

Institutional Aspects of State Regulation in Cyclic Development of Economy Conditions

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Abstract

Regularities, still not fully studied, of "cyclic dynamics and social genetics" form the basis of transformational changes of economy. Herewith, the cyclical nature is accepted as the basic regularity of any transformation. The knowledge of cyclic paths allows to respond duly and effectively to the curvature of economic trends dynamics, prevent recessions and maintain economic systems stability.

Keywords: institutionalization, state regulation, economic cycles, institutional transformation, market

1. Introduction

Institutions include both the rules and "certain characteristics of coercion", for their implementation, as stressed by D. North. Coercion is channeled through inherent limitations, state violence (public sanctions) and fear of consequences. What is more, experts are inclined to distinguish between the real and the potential violence, "introducing into the game" more subtle political economic relations. Management, as an integral element of any organizational system, is designed to ensure the preservation of a certain structure and performance objectives. The most important function of management - regulation, i.e. a set of activities designed to compensate the identified deviations. State regulation - mainly implies measures of legislative, executive and supervisory nature. Their goal – is stabilizing and adapting the system to changing conditions. In classical economics the basic functions of state power and management bodies are: macroeconomic stabilization, redistribution of national income and production of public goods and services. The institutionalization of state regulation of economy, the formation of a coherent system relates to F.D. Roosevelt reforms of the Great Depression. The transition from the informal to the formal institutional structure, as a rule, consolidates the state. The contractual relationship in Western countries has a high degree of institutional structure of economy development.

2. Theory

W.K. Mitchell linked the dynamics of economic processes with objective business activity cycles, and insisted on the social regulation of economic processes [1].

N. Kondratiev was the first to draw attention to the cycles of economic dynamics and methods of mathematical analysis in his work "On the concept of economic statics, dynamics and environment" [2] published in the United States in 1925. Economic cycles like permanent wave oscillations – present a normal phenomenon of market economy, inner laws of economic dynamics inherent to it. Moreover, there is a potential energy of the economic system self-regulation laid in the cyclical nature.

Knowledge of cyclic paths allows timely and accurately responding to the curvature of the economic dynamics trend, preventing of recessions and maintenance of the stability of economic systems. New level of economic equilibrium is generated on the elevation of the economic cycles' wave. This occurs when the driving forces of elevation are accumulated and reinforcing each other - adds D.M. Keynes, in his work "The General Theory of Employment, Interest and Money", (1936). When the charge weakens, the driving forces are replaced by those acting in the opposite direction. Contradictions of postindustrial economy crisis can be resolved by the formula: social competition on economic

cooperation substrate. Keynes was the first to separate macroeconomics from the micro one and stress the importance of macroeconomic regulators: multipliers (investments, income) and parameters (refinancing rate, capital efficiency, and others) [3].

Thus, Keynes offered to build the institutions of state regulation into the institutional structure of market capitalism.

Institutional development also manifests cyclic nature, when long periods of slow partial changes are replaced by rapid periods of radical changes, during which the contradictions of the new experience and its subjective interpretation (ideology) are resolved. A. Akhiezer explains the cyclic nature of the Russian history by inversion (from the Latin "inversio") of ideology. In a series of "dual oppositions" the local principles of interaction are changed to the centralized ones. Mediation of informal norms is excluded due to the mentality of population. Inversion implies prohibition of informal norm or its legalization without interpretation.

Neoclassical paradigm of institutional transformation involves the spontaneous selection of effective institutions.

However, the historical experience confirms that the market nature is unable to resolve cyclic contradictions of social cultural dynamics. With the occurrence of the Keynesian theory the ideal model of market transformation becomes unthinkable without deliberate state regulation, which is able to implant the fundamental values of world civilization, that is to provide a combination of material and spiritual values, the rights and freedoms of the individual realization with the priority of social equity, the balance of public and private aspects, and others. Experience has shown that the market mechanism of "free" capitalism cannot provide a stable equilibrium. Acute contradictions have engendered by the unregulated market itself. Monopolies gaining a foothold have distorted its main advantage - price signal, and, most importantly, rendered the impact on the labor market. As a result, economics entangled by neoclassical economic theory representatives did not catch the pulse of positive change.

3. Method

Practice has developed three forms of government intervention:

1. The direct government impact: nationalization of certain companies, sectors and the whole branches of economy; or other forms of administrative subordination to the public bodies decisions.
2. Indirect impact: mediated state regulation of economic processes through legislation, financial and monetary-credit instruments.
3. Mixed: a combination of methods. Used in regional politics.

Government intervention is carried out within the scope of these forms, and is universally recognized as necessary, and is called the state regulation at present. The most convincing example – is the impressive success of Keynesianism – the policy, which has enabled a way out of the economic crisis (1929-1933), and the long-standing prosperity of the countries embraced by it.

The most important thing is, that Keynes has justified the necessity of government intervention, and not in production, as the creators of the total planned economy have insisted, but in the formation of "effective demand". Financial and credit mechanisms served as the respective regulators. Not denying the obvious achievements of economic thinking, the problem solution is transferred to the macro level. The market remains, but it has undergone the state originated therapy; and the problem has been settled.

