in the form of achieving the growth of real GDP per capita. If the growth of consumption does not make people happier, then what the level of happiness depends on?

In 1974, Easterlin published the results of his research in the article "Does economic growth improve the human lot? Some empirical evidence" (3). In his study, the author demonstrated that for a certain period of time under study, the income of Americans increased significantly, and the quota of happy people in the country remained practically at the same level. He also researched the influence of changes in relative income to the satisfaction of life. It turned out that Americans appreciate relative rather than absolute income. The conclusions drawn from the study are called "Easterlin Paradox".

"Easterlin paradox" can be explained by the fact that the level of happiness is not related to absolute income, but relative income, in other words, the comparison of own income with the income of others makes people either happy or unhappy. It is known that the needs of people grow along with an increase in income, but when incomes already cover the basic needs of a person, he begins to use money to compare himself with others. People want not only to be wealthy, but to become richer than others. The economic growth simply cannot meet this need for everyone indeed (16).

The Easterline paradox stirred the minds of modern economists and stimulated new research on the relationship between income levels and welfare of life. Compared with the works of the last century, the quality of such researches have increased. So, modern researchers have increased the

size of the sampling population and increased its representativeness, as well as studied other factors affecting welfare more deeply.

As the result of researches, interesting conclusions were drawn – the positive dynamics of economic indicators did not correspond to the increase of welfare in the countries with a transition economy.

Modern domestic scholars explain such a discrepancy by three factors: the first one is macroeconomic instability; the second is the deterioration in quality and accessibility of public goods; the third is the age. Let us consider these factors in more detail.

1. Macroeconomic instability and uncertainty in economic policies are causing a decline in the welfare of the population in both in the countries with developed and transition economies. This is a general dependence for all countries.

2. Deterioration in quality and accessibility of public goods. In comparison with the socialist period in transition countries, public goods have become less accessible, and their quality has deteriorated. People had expectations about the quantity and quality of these amenities in the past, when these amenities were free and of acceptable quality, and this negatively impacted the welfare of the population.

3. Age. Young people in the countries with transition economies are just as happy as in other countries, but older people are unhappier. The dependence of life satisfaction on age in other countries has the form of a U-like curve: the satisfaction first falls to the age of 35-40, then begins to grow, and reaches the level of 18-year-olds by age of 80-88. In countries with transition economies, another situation has been identified – older people are always less happy than younger people (4,5,6).

Based on the above, it can be concluded that welfare cannot be characterized by one qualitative or quantitative indicator, it has a wide range of interrelated and interdependent characteristics.

3 Results and Discussions

3.1 Formation and Development of the Economics of Welfare

Studying the stages of development and formation of the welfare economics, the special attention should be drawn to the inextricable connection with the development of economic thought, whose history of development simultaneously serves as a history of the development of the science of wealth, welfare and the possibility of their achievement. The mentioned problems were of interest to the well-known thinkers of antiquity. Aristotle argued that wealth is certainly not the wealth we strive for because it is useful, in other words, it exists only for the sake of something else (2).

In general, the research of welfare was conducted by leading economists of all time – from the classics of political economy to the liberals of the German school, from marginalists V. Pareto, A. Marshall, V. Pigou to contemporaries, who contributed to the development of theories and models of welfare, such as S. Kuznets, J. Buchanan, A. Sen (10)

The most widespread idea at the present time is that the theory of welfare has evolved through the study of English economist A. Pigou, but the first mention of it can be found

in the writings of A. Smith, according to whom the physical increase in the number of amenities arising from the division of labour and the use of machines in the work of employees and means the growth of social welfare, makes it possible to formulate the dependence of social welfare on the productivity of social labour and its proportionality to needs (12).

In general, the classical schools associate the growth of social welfare with the implementation of scientific and technological progress that takes place independently of the will of individuals, is based on the relations of competition and is always displayed in the growth of wealth in the form of commodities.

In the opinion of the neo-classicists, the problem of welfare formation was in the fact that the sphere of rendering services as a source of wealth was outside the attention of scholars. They studied public interest as a sum of personal interests. Based on these beliefs, A. Pigou assigned the important role to the state with the function of interference to the mechanism of utilization of resources and income transfers from rich to poor.

Thus, at the beginning of the twentieth century, the economics of welfare has gradually transformed into the Theory of Public Choice, in which a positive analysis has been carried out of how different social benefits are built up and implemented.

