SOCIAL POLICY

ASHOT MARKOSYAN
Senior Expert at "Amberd" Research Center at Armenian State University of Economics, Doctor of Economics
🆔 *https://orcid.org/0000-0002-5077-4253*

MERUZHAN MARKOSYAN
Economic Expert at "Political, legal and Economic Research and Forecasting" NGO, PhD in Economics
🆔 *https://orcid.org/0000-0003-3608-0375*

"It is manifest that the best political community is formed by citizens of the middle class, and that those states are likely to be well-administered, in which the middle class is large."
Aristotle, 306 BC

SOME ISSUES OF MIDDLE-CLASS FORMATION IN THE REPUBLIC OF ARMENIA

A stable and fair society is formed and established based on the principle of fair distribution of incomes and expenses of the population, the implementation of which is the core and main direction of social policy. Although any society can be conventionally divided into "poor", "middle" and "rich" groups, for the establishment of a just state, it is important to distribute income and expenses among the mentioned groups in such a way that the minimum share of the "poor" group is ensured, as well as the formation of the middle group at the most and the creation of a "rich" group whose incomes only marginally exceed the incomes or consumption levels of the "poor" group. Social policy is considered successful if the middle class prevails among the three groups mentioned above. Accordingly, the establishment of the middle class is not only of political, social, and economic importance, but it is also the "cement" that completes and unites the progress of the society and the state.

The purpose of the article is to identify the problems of the formation of the middle class in the Republic of Armenia and to point out the main ways of its establishment. To achieve that goal, the following issues were put forward by:
- *investigating the identification of population income and consumption expenditure patterns by quintile groups and disparities,*
- *emphasizing the social significance of poverty reduction, by limiting the incomes of the rich classes of the population, based on the consideration that the effect of these restrictions should be directed to increase the incomes and consumption of the middle class.*

INTRODUCTION. Based on the results of the authors' analysis, during the last years of the Third Republic of Armenia, a significant part of the population's monetary income belongs to the "rich" group, while the rate of the growth of the "middle" class is still slow, and its share does not reach one third of the whole population. The formation and establishment of the middle class of the population is not only a political but also a socio-economic, cultural, moral, and psychological prerequisite for having a fair and free society and state. The multitude of such individuals and citizens best expresses the sentiments of the majority of the society and national interests. The middle class can balance both individual groups of the population, as well as the unification of the entire society and the formation of national ideology. Therefore, in the current conditions of socio-economic development, it is important to increase the share of the middle class in the Armenian society strengthening its dominant position. In this case, the authors emphasize the wide application of the tools of economic policy and economics.

LITERATURE REVIEW. The middle and rich classes currently make up more than half of the world's population, more than 3.8 billion people, which is the majority of the population. This is the conclusion of the report of the World Data Lab, which covers 97% of the world's population and is published on the blog of the Brookings Institute.

Hamel and Kharas of the World Data Lab define the middle class as those who spend between $11 and $110 per day (in 2011 purchasing power parity). Extreme poverty includes those who spend less than $1.90 a day, while those in between the two categories are considered vulnerable, and those above the $110 threshold are considered "rich". It is predicted that the middle class will reach 4

billion people in 2020 and 5.3 billion people in 2030. According to forecasts, the markets formed by means of the middle class in China and India will reach the size of the market formed by the middle class in the United States.

It is also noticeable that both in the whole world and in individual regions, the growth of the middle class is unprecedented. This phenomenon doesn't exist only in a limited number of countries where the middle class has decreased. Statistically, what happens in China and India, the world's most populous countries, has great significance, as does Asia as a whole, where 9 out of 10 of the next 1 billion middle-class consumers will be formed.

The second problem is that the emergence of the middle classes in developing countries may clash with some interests of the middle classes in developed countries, who do not want to be worse off, as happened during the recent crisis and its uneven recovery and consequences. Such a clash of interests reinforces populist arguments fueled by the discontent of the middle and lower classes, which have fallen on harder times. To prevent such a confrontation, it is necessary to develop appropriate policies, which is a new challenge if globalization, in "reformed clothes", is to continue and generate fairly distributed wealth, which "born" the global middle class is indeed a welcome revolution (Ortega, 2018).

