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IMPERATIVES OF SYSTEM-BASED REFORMATION OF UKRAINIAN ECONOMICS IN CONDITIONS OF CRISIS

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Abstract:

The article deals with actual problems of Ukrainian challenges and obstacles in the country's way to transformational changes. In this context, the anti-crisis concepts by Paul Krugman, the winner of the 2008 Nobel Memorial Prize in Economic Sciences; those by John Maynard Keynes, the greatest ever economist, as well as the same by leading Ukrainian scientists have been analyzed, and the practicability of their "recipes" to help overcome the present-day Ukrainian crisis was discussed. It has been demonstrated that the regulation measures conducted by the state to help meet the crisis would not lead to increase of unemployment. The components of top-priority crisis-meeting actions have been suggested with simultaneous emphasis on major anti-crisis measures to stabilize the financial-banking sector and develop the domestic market.

Key words: crisis, state regulation, Keynesianism, employment, economic growth, wages.

JEL classification: F16, F17, E40, E60.

1.INTRODUCTION

The world practice proves that the purely pragmatic approach to economic development would provide for insignificant rates of growth but will not solve fundamental problems of the society, and would inevitably result in shocks, growth of extremism, crises and social woes. The world crisis of 2007 that hurt financial systems of the majority of states could not but hook Ukraine, too. No universal "recipe" of managing the fallout has been found in the works by honorable economists of the past, nor was it presented by modern scientists and practitioners. This is why, guided by postulates of leading economists of different schools and epochs, we see the *timeliness* of the present study in the effort of interpretation of the basic components of our reforms to help the economics of this country overcome the fallout from the crisis**.**

The scientists who dealt with causes and effects of economic crises, such as M. Kondratyev, M. Tugan-Baranovskyy, J.M. Keynes, J.Schumpeter, S. Kuznets, etc, regarded them as inevitable elements of economic cycles [1-5]. The essence of crises and the ways to prevent them were considered in the works by J. Stiglitz, P. Krugman, E. Prescott, J.Tobin, F. Kidland. For example, Karl Marx wrote that the crises most frequently occur on the macro level as a consequence of a gap between production and consumption [6]. M. Dovbenko, N.Akindinova, Ya.Bazyliuk, V. Burlachkov are representatives of present-day national economic school dealing with problems of occurrence of economic crises [7-10]. Unfortunately, there still exists no unanimous view as to understanding and methodological study of the crisis phenomena, as well as there is still no consolidated idea as what should be started with to overcome the fallouts within short timeframes.

The present study *aims at* answering the question of how the role of state regulation should be changed in conditions of system-wide structural financial-economic crisis, and, consequently, how the economic model of Ukraine can be developed on the basis of major postulates of leading economists.

2. IMPERATIVES OF SYSTEM-BASED REFORMATION IN CONDITIONS OF CRISIS

Undoubtedly, millions had changed their views on stability after the world crisis that occurred in 2007. Having begun as financial, the crisis had instantly covered all strata of world society and transformed to appear as social phenomenon. It grasped nearly 70% of world countries, and no one knows how it will expand in the nearest future, and, above all, when and how it will come to its end. Josef Stiglitz, the winner of the Nobel Memorial Prize in Economic Sciences told that “the present-day recession observed for the last seven years will not stop within days. The sooner our leaders become aware of it, the sooner they will begin to act”[5]. It can also be added that the last world crisis put the end to the epoch of the so called “glamour capitalism”, the one with its virtualization of money, commodities and their manufacturers; integration of customer’s mind and his manipulation; substitution of real life values for speculative ideals; distortion of balance between the human being and its social surrounding. All these characteristics were the result of destructive nonequivalence of exchange operations that makes a basis for financial crises.

Let us address theory. According to encyclopedia, crisis “is a hard and acute state of the country’s economics characterized by decrease in production, disorder in money and credit relations, inflation, bankruptcy of industrial, trading and other companies, and banking system, rise of unemployment, and sharp reduction of living standards in major categories of population”. The crisis is still deeper when covers fundamental spheres of world economy, and the decrease in production and the rise of unemployment are accompanied by the deficit of exchange, energy and raw materials.

There is a lot of discussion as to causes of crises and universal recipes for overcoming them. Having conducted the historic-retrospective analysis of the works by the world’s leading economists, we outlined the concept suggested by P. Krugman, the Economics Nobel Laureate, presented in his *End the Depression Now* where he stated that the “crisis is a result of exhausted (insolvent) demand”. To be more precise, the crisis (Greek *krisis* – separation, judging, divine judgment) is an extreme aggravation of antagonism in a social-economic system that threatens its vital capacity within the environment[11]. As a result, the stability and the crisis appear as continuous antagonists in the process of development of any system, though the purifying capacity of the crisis is no less important to the system than its stable existence. These two antagonists (the crisis and the stability) can not exist with the absence of the other; it is a kind of a law of the unity and struggle of opposites (since there is no development when there is no struggle).