3.2 Modern Approaches to Definition of the Welfare Economics

The present stage of the economic development of society is characterized by the transition from the desire to obtain material values in order to meet the material needs to the desire for self-expression which indicates that the needs of a modern individual are constantly expanding with an emphasis on personality of the individual. In all spheres of life there is a tendency of transition from the desire to meet the physiological needs of aesthetic and spiritual ones indicating changes in the system of values of society. The transition from permanent to higher needs is evidence of the consciousness transformation of members of society, which demands to develop a new approach to the study of processes and phenomena, in particular economic ones, as the traditional scientific approach cannot explain the laws of development of intellectual society (13).

The welfare has been considered in two main aspects to the present day – what should be part of the concept of person's welfare and through which mechanisms it is possible to realize welfare. In these approaches, an individual is primarily considered as a consumer creature. At the present stage of human development, the influence of the intellectual component increases and it makes it necessary to regard a person as a creator who wants to be realized through creative work.

The human factor is gaining widespread recognition in the economy and in the strategic planning of its development. A look at the problem of economic welfare through the prism of the human factor will enable to see the motivation of subjects in the economy which is not primitive and one-dimensional, but complex and multi-element, to predict and effectively regulate its development. While forming the welfare, the greatest attention should be paid to ethical values and needs because ignoring them generates global problems

in the economy. They are the factors which the level of human development depends on, which affects the extent of manifestation of economic needs, and those, in turn, stimulate the economic activity of society, on which the level and quality of life of its members depend on.

Nowadays human-centred development prospects have begun to push out the prospects which are profit-oriented only. Such a reorientation sets new tasks for science, based on the principle that the economy exists for the development of people, and not vice versa. This approach is an alternative to the previous concepts of welfare, which essence was reduced to the fact that material wealth is the most important value that can replace other values. Therefore, the conduct of economic activities was based on methods with the application of approaches that would provide society with maximization of wealth. The presence of national wealth will not always be a guarantee of a choice available as there may be one or maybe not, therefore, to realize the welfare economics, it is important not only the availability of wealth, but also the way it is used in the country (15). After comprehending such allegations, a logical question arises – do we really need such achievements as their availability does not provide any guarantees.

During the period of research, welfare considerations in economic science made the transition from total scope of consumption to its structure, then from purely material values to non-material and spiritual ones, and gradually included such factors of human existence as rest, health, cultural and professional development, the condition of environment and so on. In modern economic research, welfare is a combination of not only economic, social and environmental factors, but also organizational, legal, moral, ethical and political relations that successfully regulate the processes of life and harmonious development of society. A retrospective analysis of opinions suggests the need for the use of a systematic approach to the study of processes and phenomena of socio-economic life, since the focus on the study of its individual components does not guarantee the desired result. After all, together with the development of society and its corresponding transformations in the economy, which cover both quantitative and qualitative changes, the concept of "welfare" evolves. On the basis of the above, one can conclude that welfare is the correspondence between the volume of values and the volume of needs, the level of implementation of which depends on the level of their manifestation which is formed under the influence of both internal and external factors and the financial support that is necessary for their satisfaction. The subjective factors should include psychological features, upbringing, education, environment, worldview, and mentality. While the objective factors should consider time problems, dominant ideology, type of economic system, economic expectations, influence of scientific and technological progress. Welfare is a complex economic, social and psychological category that includes an ecological component and characterizes the standard of living of the population as a measure of satisfaction of needs which spectrum is formed at one or another stage of the evolution of welfare under the influence of major problems of time.

3.3 Conditions of Welfare Economics

To build a modern welfare economics, there is a need for certain prerequisites that will contribute to its formation and

further development. In accordance with the conceptual approaches of L. Erhard, the regulation of economic relations should be based on the impossibility of limiting competition. The peculiarity of perfect competition lies in the fact that an individual seller cannot set a price that exceeds the market price, since buyers can buy the necessary amount of goods from other sellers at market price.

Another necessary condition for the practical implementation of the theory of social welfare is to create the stability of currency circulation, namely, to prevent inflation of the monetary unit. And the latter is almost one of the main pillars for the development of both business and the economy of a country. This is confirmed not only by the experience of European countries, but also Ukraine.

