

INSTITUTIONALISM AND INSTITUTIONS OF MARKET ECONOMY IN THE CONTEXT OF TRANSFORMATION OF AGRO-INDUSTRIAL COMPLEX

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1. Introduction

The structural crisis which strokes the economy of Ukraine and its agricultural sector concerning well-known social-economic transformations determines the topicality of discussing the no equilibrium nature of social processes, problems of overcoming chaos and establishing order, particularly on the basis of self-organization of renovated systems in society and economy. Certainly, unbalanced processes and phenomena of self-organization excited in society always, though their development increased and deepened in the time of transition from planned economy to market economy, i.e. from closed to open economy [1, p.38].

2. Institutionalism of market economy of agro-industrial complex

In the course of reforms the agricultural sector appeared to be deinstitutionalized – the old framework was destroyed; the new one hasn't been built yet. As J. Kornai states the reforms “were undermining the integrity of the system itself. The system reforms instead of improving were dragging down the basis, which cause erosion rather than stabilization” [2, p.21]. Such an unstable condition provides institutional disequilibrium. According to V. Polterovich, the system falls into an institutional trap, which marks the position of “bad” institutional equilibrium, which is specified by existence of ineffective institutions (shadow economy, barter, default in payments etc) [3, p. 3-20].

The institutionalism as a current in economic theory emerged in USA and other countries and it was caused by transition from domination of private ownership and free competition to intensified socialization of economy, its monopolization and governmentalization (transfer into state ownership). Followers of the trend meant by “institutions” different social-economic processes: in XX century production and technical facilities got updated and changed, the transfer from psychology of individualism to collective psychology was taken place, “social control over production” and “government regulation” was introduced [4, p.10].

Institutional subsystem of government regulation harmonizes its objects with goals and mechanisms of its achievement. Among main objects are division of labor in general, division of labor in particular, state ownership and state (public) sector, banks and currency circulation, finance and government budget, market, private ownership, incorporated, private and joint enterprises, social sphere. Respective to the objects goals and mechanisms of government regulation are implementation of labor division which complies with requirements of the scientific-technological progress, privatization, transfer to key currency, depression of inflation and deficit free budget, free market prices, support to entrepreneurs, increase of private capital, social reforms and stabilization of social state of population. All that can be realized through legislative, executive, judicial acts, rigid vertical of executive power, economic incentives and administrative measures.

A rare agreement was reached on necessity and adjustment in direction of social transformations in countries with economies in transition (emerging countries) in academic co-authorship. The leading figure of modern institutionalism North D. noted, that just now in post-socialist countries had started realizing that basic institutional system of these countries is the cause of bad economic performance, and as a result they are trying to get down to restructuring of institutional system for

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the purpose of creating impetuses, which in turn should make organizations embark on the course of development of productivity [5, p.142]. The policy document “European choice: fundamentals of the strategy of economic and social development in Ukraine for 2002-2011” reflected enlightenment of national politic.

Summarizing final results of the process of reforming in Ukraine 1991-2001, in the document is emphasized that:

- 1) the model of market transformation in Ukraine was proved to be wrong and incorrect, because it, in fact, resolved itself to unilateral economics ignoring priority of institutional changes;
- 2) the model of market transformation turned to be not just mistaken, but also very destructive as far as didn't have social dimension [6, p.6].

Without getting into deep theoretical discussions and researches, we deem it expedient to expand on debating points which have urgent and practical importance for agro-industrial complex of the country.

The fundamental distinction of North D. approach – the founder of modern institutionalism – is differentiation of definition “institution” on “organization”. According to North D., institutions are the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction [5, p.71]. Organizations are not “rules of games”, but players themselves, their strategies. Conceptually, what must be clearly differentiated are the rules from the players.

The purpose of the rules is to define the way the game is played. The concept “organization” includes political institutions, economic structures, social services, educational institutions. Institutions and organizations are in dialectical connection, however only “institutional frameworks” exert decisive influence on which organizations appears and how they are developing.