The middle class is already the largest spending group in the world, contributing to increased consumption of goods and services.

And how are the standards of the average middle class defined? Although there are different definitions of the middle class, most define this group as those who earn between $10 and $100 per day.

According to the program compiled by Brookings, the global middle class is divided into the lower middle class ($11-50 per day according to the 2011 purchasing power index) and the upper middle class ($51-110 per day according to the 2011 purchasing power index).

In general, middle-class families also tend to own a home with a mortgage, own a car, and save enough to be able to take vacations and relax.

Table 1

Classification of the middle class of the world population by consumer groups

Consumer group	Population (2020)	Population (2030 forecast)
People with above-average income	0.6 billion	1.0 billion
People with lower-than-average income	2.9 billion	3.8 billion
Rest of the World	4.2 billion	3.6 billion
World	7.7 billion	8.4 billion

Source: Omri Wallach, (2022).

Since 2003, when the number of poor and vulnerable people in the world reached an all-time high of 4.4 billion people, the middle class has been growing rapidly, especially in Asia.

By 2030, another 700 million people are expected to join the global middle class, representing more than half of the world's population.

It is also interesting to study what the middle class spends.

Over the past few decades, the middle class has become one of the main forces supporting the global economy.

In 2020, the global middle class spent $44 trillion, accounting for 68% of global spending. In 2030, middle-class families will spend more, an estimated $62 trillion, or 50% more than in 2020.

The upper middle class and affluent elite will lead the way in consumption, but the biggest total spender will be 3.8 billion people in the lower middle class.

Table 2

Classification of individual groups of the world's population according to consumer spending, in trillion US dollars

Consumer group	Total Costs (2020)	Total costs (2030 forecast)
Above-average income earners	18	27
Lower-than-average income earners	26	35
Upper Middle Income + Poor / Vulnerable	20	29
General	**64**	**91**

Source: Omri Wallach, (2022).

Although many will fall into the lower-middle income group, the number of people in the poor and vulnerable segment will remain large. But in the whole world, it will be only 5 trillion dollars or about 6 percent of the population. History proves that along with the development of science and innovations, the population of the world becomes richer.

Although it will take some time to overcome inequality between countries, middle-income countries are increasingly catching up with high-income countries, and as a result, the number of middle-class families in the total population is increasing (Wallach, 2022).

Nigmatulin, a Russian academician, a member of the Russian Academy defines the middle class as a group of people who can pay 30% of their income within 20 years by acquiring 25 square meters of apartment per family member. According to him, the middle class in Russia is 20% of the population, 75% are poor, and 5% are rich (Nigmatulin, 2022).

Published nearly a decade ago (2013), Nobel Laureate Joseph Stiglitz's book "The Price of Inequality" revealed the actual and potential consequences of stark wealth inequality and income distribution across America.

Just 1 percent of Americans, he wrote, controlled about 40 percent of all that country's wealth, and his central argument was that it didn't have to be that way. A minority of state socio-economic policies served the interests of that group, resulting in the United States becoming one of the most unequally developed industrialized countries in the world, endangering not only the US economy but also its democracy and entire justice system (Cox, 2023).

China is the home of the world's middle class, as the PRC's middle-class policy is considered the world's best practice, resulting in poverty at 0.1% of the population and the middle class ranging from 70-80%. As a result of the country's rapid economic transformations, a middle class was formed, which became the main driving force of its socio-economic development. The growth of China's middle class not only represents a positive societal shift, but also has profound implications for the country's domestic consumption patterns, social structure, and global economic relations. Suffice it to say that the middle-class or middle income groups in China have been defined in different ways over the years. The most common definition currently seen in China is the framework set by the National Bureau of Statistics (NBS), which defines the "middle-income group" as a typical three-person household earning between 100,000 and 500,000 RMB, Chinese Yuan (from about USD 14,844 to USD 74,221 in 2022) (Huld, Interesse 2023).

