

ARTICLE

THEORETICAL FOUNDATIONS FOR THE FORMATION AND DEVELOPMENT OF THE ECONOMIC THEORY OF WELFARE

Alina R. Battalova*, Oksana A. Ignatjeva

Dept. of Economics and Finance, Institute of Management, Kazan Federal University, Kazan, RUSSIA

ABSTRACT

At each stage of its development, society faces the problem of inconsistency in the distribution of a limited number of resources and the existing system of their production. At the end of the twentieth century, the problem of the limited nature of natural resources became acute as never before. The development of an individual as a person has determined the presence of such his needs as, for example, environmental safety. There is a rethinking of the foundations of economic growth and, as a result, the goals of the development of society. In modern conditions, a special role is played by the fact that the main feature of the development of society is its social orientation, the improvement of the quality of life and, in this regard, the importance of the development of economic theory of welfare of the individual and society increases. The economic theory of welfare distinguishes three directions, characterized by a diversity of views on understanding the essence of welfare, the sources and conditions for its growth, and the role of the state in these processes: socialist, liberal, and the "welfare state" theory. The paradigm of welfare is one of the most multilevel and not concretized categories in the economic theory. In the domestic literature, the terms ("standard of living", "cost of living", "quality of life"), used to characterize the living conditions and the satisfaction degree of a person himself, the person's opportunities for development and active life, were widely used. The term "welfare level" in the most general sense reflects the living standard of the population of the country, while the concepts of "standard of living" and "quality of life" reflect its quantitative and qualitative characteristics.

INTRODUCTION

If we talk about a human, then he is a constantly consuming creature, therefore during his life he sets a goal - to increase consumption volumes in order to more fully satisfy his vital needs. To achieve this goal, he needs an economic growth. When the economic growth is achieved, the consumption structure changes. At the same time, there is a process of accumulation of consumer goods, which determines the appearance of wealth, is an indicator of the welfare of society and the individual.

The domestic scientific literature reflects the concepts included in the welfare system: life support conditions; quality and way of life; standard of living and system of its indicators, interdependence between production, consumption, needs; identification of regularities in the formation and development of the social needs; forecasting and planning of living standards; indicator analysis methods; theoretical and statistical patterns in the dynamics of the income level and structure; territorial and social differentiation, etc. [1].

The very welfare of a person basically depends on how well and qualitatively he feels in the circumstances. Here we have in mind the necessary level of satisfaction of the needs of the individual, even such needs as self-consciousness and self-realization. At the same time, the level of satisfaction of the highest needs depends in the literal sense on how fully the lower needs in food, shelter and security will be met. However, this would not be possible, if the elements of the economic system are unbalanced.

It is believed that the formation of a new economic system, which has been based on the principle of rationality, has contributed to the beginning of economic reforms in Russia. [2]

METHODS

The theory of welfare has emerged as a kind of subsector of the neoclassical direction. The basis for its appearance was the papers of A. Smith, D. Ricardo, A. Marshall, L. Walras, V. Pareto and others, devoted to the problems of the value of goods, wealth formation, its distribution and conditions for the emergence of market equilibrium. [9,10]

The terms "standard of living" and "welfare" are often used as synonyms for each other or ignore (deny) the value of one of them as an indicator of the standard of living of the population. This can be explained to some extent by the difference in existing approaches to the welfare category at macro and micro levels.

The scientific interpretations, found in the literature of the end of the Soviet period, proceed from the microeconomic concept of welfare. For example, V.F. Mayer represents the categories of "welfare" and "standard of living" as an opportunity for the population to obtain the material and spiritual goods that they need, the volumes of their consumption and the satisfaction level of the people's needs in such goods. When studying the economic literature, one comes across a variety of interpretations of the concepts of "standard of living" and "welfare":

- a safety measure of people who are provided with the material and spiritual goods;
- achievement of a certain level of development of the physical, material and intellectual needs of a human;

Received: 05 Oct 2018
Accepted: 19 Dec 2018
Published: 8 Jan 2019

*Corresponding Author

Email:
alina.sr@mail.ru,
din789@mail.ru

-the degree of achievement of physical, spiritual and social needs, the quality and level of their satisfaction, as well as the social environment for the development and satisfaction of all these needs. [3]

We also find in the literature the concept of "standard of living", included in the modern economic dictionary: "The standard of living of the population is the welfare level of the population, consumption of goods and services, a set of conditions and indicators that characterize the measure of satisfaction of the basic vital needs of people" [4]. In other words, the standard of living is the degree of development and satisfaction of the person's needs living in the society.

The above terms have an equal feature, that is, their authors identify the concept of "standard of living" with the development and satisfaction of the people's needs. However, some authors allow some deviations. For example, V.F. Mayer says that the concept of "standard of living" characterizes only the individual needs of people, so it is necessary to identify the indicators that characterize the standard of living itself and the factors changing it" [3,5].