Let us consider, for instance, one of the problems of government regulation of relations on wool market – important material for textile industry. As is known private plots (households) play a key role in wool production. Though, as a system analysis shows, households are not built in general entire system of regulation with the other forms of management. Special attention deserves organization-intermediator. Careful examination of intermediary as economic category gives an opportunity to notice its aggressive position with overestimation of its own role in economic relationships.

“Intermediator” assumes in own sordid motives one of the most important system-forming functions – regulation of relations of market participants. It is hided free management niche that should belong by right to the state in the name of bodies of government as spokesman of public interests generally, “intermediator” picks up free economic operators on the way to the market – households, private producers of wool, and by means of preferential mechanism pockets the large part of agricultural rent. For introducing proper order in this segment of the market, it is essential, for instance, to create special institutions on regional level, which provide the development of infrastructure of agro-industry encouraging accumulation of capital in producers' pockets, and also accomplish redistribution of income in favor of developing regional, industrial economy. Thereby respecting the system of interaction of participants on wool market, it may be said about the process of government regulation of relations on this market.

On fig.1 it is represented as a block “institutions, infrastructure of agro-industrial complex of the region” and corresponding ties sideways to the block “market”, and also to the elements which displays different forms of economic entities.

In regard to economic functions of the state the viewpoint of many economists are published in domestic scientific papers, beginning from 1980 when the main institutions of regulation of renewing processes started ruining under the slogan of market economy.