The rise in capital income predictably coincides with the emergence of a new class structure in China. According to the Chinese Middle-Class Study, the middle class was divided into three groups: the capitalist class (entrepreneurs), the "new" middle class (managers and professionals in both the public and private sectors), and the "old" middle class (small owners). Although the capitalist class in China is the smallest of the three middle classes, its numbers have grown the fastest. In the 1980s, the percentage of capitalists in the urban population was close to zero; in 2005, the percentage was 1.6. Smallholders, whose main income also comes from capital, have similarly grown from a virtual existence in the early 1980s to around one-tenth of the urban population by 2005. In China, the capitalist-entrepreneurial classes have expanded, along with a new middle class of professionals (about 20 percent of the urban population) who, thanks to their savings, are also likely to receive some income from property (Milanovic, 2019).

RESEARCH METHODOLOGY. The household income (expenditure) survey is one of the main areas of socio-economic development of every country, which studies the living standard of the population.

The comprehensive survey of the living conditions of households is one of the most important types of data collection activities by the Statistical Committee of Armenia (ARMSTAT). Through such surveys, quite a wealth of information is collected on the living standards of households and individuals, which enables ARMSTAT to provide the public with up-to-date information on

changes in the poverty level in the country on an annual basis. The comprehensive survey of the living conditions of households was first conducted in Armenia in 1996, then in 1998/99, and since 2001 it has been conducted annually. Surveys were conducted with a monthly rotation of households and settlements. The results of the survey are mainly used to estimate the consumption-based poverty level in the country.

A household is one person or group of people who share a common budget and place of residence. Moreover, friendly ties are not considered mandatory.

Household consumption expenditure includes both monetary and non-monetary expenditures on food, non-food goods and services.

The coefficient of income concentration (Gini index) is the deviation of the actual volume of income distribution of the population from the line of their equal distribution. In the case of equal distribution it is equal to zero, in the conditions of absolute inequality it is equal to one.

The consumption aggregate is used to assess the level of well-being in Armenia. It is assumed that consumption information is better captured in the survey and that consumption is less sensitive to short-term fluctuations than income, especially in countries with economies in transition.

The aggregated consumption index is calculated based on a comprehensive survey of household living conditions and includes the following components - the cost of consumed food and non-food products, and the estimated cost of durable goods.

Consumption is estimated per adult (the RA SC, 2023).

According to the methodology of the Statistical Committee of Armenia, the assessment of the living conditions of households is based on expenditure indicators, as more reliable indicators compared to income data, as the latter are often hidden or under-reported by the respondents.

To study the inequality of the distribution of households according to the level of material well-being, the grouping method is mainly used, according to which households are divided into decile groups (deciles) according to the increasing order of the values of the observed indicator. The observed combination (for example, monetary income per capita or consumer spending) is sorted sequentially, in ascending order, and then divided into ten equal groups.

Some authors focus on solving the problem of research and disclosure on the gross income of the population facing some problems of dealing with data. They propose an innovative method for modeling Lorenz curves and estimating income inequality indices for small population groups when quintiles are available. When dealing with small population areas and due to privacy constraints, individual income data are often not available and only small amount of information is reported. Such a method relies on the conditional expectation to identify different income shares and thus model the Lorenz curve with functional forms already proposed in the literature. Inequality indexes

(Gini, Pietra, Theil indexes) can be obtained from this Lorenz curve. A simulation study is performed to evaluate this method and compare it with other methods used. An example based on real Parisian data is presented to illustrate the method (Enora, 2019).

ANALYSIS. It is difficult to get an idea about the results of the completeness of the implemented policy and its effectiveness concerning the distribution of monetary incomes of the population of Armenia, as well as consumer expenses according to decile groups, although it presents important and detailed data on the formed phenomena. In particular, based on these data, it is also difficult to answer the question of how the incomes and consumption expenses of the population have changed between the poor, middle, and rich groups of the population. Such questioning should be put forward for several reasons. First, regarding the distribution of income and wealth, especially in the consciousness of the population and by the general strata, there exists another "classification" of both income and consumer spending, according to which the population is divided into poor, middle, and rich classes (or groups). Secondly, we believe that the grouping of the population in this way is more targeted in the sense that the distribution proportions of the population's incomes and consumption expenses are more aggregated, which characterizes the distribution relations more clearly and objectively. Thirdly, the classification in this way characterizes the distribution of income and consumption expenses, especially pointing out how the implemented social policy contributes to the formation and establishment of the middle class. This criterion is the best indicator of the gaps in the implemented policy and the possibilities of their correction. In addition, the methodology proposed by the authors does not require the need for additional research and studies, as it is based on the decile and quintile distribution of the population's incomes and consumer expenses.

