

STRUCTURAL DEVELOPMENT OF ECONOMY: EVOLUTION OF THEORIES

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Abstract: Relevance of this article is determined by the importance of search for new strategic development benchmarks for Ukraine in the context of signing the Association Agreement with EU, and by the struggle to cope with the consequences of the systemic socio-economic crisis, as well as with its military and political ramifications. The methodology laid out below rests on the pillars of both theory and practice. General scientific methods of research include the systemic approach as a tool to generalize the theories of structural development of economy, the dialectic approach, to review economic categories from the standpoint of evolvement, along with analysis and synthesis, to substantiate the definition of structural development of the national economy, and adaptation, to make economic theories applicable to the environment of reforms in the national economy, in view of the recent institutional changes taking place in Ukraine. Theoretical value of the findings lies in the generalization of theories on structural development of economy, such as the theory of economic dynamics, theory of global development system dynamics, theory of structural change, theory of postindustrial society and institutional theory. Practical value of the findings can be expressed in the following recommendations: to improve public sector capacity in terms of generating and implementing economic reforms; to import and implement European institutes; to attract foreign investments, in order to promote new economic structures; to protect property rights, and to react against informal institutes, primarily represented by corruption.

Keywords: structural development, economy, national, theories, evolution, institute

Introduction

Any national economy model is implemented as based on a certain supporting theory that regulates its functioning. Currently, Ukraine is undergoing a systemic socio-economic, military and political crisis, deeply rooted in the institutional inertia and dependence on past developments. The lack of tangible progress with reforms throughout its sovereign history, prevented the country from eliminating the faults in the administrative and team management system, such as extreme centralization and irrational economy structure, in particular that of important export, as well as high energy cost of production, corruption and bribery. Economic history is perceived as a sequence of institutional choices of the development trajectory, collectively made by certain social groups. Specific theoretical aspects of the structural economy development became the subject of research for a number of domestic scholars, including Ju.M.Bazhal, Ju.A.Pisoc'ka, S.M.Ivanov, V.O. Kas'janov, O.G.Proncheva, N.V.Pustovit. Despite the significance of the research in general, there is still a lack of systemic approach to study of the evolutionary aspect, with due regard for the institutional nature of the Ukrainian economic affairs. Signing the Association Agreement with the EU and the need to cope with the implications of the crisis and ensure sustainable development of the national economy require finding new strategic benchmarks.

Method

The methodology laid out below rests on the pillars of both theory and practice. The applied aspect of the research is associated with the institutional nature of the domestic economy. General scientific methods of research include the systemic approach as a tool to generalize the theories of structural development of economy, the dialectic approach, to review economic categories from the standpoint of evolvement, along with analysis and synthesis, to substantiate the definition of "structural development of the national economy", and adaptation, to make economic theories applicable to the environment of reforms in the national economy, in view of the recent institutional changes taking place in Ukraine.

Results

In the classical political economy of the 18th–first half of 19th century, a special role was assigned to the problems of economic dynamics. In the publications of the classical school adherents (A. Smith, D. Ricardo, J. Mill), the theory of statics and theory of dynamics received nearly equal attention. Eventually, the problems of dynamics were somehow abandoned by the economists. Starting from the middle of the 19th century, the theory of economics has been concentrated rather on economic statics, in particular on micro statics, which sets the laws of equilibrium in the market for a certain commodity or group of commodities.

The task of the economic dynamics is to study the factors that determine the growth rates; the theory was fathered by Sir Roy Forbes Harrod (1900-1978), Evsey Domar (1914-1997) and Robert Merton Solow (born 1924). Unlike Keynesian models, neoclassical growth models are based on the traditional approach, which assumes that the supply and demand equilibrium of the real economy production factors is achievable and requires the conditions, when the salary determines equality of the critical load of labor to its threshold productivity. The equilibrium in the capital market is secured with the equilibrium rate of interest. The workforce and capital efficiency is ensured through capital capacity management of the production growth.

Based on the fundamental equation that describes the interdependency between the three parameters of growth rate, share of savings in net aggregate income (savings ratio) and capital-output ratio, R. Harrod arrives at three growth rate alternatives, i.e. natural, warranted and actual, with each of them determined by independent factors. According to E. Domar's model, there is an equilibrium rate of growth, which guarantees full employment of production assets in the given period. The greater the equilibrium savings and the less the capital-output ratio, the higher the rate. However, the dynamic equilibrium is unstable, which means that state regulation of economic growth is required. The model by P. Solow allows one to assess various economic policies of the government and their influence upon the quality of life, and predict the share of output to be consumed and the share to be saved for increase of future consumption. Since savings equal investments, they determine the amount of capital available to the economy in future. The model illustrates how the growth in capital and workforce, along with the improvement of technologies, translate into the output and, therefore, into the rate of economic growth of the national income overtime (Lepel C., 2013, p. 23).

The theory of system dynamics by Jay Wright Forrester (born 1918) and Dennis L. Meadows, (born 1942) outlines the main macroeconomic and megaeconomic variables, shaping the global economy structure: population, capital investments, natural resources distribution and environmental pollution. This concept can also be projected onto the plane of global geopolitical shifts that cause major transformations, which lead to adjustment of the civilization development models (Forrester J., 2013). Today, the civilization is undergoing a transition from a postbipolar to a multipolar world (Meadows D. H., Randers J., Meadows D. L., 2004).