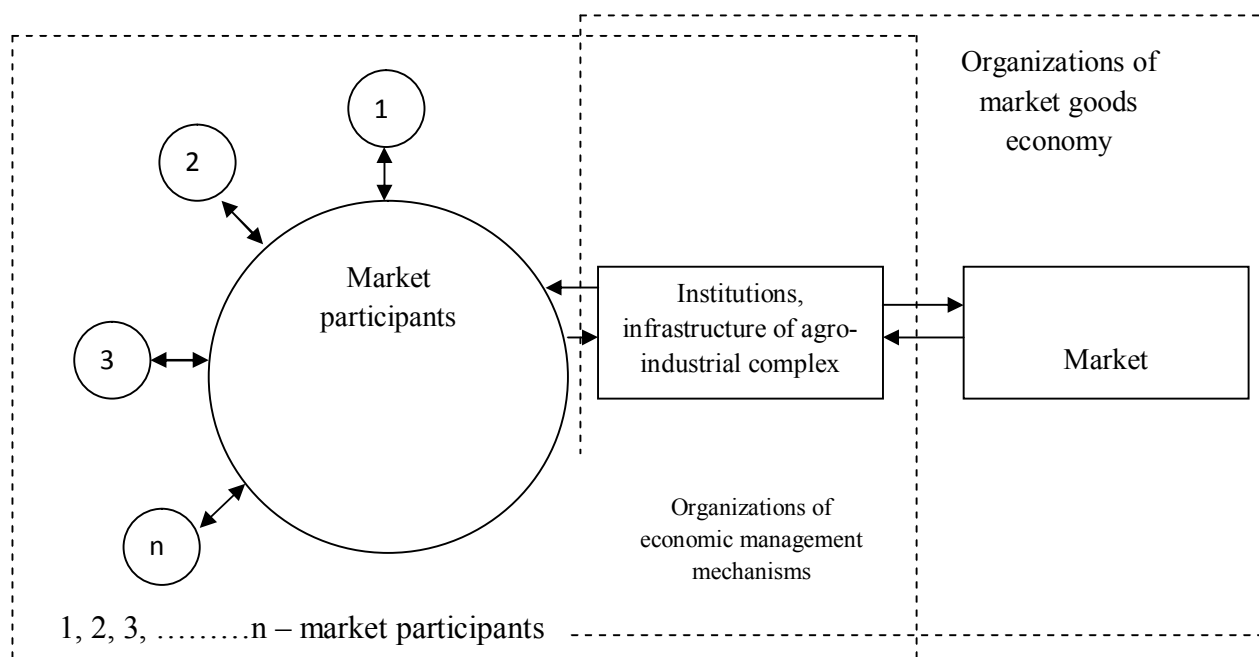


Fig. 1. Institutional type of market economy of agro-industrial complex

Dmytrichenko L. and Solovyova D. underline that recognition of government functions in market economy determines necessity of reinforcement of government regulation institutions broadly defined. Historical evolution of the state provides for the necessity of transforming these institutions, but not their denial as such. Since the more economic system is complicated (by the way as every system), the more it demands coordination and cooperation of its various elements. Liquidation of the coordination center (and even its weakening) may reduce to negative consequences which verges on the destruction of the system [7, p.78]. In connection with this we may cite on associative example with liquidation of association “Zhytomyrlyon”, which caused decline of flax production and flax processing in Zhytomyr region. We can mention as similar instances with regulatory institutions in other regions, branches of materials complex of textile industry, which were performing delegable functions of state regulation.

The theory of institutionalism as the applicable conception of the theory of transition economy is widely presented in economic literature. Though there are no practical applications of institutional conception to specific branches of economy. That is why, it is important to consider institutional fundamentals of developing agrarian sector and processing industry.

Liberal approaches in the process of forming national economy were applied without proper understanding the logic of market transformations, i.e. foreign experience and models of market economy on local unprepared economic ground with lack of suitable institutional conditions were imported. As J.Stiglitz fairly remarks [8, p.12-74], the reformers of some countries even if were recalling about institutional reforms, then only incidentally. They were trying to shorten the road to capitalism firming market economy without fundamental institutions, and institutions – without infrastructure.

In such situation application of defining principles of institutionalism, such as the necessity of forming respective institutions and institutional environment generally, has understandable form. By North D. statement “institutions are structures that human beings impose on human interactions defining in such a way incentives, which together with constraints establish borders of choice, and its, in turn, establish framework of operation of economy and society during that or this period of time. Institutions involve formal rules and informal constraints (generally accepted standards of conduct, reached agreements, internal restrictions of activities), as well as enforcement of implementation [9, p.9].

The frameworks of functioning of economy and society, set of institutional conditions, which form institutional environment, are defined by category “institutional matrix”. “Institutional matrix” consists of web of interdependent institutions and according to its political and economic organizations, which are characterized by increasing return [10, p.84-89]. By broad definition, institutional matrix – became, historically formed system of basic institutions, which regulate interdependent functioning of main public sectors – economical, political and ideological.

The necessity of establishing principles of institutionalism and unacceptability of forced application of liberal conception in agrarian sector of national economy are connected with such informal constraints as [11, p. 284]:

- rigidities of the sector, which belongs to nontraditional systems of management;
- conservatism of villagers caused by existing social norms of behavior, established customs and which is formed as result of historical process.

According to North D., “though formal rules can be changed in one night by means of accepting political and juridical decision, informal restraints implemented in customs, traditions, code of conduct are less favorable to human conscious efforts. These cultural restraints connect not only past with today and future, but also give us the key to understanding the road of historical progress” [9, p.9]. Trend of changes is defined by the previous path dependency. Such approach can be considered as continuation of Veblen’s T. conception about cumulative causation of social development [12, p.34-44], the institutional theory focused on developmental approach which is the best for the agricultural sector of economy.

Famously, the main categories and elements of institutionalism (and also its modern components – neoinstitutionalism and new institutionalism) belong to institutional environment and institutions (formal and informal); norms and rules; property rights; economic agents and their behavior; bounded rationality; asymmetry of information; opportunist behavior; contract implementation and fulfillment of an agreement; contract arrangements, transactions and transaction costs; trust; public choice; economic history and evolutionary, etc.