According to the methodology proposed in this research, it is recommended to group the data of the Statistical Committee of the Republic of Armenia regarding decile groups of population income as follows: to include in the poor population group I, II, and III as well as 1/3 of the "marginal" group of decile IV, in the middle-class group to include 2/3 of decile IV, deciles V and VI and 2/3 of "marginal" decile VII and in the rich population group to include 1/3 of VII decile and VIII, IX and X deciles.

With such a distribution of monetary incomes, we will have the following picture (Table 3).

From the data in Table 3, it follows that the income share of the poor group of the population increased from 4.4% in 1996 to 13.6% in 2022, increasing almost 3 times. Although the growth was about 3 times during the mentioned period, this group of the population remained poor.

Distribution of monetary income of the population of the Republic of Armenia according to 3 groups, 1996-2021, % (RA SC, SYA, 2002, 2006, 2007, 2013, 2017, 2022, 2023)[1]

Population groups	Per capita monetary income of the population													
	1996	1999	2001	2005	2006	2010	2015	2017	2018	2019	2020	2021	2022	1996-2022 Average
Poor	4.4	4.9	8.5	12.5	10.5	11.5	10.5	10.5	11	12	11.5	12.9	13.6	10.3
Middle	22.7	23.5	26.5	35	33	31	32.5	32.5	34	34	33	27,3	27.9	30.2
Rich	72.9	71.6	65	52.5	56.5	57.5	57	57	55	54	55.5	59.8	58.5	59.4
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

From the data in Table 3, it follows that the income share of the middle group of the population increased from 22.7% in 1996 to 35% in 2005, and during the following years, a noticeable decrease in the incomes of this group of the population was observed, reaching 27.9% in 2022.

From the data of the same table, it follows that the share of the rich group of the population according to income has increased from 72.8% in 1996 to 58.5% in 2022.

From the above-mentioned, it can be concluded that although there has been a change in the proportion of income distribution during the mentioned period, the incomes of the rich group of the population continue to be dominant compared to those of other groups of the population.

The data in Table 3 show that the income of the poor and middle classes have only one source of increase, their source of income is the redistribution of the monetary income of the rich. Thus, from 1996-2022 the monetary incomes of the rich decreased by 14.4 percentage points, of which 9.2 percentage points increased for the group of the poor (the monetary incomes of this group increased and instead of 4.4% in 1996 they amounted to 13.6% in 2022), and 4.6% of the monetary incomes of the rich percentage points were added to the monetary income of the middle class, due to which the share of this group in 1996 instead of 22.7% in 2022 was 27.9%. The data in the table also show that the rich have greater difficulty in parting with their monetary income. Thus, if in 1999-2005 the monetary incomes of the rich decreased by 19.1 percentage points (resulting in the increase of monetary incomes of the poor and middle classes), then in 2005-2022, on the contrary, the monetary income of the rich increased by 9.3 percentage points (as a result, the share of the poor group increased by 8.1 percentage points, from 4.4% in 1996 to 12.5% in 2005, moreover, the share of the poor group increased by 8.1 percentage points and reached 13.6% in 2022, and the monetary income of the middle class increased from 35.0% in 2005 to 27.9% in 2022, decreasing by 7.1 percentage points. In other words, as a result of the decrease in monetary incomes of the middle class

---

[1] These and the following tables were compiled and calculated by the authors based on the data from the Statistical Yearbooks of Armenia, the RA SC.

by 7.1 percentage points, the monetary incomes of the rich increased by 6 percentage points and by 1.1 percentage points of the poor. The fact that the monetary incomes of the poor have increased can be considered a justified step on the way to building a more equal society, but it is not fair when this increase is made at the expense of reducing the monetary incomes of the middle class, not the rich. Moreover, the monetary income of the rich in 2005-2022 increased at the expense of the middle class.