In the US the government intervention was carried out through a fairly broad front: the state went on a massive redistribution of the national income, which required a significant increase in public spending.

In addition, the direct administrative control touched many areas of private entrepreneurship; the public sector in the economy has been increased.

Nevertheless, it was not a complete nationalization of the economy, as in the countries of socialism; government intervention remained predominantly mediated (indirect). The main burden fell on the financial system as a set of relevant agencies and institutions aimed at regulation of financial resources.

In conditions of democracy politicians act as subordinated to the interests of those who express them more vigorously. Here belong the organized lobbyists, whose financial sources cannot but interest the politics. Moderate politician has to focus on the close positive effects of and lose the sight of the long-term negative ones. Evolution of Keynesianism confirms these conclusions. Activities of numerous organized groups, provoking the government to distribution of the greatest possible benefits, have generated rapid growth of public spending and turned macroeconomic policy into an inflationary one. Stimulating of demand has triggered the money depreciation and slowing down of production rate. Demand could not stimulate production; it has been absorbed by the increase in prices. The law of unintended consequences has acquired special urgency: the stabilization of demand turned the inflation, poverty fighting – turned the dependency. The concept of broad government intervention suffered bankruptcy. People's eyes turned to

the proponents of neo-classical ideas- to the self-adjusting market mechanism.

It became apparent that management practices should be changed: the direct incentives should be reduced and the indirect ones - increased. At the turn of the 1970s - 1980s there was a departure from the Keynesian model of effective demand regulation and the "deregulation" course was embarked on. As an alternative served "monetarism", which later was practically crystallized in the "Reaganomics". The main emphasis shifted to the monetary sphere. The market itself is able to adjust many processes. Budgeting has limits and must be limited. Especially indicative is Sweden with its social model of redistribution and high share of state ownership.

The lowest is the share of state ownership and less the state intervention in the United States, the country of traditionally liberal market attitudes (social competition prevails over social protection).

Tax reform of the R. Reagan administration in 1981-1986 related to a reduction in the maximum rates from 50 to 28%, significantly increased investment opportunities. Most of the social programs were unified and transferred to the states, but the scale of social support survived.

The US economy has entered a growth phase on the way to technological upgrading.

With consideration of all trends and influences, modern financial and economic policies of the developed countries are called less liberal and more moderate. There is an aspiration to balance the budget; the cost structure is changing in favor of long-term development. The civilized world started to create multiple mechanisms of self-regulation on the basis of the leading economic concepts in the form of the functional economic systems. This has become the economic policy aim of the market-oriented states at present. The forms and methods of government intervention are modified. There occur independent (mixed) institutes of automatic adjustment: commissions, committees, agencies interacting with public authorities and the direct manufacturers, non-governmental organizations and research centers.

Thus, for example, ministerial conglomerates in New Zealand are divided into specialized business units.

The relationships with their managers are regulated by the contracts and depend on the results of their activity. Their activity is aimed at maintaining of macroeconomic balance and creation of the best conditions for dynamic exchange of goods, technologies, know-how, experts, etc. Such exchange was designated as "metabolism" by analogy with the wildlife. This is a fundamentally new stage. It became possible in the age of information in connection with the rapid development of electronic means of communication and information processing. It is believed that finally the market economy will turn into an open, self-developing system.

For the years of market transformation in the Russian Federation, the number of employees in the state bureaucracy was steadily increasing on the background of the country's economic potential and population sharp reduction. Let us note that even before market liberalization G.Kh. Popov predicted:

"... the increasing problem of bureaucracy – is the inevitable, natural phenomenon of the management system overall change in the direction of the role of economic methods growth" [4].

4. Results

However, the growth of state burden on the private sector was accompanied by the erosion of the most important governmental prerogatives: providing security to business entities, providing equal rights to participate in economic activity, enforcement of contracts, private property immunity, and others. And at the same time, the state liberalization through its administrative apparatus was taking place.

In the liberal reformers' environment there have repeatedly appeared the calls for a global reassessment of the government intervention scope on the economy and proposals to radically reduce the "burden of the hypertrophic state". The studies of the Institute of Economic Analysis (IEA) are the most prominent in this respect [5]. Experts compared the size of the government apparatus, expressed in volume of its controlled financial resources with the economic growth: reduction of public spending cuts down the decline in production, growth of government spending leads to the increase in the GDP *rate decline. Thus, in order to have the investment resources and provide a 5% GDP growth it was necessary to halve the government spending and bring them up to 25-26% of the GDP amount. Then the optimal government spending providing the opportunity for the maximum growth rate (8-9%) was corrected to 18-21% of GDP. [6]

IEA analysts have deduced the generalizing indicator of liberality degree for the economic policy called the "index of economic freedom" [7]. Having calculated the indexes for the most of the countries for the period from 1975 to 1995 the researchers obtained the following results: the highest rate of GDP per capita growth (over 2.4% annually) accounted for the countries with the most liberal economic policy, where economic freedom index exceeded 80 %. These are: the USA, Japan, Switzerland, the Netherlands, Singapore, Hong Kong and others. The lowest growth rate (-8.5%) was in Russia, with the lowest value of the economic freedom index (33.7% as per the data of 1994-1995). In the economic freedom around the world ranking in 2013 [8], by the Heritage Foundation version the priority is held by Hong Kong,

Singapore and Switzerland. Here are added: Australia and New Zealand surpassing the United States (the 10th place), the Netherlands (the 17th place) and Japan (the 25th place). Russia is on the 139 of the possible 177 places.