So in the country now there is stagnation of all chains of economy. The constant decrease in the value of the national currency leads not only to the transfer of financial savings of the population into more stable and firm currencies, but also to the reduction of production in the real sector of economy, distrust of both citizens and investors to the Ukrainian monetary unit, the game of lowering the cost of hryvnia in the financial market, the increase in credit rates and financial pressure on the population of our state and, consequently, the increase in prices of manufactured products and the decrease in the living standards of the majority of Ukrainians.

And one of the most important conditions for the development of society, according to the theory of social welfare, is the social security of members of society and justice in all spheres of their life. At the same time, the creation of social security and justice is not primarily due to the provision of subsidies or other types of state assistance to the population by the country, but through the development of entrepreneurial activity, control over the use of budget funds by the state and local governments, implementation of financing programs for sectors of priority for the economy of the country.

Explaining the correlation of economic growth in various countries and the level of welfare of their population, the economics of welfare gives the opportunity to draw the following conclusions. For the poorest countries and countries with developing markets, GDP growth will solve two problems: the growth of material welfare and the improvement of the mental well-being of citizens. As for developed countries, as the problem of achieving a high level of material conditions has already been solved for them, the problem of increasing mental well-being moves to the foreground.

Instead, Ukraine has not yet developed a single concept for the development of the welfare economics. the only theoretical basis for the development of our country in the post-Soviet period was practically the realization of the principle of "invisible hand of the market" according to Adam Smith's market economy theory, "... based on the principle of "laissez faire" (from French – to enable to act, not to interfere with the move). The essence of this principle is that the natural order based on the liberal economic idea of free enterprise and non-interference of the state in economic activity must not be violated by any external factors.

Despite the rather positive processes regarding the implementation of reforms by state authorities and self-government, these measures are not comprehensive. Thus, for the last two years, a considerable number of documents on

reforms in various branches of economy and administration have been introduced in our state. However, this activity can be characterized as an implementation of part of the legislation of the European Union in response to the financial and political pressure of the European community and part of the society of our state. Accordingly, the results of such activities have insignificant financial and social effects.

3.4 Implementation of Foreign Experience in Implementing the Welfare Economics

Ukraine has been a developing country for many years. To build the modern welfare economics, it is necessary to study the experience of foreign countries and the possibility of adopting positive reforms in order to achieve the result – the welfare of the population.

One of the most successful examples of the implementation of the theory of social welfare is the realization of the model of social state of Gunnar Myrdal in Sweden in accordance with the concept of creating a "State of Welfare". G. Myrdal saw the peculiarity of the social model of development in Sweden in introduction of a system of legislative, economic and social guarantees for members of society. At the same time, the main condition for increasing the welfare of the able-bodied population is equal conditions for conducting entrepreneurial activities, and for the incapacitated persons – creation of conditions and provision of a certain level of life necessities.

In the concept of "State of Welfare" of G. Myrdal, the state also has a major role in ensuring social protection of the population and the development of entrepreneurial activities. So, the main directions of activities of the state are: to provide members of society with a high cost of living and to provide financial assistance to those who need it due to objective reasons, to suspend privileges for those who do not need them; to create conditions that enable citizens to earn money for a productive life by any means that do not contradict the law; to create conditions that ensure satisfaction of the high level of citizens' needs in education, medical care, etc.; to provide favourable working conditions for hired workers, protecting them from the negative impact of the market economy; to ensure ecological safety for members of society; to protect citizens from criminal attempts; to protect civil and political rights and freedoms in accordance with the principles of a legal and social state; to protect from political persecution and administrative arbitrariness; to provide freedom of the spiritual life, protection against ideological pressure; to create a favourable social and psychological climate both in society in general, and in separate places and structural units, protection from psychological pressure; to ensure maximum stability of public life (7).

The concept of G. Myrdal had been developed before Ukraine became an independent state, but the principles of building a welfare economics in our country are relevant to the present day.

Turning to more modern reforms, it should be remembered that the assessment of national economic welfare in terms of GDP, GNP and total national income is impossible, and the reason is the inconsistency of the economic situation in the country with the level of well-being. Most developed countries make conclusions about the technological and scientific development of the country, the

industrial and raw material base according to the values of GDP and GNP, but in this case insufficient attention is paid to the conditions under which there is an increase in production capacity in order to increase economic indicators.