As it is well known, those societies and countries where the majority of the population is in the middle class are stable. Statistical data show that the middle class among us in 2005 received 35.0% of revenues, but in the following years, a decrease in the indicators of that group was observed, which in 2022 reached 27.9%, while in the civilized world, this indicator is 2-3 times higher. No matter how strange it may sound, a country of the rich has been created against the background of the poverty of the republic, bearing in mind that most of the income (about 59.4% on average in 1996-2022) goes to a small part of the population, and more, 2005-2022 middle-class incomes have declined rather than increased. That trend changed from 2005 to 2017, when the monetary income of the rich increased by 1 percentage point, from 52.5% in 2005 to 57% in 2017, and the poor and middle-class incomes during that period decreased. There is also a significant income gap between the three mentioned groups, in 1996-2005 the incomes of the middle class exceeded the incomes of the poor class by 3.5 times, then the incomes of the rich exceeded those of the middle class by 2.4 times, and the incomes of the rich group exceeded the incomes of the poor group by more than 8.6 times. Those indicators in 2005-2022 were 2.1, 2.1, and 4.3 times, respectively.

After dividing the society into three groups, including 3 decile groups in each of them, and showing the same methodological approaches during their formation, in the case of certain monetary incomes and finding out the level of consumer expenses made by the "middle" class (neither official statistics and nor individual researchers have presented such analyses and classifications), we have compiled Table 4.

From the data in Table 4, it follows that changes in the level of consumer spending of the poor and middle classes are directly caused by the consumption spending of the "rich". Thus, from 1996 to 2005 the consumption expenses made by the rich decreased by 6.8 percentage points, of which 3.4 percentage points were increased by the group of the poor (the consumption expenses of this group increased and instead of 11.5% in 1996 they were 14.9% in 2005), and 3.4% of the expenses of the rich percentage point was added to the consumption expenses of the middle class, due to which the share of this group in 1996 instead of 23.3% in 2005 was 26.7%. Those numbers from 2005-2022 were 1.3, 2, and -3.3, respectively.

The distribution of consumer expenses made by the population of the Republic of Armenia according to the 3 groups, 1996-2021, %

Population groups	Consumption expenditure per capita of the population												
	1996	*1999*	*2001*	*2005*	*2010*	*2015*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*1996-2022 Average*
Poor	11.5	14.0	17.6	14.9	15.9	15.3	14.9	15.6	15.1	15.8	15.6	16.2	15.2
Middle	23.3	25.7	28.7	26.7	27.4	27.0	25.8	26.0	27.8	27.5	27.5	28.7	26.8
Rich	65.2	60.3	53.7	58.4	56.8	57.8	59.2	58.4	57.1	56.7	56.9	55.1	58.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

The structure of consumer spending by different classes of the population proves once again that it was greatly difficult to form a middle class in Armenia (until 2021) because in 2022 the share of the middle class did not decrease but increased by 1.2 percentage points. In 2022 and 2021 in comparison, the share of the poor increased by 0.6 percentage points, while the share of the rich decreased by 1.8 percentage points. Let us also note that starting from 2001-2021, the share of the middle class in the consumption expenses of the population of Armenia decreased and only in 2022 equaled the size of 2001, instead, the share of the rich increased during the period of 2001 and 2021 (from 53.7% in 2001 to 56.9% in 2021). If we want to have a middle class, its share in consumer spending should be increased from the current 28.7% to 60-70%, which is the material guarantee of a stable society. From what has been stated, it can also be concluded that the majority of consumer expenses (about 58.0% according to the average data of 1996-2022), although in 2021 this amount was 56.9%, in 2022 it was 55.1%, it follows that the bulk of consumer expenses was concentrated in the hands of a small number of people, while the shares of the poor and middle classes, which make up the majority of the society, still lags significantly behind the level of consumer spending by the rich. In addition, there is also a significant "gap" in consumer spending levels between the three groups of the population of Armenia.

To calculate the monetary income of the population, the following approach is used. When dividing the population into three groups, in the first group we include the value of the I quintile and add to it 2/3 of the value of the II quintile, in the 2nd group we include 1/3 of the II quintile and add the value of the III quintile and 1/3 of the value of the IV quintile, in the third group - 2/3 of the value of the IV quintile and the V quintile.