The theory of structural change by Joseph Alois Schumpeter (1883 - 1950) and by M.D. Kondratiev (1892-1938) is used as the methodological background for the transformation economics model, since it stems from the elements of uncertainty and economic risk, while explaining the functioning of the "evolutionary economics". Common features of such an economy, which condition its contradictory specificity, include volatile business environment, deformed economic structure, deficit of resources and social limitations of structural reorganization, absence of self-regulation mechanisms, incomplete privatization and denationalization, ambiguous drivers of development, monopoly- and inflation-distorted pricing, partial loss of control over macroeconomic processes etc. (Schumpeter J., 2012). The precursors of propensity of an economy for structural transformations include high level of savings and capital assets accumulation, availability of an active innovations component of development, upgraded production framework, and high institutional activity in the public sector in the context of generation and implementation of economic reforms.

The concept of postindustrial society was reflected upon in the works of Daniel Bell (1919-2011), Manuel Castells (born 1942) and Alvin Toffler (born 1928). The scholars believed that a considerable role in the gradual development of the new society is played by integrated information and communication technologies, knowledge-intensive industries and knowledge itself, which are outgrowing their auxiliary function to evolve into an independent resource for making important managerial decisions (N.V. Pustovit, 2013). According to Bell, political transformations are related to the power of "meritocracy", society of the future is about planning, with an increasing influence on the part of the state. Toffler suggests the concept of "powershift" and, together with Castelles, emphasizes the global nature of the economy. The range of cultural aspects and values covers the

value system, interaction between the power elites and wider public, globalization, impact of information technologies, problem of choice and acceptance of the new format of society (A. Toffler, H. Toffler, 2007).

Institutional theory of structural transformations, authored by Douglass Cecil North (1920-2015), links structural changes in economic development with gradual reconstruction of the institutional basis, underlying the national economy, and with the possibility of applying world's best practices of institutional transformations and introducing innovative changes to the state management system. Institutional choice is advice for changing formal and informal rules, as well as ways to enforce rules and restrictions, which implies choosing one of out of several options that are potentially available.

Emergence of new institutes and economic systems may be the response to the external challenges, yet it often results from developments within the society and competition between the existing institutional structures. Usually, changes in formal rules (or in the respective enforcement mechanisms) require considerable resources, which means fewer options for institutional choice. Most often, the changes arrive via the slow evolutionary route; however, the economic change in the formal rules may happen rather fast, if the existing institutes are suddenly destroyed or temporarily unavailable, such as during revolutions or wars. As to the change of informal rules, it only comes gradually; its pace is much slower, and culture (as a medium for transfer of values and beliefs from generation to generation), chance and natural selection are critical.

As a group of peoples having a common goal, organization is an essential element of institutional change. Striving to maximize their income, organizations and their leaders shape the institutional changes in line with two main strategies, with one of them applied in the context of the existing restrictions, and the other one requiring that the restrictions be changed. It is worthwhile noting, that the choice does not merely reduce itself to the "market of institutions". Selection of the best institutes and economic systems may take place in different ways, i.e. spontaneously (unconsciously) or consciously, either through violence (revolution or war) or peacefully (economic reforms, export or import of institutes, or migration of resources). At the early stages of history, random and violent competition prevails, but eventually it yields to a more peaceful and informed choice.

Along with the theory of new economic history by D. North, there is a similar, yet relatively independent theoretical institutional approach towards the matter; the theory of path dependency, whose basic tenets were proposed by an American economist William Brian Arthur (born 1946), also focuses on the institutional changes and the role of institutes in technical change. However, while North stressed there evolutionary influence of legal innovations and change of transaction costs related to the social and economic development, Arthur emphasized inertia-driven development. In other words, the followers of D. North study what makes institutional innovations a possibility, those of W. Arthur, on the contrary, examine there as ones that prevent them from happening. We should also point out that, due to the path dependency, the efficiency of institutes and systems may be subject to substantial average- and long-term variability. That is why the standards and systems, which initially were more competitive, may lose their potential and turn into an "institutional trap".

Notably, development of institutes does not happen in isolation; every institute evolves as an element of a certain institutional system. That is why the institutional competition is, as a rule, a rivalry of "bundles" of interrelated institutions. If one institutional "bundle" demonstrates more overall effectiveness than the others, then all of its components become dominant, even if some of the institutes are inferior to those from another, less competitive "bundle".

Discussion

Theoretical value of the findings lies in the generalization of theories on structural development of economy, such as the theory of economic dynamics, theory of global development system dynamics, theory of structural change, theory of postindustrial society and institutional theory. On this basis, structural development of the national economy can be defined, first of all, in terms of internal category, as movement towards the optimum economy structure, which is measured by dynamic stability within the framework of the existing restrictions in the economic system, influenced by both internal and external factors; in terms of an external category, it can be defined as change in factors, driving/preventing further development of economy. The internal aspect of structural development of the national economy is mostly quantitative, while the external one is rather qualitative in nature.

Practical value of the findings consists in applying the tenets of economic theory to the development of a set of measures aimed at reforming the national economy, with due regard for the institutional environment in Ukraine. Taking into account the evolutionary nature of the domestic

economy and its inertia-driven 'post-Soviet' functioning, its successful structural development would require supporting the competitive institutes and organizations that can facilitate implementation of institutional innovations, i.e. through public sector capacity improvement in terms of generating and implementing economic reforms, import and implementation of European institutes, attraction of foreign investments to promote new economic structures, protection of property rights, and reaction against informal institutes, primarily represented by corruption.

The potential for further research is seen in development of recommendations for lifting the restrictions that prevent reforming of the national economy of Ukraine.

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