European countries have switched to a new index for assessment of development and capacity of the country – the Civilization Index of Welfare (CIW), which is calculated on the basis of the GDP rate deducting the cost for restoring the previous environmental conditions in the country, repairing the health of citizens working in dangerous and harmful industries. The new indicator has become more apparent in terms of the real situation in the country. The CIW index has not been widely spread, and it has led to the development of new methodologies for measuring the level of economic welfare of citizens.

The project of Organization for Economic Cooperation and Development (OECD) became a step forward in the search for new methodologies which was entitled "Better-Live-Initiative". According to this project, launched in May 2011, all indicators of measurement and evaluation of well-being, welfare needed to be reduced to a general basis. The purpose of the project was a qualitative assessment of the level and quality of life not only from the economic, but also from the environmental, social, personal and other sides. The initiator of this project was former French President Nicolas Sarkozy, who declared in 2008 that the values of GDP and GNP do not give a real picture of either the real state of affairs in the country or the prediction of the future – the further welfare of citizens.

The commission was established in 2008 and it decided during two years on the assessments to be included in the general welfare criterion. Two years later, in 2010, the final decision was taken that it was necessary to collect data on the quality of education, health care, safety, and the state of the environment, but also about the subjective assessment of personal welfare by a person (8,9).

The last indicator is worth a little more detail. Subjective evaluation is rather complicated, because it is necessary to take into account the correspondence of a man – a woman, a poor person – a rich person, a young specialist – an elderly employee. The data of correspondence enabled to analyse the relationship between social and gender inequality.

According to the "Better-Live-Initiative" project, on December 12, 2011, the first results of the first stage of research were received. The stage was proclaimed in the form of a question – "How is life?". This stage was aimed at gathering static data that enabled to conduct monitoring and to make conclusions by comparing data from different countries. The welfare was evaluated according to 11 most important and necessary areas (criteria) – income, work, housing conditions, society, education, environment, health, civil rights, safety, satisfaction, rest.

The concept of the "welfare economics" has a tremendous theoretical and practical value, as it enables to look at the problems of human development from a different perspective. Today there is a unique opportunity to adopt foreign experience and try to create a new economic system – the welfare economics.

4 Conclusions

The main problem solved by the theory of social welfare consists of determining or creating a criterion for assessing the desirability or undesirability of a particular state of economy or its organization. In order to improve the social conditions of the society and maximize individual welfare, the stability of the overall competitive equilibrium is necessary. The competitive equilibrium, in turn, depends on the high level of the economic culture of producers and consumers, their ability to participate in price competition and to focus on maximizing the benefits derived from the consumption of goods. The utility, as one of the main categories of public welfare, plays an important role as the ability to meet the needs of people when purchasing goods by consumers. Thus, the maximization of utility is the purpose of a consumer, and the main motive of his behaviour.

Improving welfare in Ukraine is an urgent task of the state, especially now, when growth rates are slowing down. But the performance of this task has not brought qualitative results yet, and it determines the need for further development of ways to stimulate the growth of welfare. Hence, the level of welfare, as one of the most important characteristics of the living conditions of the population, needs improvement under modern conditions. The task of the state policy on welfare improvement is to improve the principles of distribution and redistribution of incomes in the state, social policy, etc.; strengthening control over the implementation of state programs promoting the protection of the most vulnerable groups of population.

The given analysis of the research history of the population welfare testifies its urgency and practical value for more than one century. The peculiarity of the category of "welfare of the population" is primarily in the impossibility of its display by using only one connection or indicator. Therefore, there is an urgent need to build a holistic system of characteristics and indicators that would provide a complete and comprehensive assessment of the category under investigation. And the current realities of Ukraine are encouraging to create the own welfare concept, to improve the theoretical and methodological approaches to its study taking into account the social and economic, cultural and spiritual characteristics of each region.

It is certainly impossible to make all and everyone absolutely happy people who will live in absolute welfare. But the task of the welfare economics is to create conditions in which it is possible to provide material and, primarily, spiritual satisfaction with life. Perhaps it is precisely the welfare economics that can become the basis of a new model of sustainable development which can change not only the world economy as a whole, but also the life of each individual separately. It will be a model of development where not only the optimal balance between the needs of society and limited resources will be found, but also the ways to maximize the emotional welfare of mankind will be proposed.

The conducted researches make it possible to assert that nowadays Ukraine is facing challenges that are connected with the formation of the new conceptual approaches to the development of the economy which is based on the principles of the welfare of society.

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