Tables 5 and 6 present the distribution of the monetary income of the Armenian population according to quintiles and according to 3 groups from 1996-2022.

It follows from the data in Table 5 that in 1996-2002 monetary incomes of both "poor" and "middle" groups increased significantly, as a result of which the share of the "rich" group decreased (from 76.1% in 1996 to 52.4% in 2002). In 2002-2022 these trends for the poor and middle classes decreased, and on the

contrary for the rich classes, as a result of which the share of the "poor" group decreased by 4.4 percentage points, the share of the "middle" group by 1.6 percentage points, and the share of the rich increased by 6.0 percentage points.

Table 5

Distribution of the monetary income of the RA population according to quintiles and according to the 3 groups in 1996-2010, %

Population groups	1996	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1996-2010 Average
Poor	5.4	5.9	10.0	18.4	12.4	15.0	14.7	16.0	15.7	16.4	15.7	12.4	5.4
Middle	18.5	19.3	21.6	29.2	25.9	27.2	28.9	27.2	29.2	29.5	30.5	27.2	18.5
Rich	76.1	74.8	68.4	52.4	61.7	57.7	56.4	56.7	55.1	54.1	53.8	60.4	76.1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Table 6

Distribution of the monetary income of the RA population according to quintiles and according to the 3 groups in 2010-2021, % (Table 5 continued)

Population groups	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2011-2022 Average
Poor	16.4	15.7	16.4	15.7	13.4	11.7	12.4	12.4	13.0	14.0	13.4	14.0	14.0
Middle	30.5	28.9	30.2	28.9	25.6	26.9	26.9	26.9	27.9	28.2	27.2	27.6	28.0
Rich	53.1	55.4	53.4	55.4	61.1	61.4	60.7	60.7	59.1	57.7	59.4	58.4	58.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

By and large, there will always be poor people, and in that sense, the absolute eradication of poverty becomes a pointless measure, because at any time the most materially disadvantaged will always feel poor, so the use of the phrase "poverty abolition" is very relative in its nature. Thus, a resident of one of the regions is considered to have a normal, even enviable standard of living, say, a one or two-room apartment in a block of flats or, suppose, one of the models of "Mercedes" car, while in Yerevan, this is not a reflection of a high standard of living. In other words, material values in the world are strictly relative quantities.

Based on the results of the research and analysis described above, the diagram shows the proposed model of increasing the incomes (expenditures) of the middle class of the population.
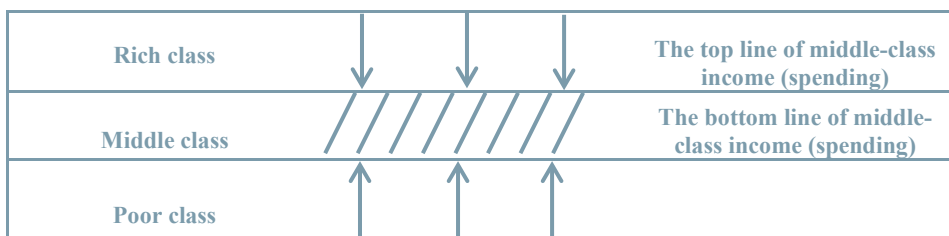

Chart 1. *The model of increasing the incomes (expenditures) of the middle class of the population principles of the formation of the policy of the incomes (expenditures) of the middle class of the population*

1. According to the given model it is necessary to replace the currently widely used poverty line with the lower and upper lines of monetary income (expenditures) of the middle class of the population and, thus, based on their change, build and implement the population's income (expenditure distribution policy).

2. The reduction of population poverty and setting such targets in this area are not effective, because it is one-sided in the sense that the increase of the middle class of the population is expected to be achieved through the enrichment of the poor class or the increase of income (expenditure), while it is more appropriate and effective to increase the middle class by increasing the income (expenditure) of the rich class. The implementation of such a policy will possibly make it difficult to remain poor, because such implemented social policy does not contribute to the reduction of poverty and due to the measures applied in this field, to accelerate the transition of the poor to the middle class (through the transition from the lower line of income (expenditures) of the middle class) and, second average by moving from the top line of the rich class incomes (expenditures) to the middle class. Such a socio-economic policy will facilitate and speed up the increase of the incomes (expenditures) of the poor population of the society and the increase of the middle class at the expense of it, and on the other hand, by restraining the incomes of the rich (class) and at the expense of it, the increase of the incomes (expenditures) of the middle class. Thus, it will become difficult to remain poor (by increasing the middle class) and to remain or become rich, by increasing the rich, by moving them into the middle class.