The main conception of institutionalism is estimation of economic factors depending on environment where they are operating. Institutions are considered in the light of its impact on decision, which are made by economic agents. Institutions in the form of rules and norms don’t determine completely behavior of human beings, but only constrain set of choices, from which individual is able to choose in accordance with target function [13, p.31]. Mechanism, which guarantees observation of rules, becomes a component of institution structure of society, because of the fact that rules fulfill a function of constraints in decision situation only in that case when they are active and functional. It is important to differentiate institutions from organizations: if institutions are “game rules”, then organizations are “players”. Main economic agents of agrarian industry are agricultural enterprises, farm households and local administration.

3. Agro-industrial complex transformations

While discover the direction of transformations in agricultural enterprises, the authors note that restructuring of collective farms is not enough. It is essential to build new system of internal interrelations between fields, to evaluate the role of specialization and concentration, which ones again stresses the strategic importance of institutional reforms. Having target function the enterprise will accumulate experience and sophistication which make possible to reinforce its position for survival in competitive environment and in the context of scanty recourses. The types of knowledge and skills which are characterized by the maximum return are function of structural impetuses which are put in institutional matrix.

Cross-industry relations lead to inequality of forming economic outcome in different participants of transactions. Rural economy is defined by “independent” development, which, in turn, determines

unequal exchange and results to price disparity, reduction in income of agricultural goods producers, drop in agricultural production. Thus, informal institutions and its impact determines the irrational (in terms of profit maximization) behavior of countrymen, who continue tilling the ground and rearing the cattle with an eternal sense of responsibilities before mother earth, by force of habit and on basis of traditional industriousness in situation when sales of agricultural goods is loss making and unprofitable.

A decisive influence has opportunist behavior of counterparts from surrounding environment. That is why in authors' opinion agrarian crisis of previous years should be considered not just as systemic crisis, but as crisis of orientation of equivalent exchange – i.e. loss of trust to the norms and rules, which are in the process of transformation from established form of prior structure to new content, which configuration hasn't formed completely yet.

Further liberalization of agricultural sector of Ukrainian economy would have been indisputable, if related industries were also operating on market principles and in free competitive conditions. The practicability of vertical integration of agro-industrial complex – as a way of improving financial performance of agrarian sector activities and mutual interest of every participant in respective production chain - does not admit of doubt especially under existing conditions. Important component of evaluation of vertical coordination towards integration is interdependence of partners.

Other post-soviet countries should perform similar tasks. For instance, among priorities of agricultural development in economy of Belorussia stand out intuitional ones – the progress of vertical and horizontal forms of cooperation as one of the most important courses in organizational-legal system of market economy.

In addition, the conception of agricultural transformations should have guideline of development – sharply defined institutional frameworks (institutional matrix). It will promote decrease of chaotic vibration, which presents in environment of agricultural goods producers, in volume of production, in prices etc. Institutional changes are taking place under the pressure of concerned institutions on one side and disinterested ones – on the other side.

The current state of agricultural sector of the economy of Ukraine – is unstable compromise which is defined by present distribution of power and balance of power. As Sabluk P. considers, under such conditions agro-industry is not attractive for innovations and investments, the structure of economy is deformed, and priorities are placed on tertiary sector but not on producing sector which is unpromising and harmful for the country [14, p.12].

4. Conclusions

The exploitation and introduction of the conceptions of liberalism and institutionalism in the course of economic and agrarian transformations in Ukraine should go in step, taking into account the prospects of joining the liberal model upon condition of forming efficient market institutions.

Though, first of all it is necessary to develop and establish institutional conditions of functioning liberal principles. It is also important because in rural areas as well as in economy of the whole country, without developed transitology (the theory of economy in transition) in the period of starting transformations the pseudo-market institutions were formed, functioning of which originates institutional “taps” for the further progress.

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Summary

The institutional types of market economy, institutional aspects of government regulation of economy are highlighted in this paper. The models of institutional environment, which may encourage effective management development of agro-industrial complex of the country, are defined in this study.

Keywords: institutionalism; institutions of market economy; transformational processes; institutional conceptions of government regulation.

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