So, we have found out that the standard of living expresses the level of development and satisfaction of the person's needs living in a civilized society. In accordance with Article 25 of ILO Convention No. 117 "On the Main Goals and Norms of Social Policy", a person has the right to a standard of living that provides the individual with food, clothing, housing, medical care and social services, all this is necessary for life and health, welfare of a person and the members of his family, including the right to security in the event of unemployment, disability or any other loss of livelihood for reasons beyond his control.

N.M. Rimashevskaya gives her description of the concepts of "social welfare" and "standard of living." She represents the standard of living as a set of conditions and possibilities for the functioning of a person in the consumption field. These conditions, in her opinion, are implemented on the scale of people's needs and the quality of their satisfaction; at the same time, the main feature is those people's needs that are implemented in the consumption field. At the same time, she represents welfare as a field of people's life, associated with the satisfaction of their material and spiritual needs on the basis of social production [6].

The author's interpretation of the categories "welfare" and "standard of living" is offered in the scientific papers of by Baranov L.Ya. and Levin A.I. In their view, the welfare of the population depends on the provision of the population with the necessary goods and services that serve material and spiritual needs, as well as is characterized by the level of development of goods and their use by individuals and society. In turn, the standard of living is interpreted by them as a socioeconomic category, reflecting the living conditions of people, as well as labor and life that have been achieved in this society. [7]

Analyzing these interpretations, we come to the conclusion that the authors consider these concepts as related, characterizing the different states of development of society from different points of view. However, these categories are not synonymous.

The essence of the terms "welfare" and "standard of living" is embodied in many modern domestic economists in the welfare perception as a kind of abstract category, which is a formal habitat for an individual or a group of individuals. Here the welfare criterion will be the standard of living, and the role of the main indicators will be given to the incomes received by the population, and as a consequence, the degree of providing the population with vital goods and the level of satisfaction of people's needs in such goods; the proportion between consumption and saving of the population; the individual and general utility received by the subjects as a result of the production and consumption process; and the welfare achievement by the individuals.

In the Soviet science, the concept of a "way of life" as a vital activity of people, which is a unity with the conditions that determine it, is firmly established. Analysis of the content of the "way of life" concept implies the establishment of its connection with such widely used terms as "standard of living", "quality of life" and "way of life". In the scientific literature these terms have different meanings. They are used both as synonyms, and as the incompatible concepts in one system. At the same time, the standard of living is seen as one of the sides (sections) of a more general concept of a way of life. This definition takes into account the fact that the way of life is formed under the influence of certain socio-economic, political and cultural conditions determined by a particular social order and personal features of the individual [8].

RESULTS AND DISCUSSION

The lack of quantitative assessments of living conditions led to interest in such a category as "quality of life". In general, the "quality of life" can be defined as a set of estimates that should be used to reveal the depth of satisfaction of material and spiritual needs that cannot be directly identified in the structure of the standard of living. This includes assessing the content of work and leisure, the quality of food, clothing, home comfort, the quality of medical care, education, services, the environment.

Also, the "welfare" category was studied in the paper of another prominent English economist, representative of the Cambridge School A. Pigou (1877-1959), whose book "The Economic Theory of Welfare" was published in 1924. The purpose of his research was to develop a practical welfare tool based

on the neoclassical theory: theory of diminishing marginal utility, subject-psychological approach to the valuation of goods and the principle of utilitarianism. We can rightfully say that Pigou completed the creation of a neoclassical theory of welfare. [9]

Pride of place goes to the concept of a national dividend or a national income, considered a pure product of the society, as a lot of material goods and services bought for money. And Pigou considers this indicator not only as the measure of production efficiency, but also as an indicator of social welfare. As we see, Pigou's approach to the problem of welfare presupposes a view from the whole society, and not from the individual. But, this approach is especially interesting applied with the use of such concepts as the individual function of satisfying needs, private profit from production, etc.

The main Pigou's argument in this matter is as follows. He recognizes that the individual's welfare reflects a sense of satisfaction with life, the satiation of his needs. And if a person has the right to decide how to spend money from his budget, then his willingness to pay a certain amount for this reward reflects the degree of his desire. That is why Pigou defines national income as everything that is bought for money. And then the creation of a product or service, if more money is offered for it than is spent for its creation, is an increase in the national income. Within the framework of these arguments, production growth, of course, means an increase in welfare [9].

As part of his concept, Pigou drew attention to the fact that the concept of individual welfare is broader than its purely economic aspects. In addition to the maximum utility of consumption, he also includes such components as the nature of work, environmental conditions, relationships with others, social situation, housing conditions, public order and security. A person can feel himself satisfied in each of these aspects. To date, these features are combined in such a category as "quality of life". However, the definition of the quality of life faces significant difficulties associated with the inability to measure utility. Pigou repeatedly emphasizes that the size of the national dividend does not accurately reflect the level of general welfare, since many elements of the quality of life that do not have a monetary estimate are, nevertheless, real welfare factors. Thus, there may be the situations of growth in the level of general welfare with an unchanged level of economic welfare. Nevertheless, in general, Pigou concludes that "...qualitative conclusions about the impact of economic factors on the economic welfare are also valid with respect to the total welfare".