3. It is important to note that the proportion of the extreme poverty of the population of Armenia should be reduced (those whose consumption per adult person is below the "food" (or extreme) poverty line are considered extremely poor). That indicator in 2019-2021, remained almost unchanged, making up 1.4%, 0.7%, and 1.5%, respectively, and poor (poor are those whose consumption per adult person was below the average poverty line, which is the lower and upper poverty line is the average of the lines) the share of the population is 26.4%, 27.0% and 26.5%, respectively (the poverty index of the rural population is especially significant: 33.2%, 33.6% and 33.0%, respectively).

4. It follows from the above-mentioned that the main tools through which such a policy is expected to be implemented are mainly two: the increase of the minimum wage (which is a subject of separate discussion) and the second is the taxation of the income of the current population. In other words, instead of a "flat" income tax rate (20%), it is proposed to use a two-rate scale. That scale should be based on the incomes (expenditures) of the middle class of the population. In other words, the new distribution of the monetary income of the population should be based on the goal of maintaining the proportions between the incomes (expenditures) of the poor, middle, and rich groups (classes). If we

accept that the best ratio of the difference between the incomes of the rich and poor classes is 6-7 times, then keeping such a principle from the point of view of income tax collection means that the rich should pay 6-7 times more tax than their incomes. In one case, the income tax for people below the lower line of middle-class incomes will be set at, for example, 5%, and for the rich 35% (5%×7).

CONCLUSION

✓ In contrast to the distribution of monetary incomes (expenditures) of the population of Armenia according to decile and quintile classification, the research conducted by the authors according to 3 population groups (poor, middle and rich) calculations based on the monetary incomes of decile groups of the population prove that in 1996-2022 the share of the "poor" group from 4.4% in 1996 increased to 13.6% in 2022 (an increase of 9.2 percentage points) while the share of the middle class was calculated and changed accordingly, from 22.7% to 27.9% (an increase of 5.2 percentage points), and the share of the rich increased from 72.9% to 58.5% (a decrease of 14.4 percentage points). These values, especially in terms of increasing the income of the middle class, can be considered unacceptable, because the share of this class was 27.3% over the past quarter of a century, lagging behind the best indicators by at least 2 times, or in other words, Armenia continues to be divided between the rich and the poor, where the growth rate of the middle class is still insufficient. According to this, the income of the middle class was 0.6 percentage points only in 2022 compared to 2021, which was 2 times greater than the corresponding value of the period 1996-2021.

✓ The research of the distribution of monetary incomes (expenditures) of the population of Armenia according to decile and quintile classification for the 3 population groups (poor, middle, and rich) and the calculations based on the consumption expenditures of the population show that in 1996-2022 the share of the "poor" group in 1996 increased from 11.5% to 16.2% in 2022 (an increase of 4.7 percentage points), and in 2022 in comparison to 2021, the consumption expenditure index of the poor increased by 0.6 percentage points, from 15.6% in 2021 to 16.2% in 2022, while the share of the middle class changed accordingly: from 23.3% to 28.7% (the increase was 5.4 percentage points), according to which in 2022, compared to 2021, this increase was 1.2 percentage points, from 27. 5% in 2021 and reached 28.7% in 2022, and the share of the rich increased from 65.2% to 55.1% (the decrease was 10.1 percentage points), according to which in 2022 compared to 2021 that decrease was 1.8 percentage points, from 56.9% in 2021 to 55.1% in 2022.