In our opinion, these research programs are marked with the high degree of abstraction. Economic recovery and growth following the crisis of 1998, were not caused by the reduction of the state "burden", but by the devaluation of the ruble and rising prices for the energy. And how do you explain the economic growth observed in the 2000s without any development, or "de-industrialization"?

For raw material suppliers, and, in particular, oil-producing states we can distinguish their own special "business cycles" associated with world prices for hydrocarbons changes. The indicated prices significantly affect the income of economic agents and largely determine the pro-cyclical fiscal dynamics of government expenditures, which are detrimental to the sustainable development of the economy. Countercyclical measures of state regulation, in this case, to a large extent reflect the quality of the institutional environment. The example of Norway is explicit. Here the countercyclical policy virtually eliminates the impact of energy prices on the government spending volume. The main institution providing relatively independence of government spending is the State Pension Fund, which was formerly known as the Fund for future generations.

It took a long time in Russia to direct the most part of the additional revenues to the budget system. Until 2004, there was no special institute established for income accumulation received as a result of favorable economic conjuncture. It indicated the failure on the part of the State to pursue an active countercyclical policy.

Then, with the use of the Stabilization Fund institution, and from 2008 - the mechanism of "non-oil and gas budget", the fiscal policy focused on a more complete removal of additional revenues into the federal budget and protection of the national economy from short-term fluctuations in energy prices.

Duplication of some functions is traditionally inherent to the Russian management structure. Public goods production is far from being perfect due to the obvious transaction costs, forced to be carried by the private sector. Society has to fund twice the poor quality of public services: the first time through the mandatory taxes, the second – through the inevitable additional transaction costs associated with racketeering, corruption, incompetence, tyranny, abuse, etc.

These funds are considered to be a direct deduction from the national production resources. Despite the enormous exactions the government was unable to timely and properly regulate business entities' activity.

Concerned with self-preservation, the ministerial departments and agencies advocated in favor of limited separate "lawmaking" preservation.

This reason was explained by the prolonged absence of a uniform legal regulation of new types of exclusive property rights (over ten years), whereas the need for legal protection of the results of previously defined types of activity (e.g., economic decisions, organizational proposals and other relations of "spiritual" sphere) was long overdue.

Let us note that this legislative protection of the "content" results of creative activity in the nineteenth century created the necessary incentives for the wide dissemination of technical inventions. The role of the state in the intellectual property protection should increase adequately to the information society formation.

However, during the formation of the legal regime for new objects the paramount importance very often is given to the casual, market factors and lobbying activities.

5. Conclusions

Thus, the governmental activities manifest "institutional catalactics" (in F.A. Hayek) - focus on the spontaneous formation of market structures.

Nevertheless, the question, - through what structures and institutions can the dependence of the economy on society be realized in the Russian Federation? - requires the following answer: - still only through the priority of the state.

The modern approach is based on optimization of the interaction of all participants in the economic process. But as the new sources of economic growth associated with the evolution of the creative potential factor into the institutional structural one are still dwelling in the field of macroeconomics, the role of the state in the institution-building is growing. At the same time, while directing social self-organization, it is important to ensure the conditions for the realization of the spiritual and social potential of each individual.

The twentieth century has ended with the formation of the extensive system of international organizations. A new phase of the institutionalization of the state has arrived. The transformation of the property institution could be repeated with the natural resources of the Russian Federation: the problem of "fair" distribution of natural resources is already being brought up.

The international community is gradually spreading its control to the social and economic capacity of the state

(human rights, democratic elections, fighting with corruption, etc.). This is a direct threat to the authoritarian state model, which relies on the exploitation of natural resources, and does not require complex institutional design, and therefore a large number of educated people. The development path, in its turn, requires continuous institutional transactions, and is not possible without the ability of the mental construction.

In the second half of the twentieth century an impression was formed in the West, that it is not possible to repeat the Great Depression. Crises are becoming more frequent, but their scale has been significantly reduced. The actual developments refute theoretical speculations. There occur arguments on the topic of the global crisis at intervals of approximately 50 years. Since the objective reality does not fit into subjective mental frame construction, one should think about the optimal combination of government regulation and freedom of enterprise.

During aggravation of social problems (crisis) and "market failures" the state undertakes special functions. Their implementation can take versatile forms: from the complete nationalization to the governmental intervention or partnership with private business. It is this symbiosis of state and market has pulled capitalism out of the Great Depression of 1929-1933. While solving the crisis problems, the followers of institutionalism, as a rule, tend not to consider the market in isolation, but only in conjunction with the productive sector.

The Russian state as a subject of a competitive market faces today the task: by global cooperation of financial capital, political resources of the center and peripheral areas to build and manage a partnership of state and market in the sphere of strategic investments and formation of investment clusters.

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