But Pigou's general welfare level is affected not only by the size of the national dividend, but also by the principles of its distribution. Based on the law of diminishing marginal utility, he puts forward the thesis that the transfer of the income portion from the rich to the poor increases the sum of total welfare [9].

The state influencing its macroeconomic policy, on the employment level of resources and national income, thereby determines the level of welfare. In a sense, Keynesianism returned to the analysis of welfare from a public point of view, which was inherent in A. Smith. This raised the problem of correlation between the individual and social welfare, which was developed by prominent Western economists. [10].

As a result, the economic theory of welfare gradually turned into a theory of public choice, within the framework of which a positive analysis of how different public preferences have been formed and implemented was formed and implemented. This section of economic science is closely connected with the study of political process: theory of the state, voting rules, behavior of voters [11].

In our time, one of the most prominent representatives of the welfare economy is the 1998 Nobel Prize winner A. Sung. His contribution to this field of research is related to the linkage of welfare problems with ethical principles. From his point of view, the further development of the theory of welfare is more rich, in comparison with utilitarianism (utilitarianism is the direction in ethics (ethical theory), according to which the moral value of behavior or action is determined by its usefulness). [12]

CONCLUSION

Thus, we conclude that there is a need for such a welfare level that everyone can have sufficient income for their life support. Incomes play a big role in human life and are necessary to meet different needs. The income sources are different for different social groups, and, consequently, the welfare of these groups is not the same. In order to achieve an acceptable standard of living for citizens, in our opinion, the following measures are necessary:

1. Annual increase in the income of the population, taking into account the growth of their productivity. Higher incomes allow people choosing more full-fledged conditions for leisure, work, acquaintance with culture and art;
2. Providing the population with comfortable and qualitatively new information living conditions, leading to the possibility of obtaining a better education, which will lead to an increase in the social literacy;
3. Development and modernization of health care, which leads to an increase in life expectancy, which is possible only through the use of innovative technologies in medicine [13].

Summarizing the results of our study, we believe that an increase in the welfare of the population includes, first of all, an increase in the standard of living of citizens [14], since it covers almost all fields of people's livelihoods. This element has a huge number of dependent and interrelated factors that lead to an increase not only in the level of citizens' welfare, but also in the expansion of available opportunities in the state.

CONFLICT OF INTEREST

There is no conflict of interest.

ACKNOWLEDGEMENTS

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

FINANCIAL DISCLOSURE

None

REFERENCES

- [1] Battalova AR, Abdulin IA. [2014] Socioeconomic processes in the CIS countries, *Mediterranean Journal of Social Sciences*. 5(24):331-335.
- [2] Battalova AR, Kundakchyan RM. [2015] The problem of food security in Russia *Mediterranean Journal of Social Sciences*. 6(3):773-776.
- [3] Marier, Patrik, and Jean F. Mayer (2007). "Welfare retrenchment as social justice: pension reform in Mexico". *Journal of Social Policy*. 36 (4): 585–604.
- [4] Bulnina IS, Askhatova LI, Kabasheva IA, Rudaleva IA. [2015] Public and private partnership as a mechanism of government and business cooperation, *Mediterranean Journal of Social Sciences*. 6(1S3):453-455.
- [5] Kabasheva IA, Rudaleva IA, Bulnina IS, Askhatova LI. [2015] Organizational factors affecting employee innovative behavior, *Mediterranean Journal of Social Sciences*. 6(1S3):435-439.
- [6] Bulnina IS, Askhatova LI, Kabasheva IA, Rudaleva IA. [2015] Public and private partnership as a mechanism of government and business cooperation, *Mediterranean Journal of Social Sciences*. 6(1S3):453-455
- [7] Hoffman, P. T., Jacks, D. S., Levin, P. A., & Lindert, P. H. (2002). Real inequality in Europe since 1500. *The Journal of Economic History*, 62(2), 322–355.
- [8] Hanushek EA. [2000] Schooling, Labor Force Quality, and the Growth of Nations, EA Hanushek, D Kimko. *American Economic Review*. 90:1184-1208.
- [9] Pigou A. [1985] The economic theory of welfare. In 2 vols. - M.: Publishing house «Progress».
- [10] Gotsulyak IFA, Ignatjeva OA. [2015] Features of financing the Public Goods Production, Gotsulyak IF, Ignatjeva OA. *Asian Social Science*. 11(11):177-182.
- [11] Ignateva OA, Abdullin II. [2015] Problem of the informative making vagueness of economic environment as feature of national market *Procedia*.
- [12] Kim, Dong Sung. [1996] "Social Welfare Policy in the East Asian and Latin American NICs: A Comparative Study of Social Welfare Variations." PhD diss. Department of Government and Politics, Graduate School of the University of Maryland at College Park. Kim, Dong-Won (eds.). 2010.
- [13] Economics and Finance, 24:345-349. *International Conference on Applied Economics (ICOAE)*, 2-4 July 2015, Kazan, Russia.
- [14] Kendall M. [1970] Rank Correlation Methods. Charles Griffin & Co., London.