✓ The research of the distribution of monetary incomes (expenditures) of the population of Armenia according to decile and quintile classification by 3

population groups (poor, middle, and rich) based on the monetary incomes of population quintile groups shows that in 1996-2022 the share of the "poor" group from 5.4% in 1996 reached 14.0% in 2022 (an increase of 8.6 percentage points), and in 2022, compared to 2021, the poor quintile index increased by 0.6 percentage points, from 13.4% in 2021 to 14.0% in 2022, while the share of the middle class changed respectively, from 18.5% to 27.6% (the increase was 9.1 percentage points), according to which in 2022 compared to 2021, this increase was 0.4 percentage points, in 2021 from 27.2% to 27.6% in 2022, and the share of the rich increased from 76.1% to 58.4% (a decrease of 17.7 percentage points), according to which in 2022 in comparison with 2021, that decrease was 1 percentage point, from 59.4% in 2021 to 58.4% in 2022.

✓ We also consider it expedient for the Statistical Committee of the Republic of Armenia to calculate and publish the classification of the population of Armenia according to the data of the poor, middle, and rich classes, as well as to present methodological clarifications regarding this classification. In this way, the mentioned data will first be available to the broad masses of the population, and in addition, they will keep the data about the mentioned classes of the population and their movement in the center of attention of socio-economic policymakers, paying special attention to the processes of the formation of the middle class.

✓ To improve the population's income (expenditure) distribution policy, it is proposed to change the policy's targets based on the fact that it is not necessary to fight against poverty (without questioning the importance of such a direction of the policy) but to give more importance to increasing the share of the middle class of the population, not only through poverty deduction, but also the distribution of incomes of the rich class, using basic economic levers and tools.

It is also expedient that the political parties and unions also have their views on the increase of the middle class of the RA population, and the political power of the government should indicate in its plans, for example, the increase of the middle class by 2-3 percentage points every year, defining the measures and road map to achieve it.

References

1. Cox, J. (2023, Feb 28). Columbia Business School, CBS insights, "Joseph Stiglitz on Business, Inequality, and the Case for an Economists' Hippocratic Oath". https://leading.business.columbia.edu/main-pillar-business-society/economy-policy/joseph-stiglitz-business-inequality-and-case-economists?fbclid=IwAR3wHr4GDsKxxXIgfpiE1tc4LbRIUltwsOL1LhR7kB4Al4uxBNTCVa0rHKM

2. Enora, B. (2019, Oct 19). "Estimating Inequality Measures from Quantile Data". https://shs.hal.science/halshs-02320110/file/Belz_Estimating-Inequality-Measures-from-Quantile-Data_2019.pdf

3. Huld, A., & Interesse, G. (2023, May 24). China Briefing, News, "China's Middle Class – Growth, Policy, and Consumption". https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/

4. Milanovic, B. (2019, Sep 24). *Capitalism, Alone: The Future of the System That Rules the World*. Cambridge, MA: Harvard University Press.

5. Nigmatulin, R. (2023, July). Academician of the Russian Academy of Sciences, Doctor of Physical and Mathematical Sciences, Oryol international economic forum, https://kprfnsk.ru/inform/news/44443/

6. Ortega, A. (2018, Oct 09). "Half the world is middle class". https://www.realinstitutoelcano.org/en/blog/half-the-world-is-middle-class/

7. Statistical Yearbook of Armenia 2022. Yer., Statistical Committee of RA, 118-120.

8. Statistical Yearbook of Armenia 2023. Yer., Statistical Committee of RA, 149, 150.

9. Statistical Yearbook of Armenia 2023. Yer., Statistical Committee of RA, 155, 158.

10. Statistical Yearbook of Armenia. (2002). Yer., Statistical Committee of RA, 93-94.

11. Statistical Yearbook of Armenia. (2006). Yer., Statistical Committee of RA, 95.

12. Statistical Yearbook of Armenia. (2007). Yer., Statistical Committee of RA, 92.

13. Statistical Yearbook of Armenia. (2013). Yer., Statistical Committee of RA, 106, 108.

14. Statistical Yearbook of Armenia. (2017). Yer., Statistical Committee of RA, 103, 105.

15. Statistical Yearbook of Armenia. (2022). Yer., Statistical Committee of RA, 143-145.

16. Wallach, O. (2022, Feb 2). "The World's Growing Middle Class (2020–2030)". https://elements.visualcapitalist.com/the-worlds-growing-middle-class-2020-2030/