Thus, the principal postulates of the neo-classic trend ceased to be true at the beginning of the XX century. The Great Depression of the 1929-1933 demanded that the fundamentals of economic science were reconsidered. The Depression stimulated J. Keynes to publish *The General Theory of Employment, Interest and Money*, his fundamental work, in 1936 [1], where he brilliantly developed and successfully generalized the experience of overcoming it in America, as well as demonstrated his own practice of struggle with crisis phenomena. He had clearly brought it out that the system of market economic relations was not nearly a self-regulating system, and that the provision of efficient employment and economic growth required the state’s timely and balanced actions directed towards investment stimulation of economics.

The basic principles of the Keynes’ system found support with F. Roosevelt, the US President, who undertook their implementation under *The New Deal* program. The results were not waited for long. It was during his first term of presidency that the share of GDP socialization raised; the state’s regulative role in economics strengthened; big companies’ taxes and budgetary expenses increased. The measures resulted in the decrease of unemployment and the revival in the economy.

What was the secret? Guided by J. Keynes’ postulates, F. Roosevelt’s *New Deal* was directed to initialization of economics with the state and social institutions’ integrative role [12]. It was an uncontested fact that a number of F. Roosevelt’s reforms were oriented towards vulnerable groups and presupposed the increase of welfare payments to protect people with minor income. The adequacy of solution was confirmed when applied, since the policy that presupposes growth of taxes and utility charges with simultaneous reduction of social payments would inevitably form the wider gulf between the poor and the rich, and ruin the well-off section of the society, which is the most mobile group to undertake business and appears to be a real source of pumping up the budget.

With time, J.M. Keynes' ideas were supplemented and underwent transformations, and Thatcherism in Great Britain and Reaganomics in the USA had become the classical neo-conservative examples of overcoming the series of recessions of the 1980s [1,13]. These countries had crossed over to new economic policies with financial stabilization and struggle with the inflation in their focus.

Economic crises are extremely complex phenomena with totally different causes of their occurrence, and each country would have its own specific because reasons. For example, Europe and America plunged into depression accompanied by considerable unemployment at the very beginning of the 2007 crisis, but each of them chose their own ways out. And the results were different. Within the year and a half, America managed to ramp up production and increase the number of jobs, while situation in Europe was much worse. Why were the results so different? Where did they part? To overcome the fallout, the governments of Europe and America decided to implement mechanisms of rigid economy that presupposed austerity and reduction of budget expenditures. In this context, the budgetary items subject to reduction or cancellation were different. European governments called for raising taxes, annulling some of vulnerable group allowances even in conditions of mass unemployment, and giving high-interest credits. This resulted in gaining political benefits, but losing social-economic struggle, and such countries as Greece and Portugal were forced to a deeper debt bondage [16].

With EC membership, the Greek economics could hardly make both ends meet within the first ten years: the GDP growth in 1981-1990 amounted to only 0,7% and was thrice less than the mean value in the EC. The present-day Greece experiences still sharper economic slowdown than it had during its first years with European Community, and writing-off of the part of debts was no help. Situation with state debts has also worsened in the East and Central European countries: they grew from 38 to 49% GDP, and the same grew to 80% GDP in Hungary, which already exceeds the Maastricht criteria. It is characteristic that the EC countries with high state debt/GDP proportion showed the higher deficit of state budget. Practically, the debt crisis significantly preconditioned the crisis of budgets, the increase of state debts, and the reduction of GDP growth rates [14].

Where was the blunder? It's simple. Instead of following J.M. Keynes and P. Krugman's recommendations, European governments in their struggle with present-day economic crisis relied on the IMF recipes and reduced state expenses and investment programs thus reducing the demand and getting economics to recession. This is why we believe it necessary to emphasize on the problem of employment that arises right after the reduction of a number of public welfare expenses, rise of utility payments, and increase in taxes [15].

The necessity of support and development of a system of efficient employment as an instrument of macro-economic policy and the major component of the state's regulation strategy were substantiated in the works by J.M. Keynes, P, Krugman, F. Roosevelt, and R. Reagan. The practice proves that unemployment would not only affect economics and tighten its growth, but demoralize people. V. Geyuets and A. Grytsenko are of the same opinion pointing out that the problem of unemployment is unfortunately paid no sufficient attention in Ukraine [1,11].

According to Ukrainian official statistics, the unemployment rate is "brilliant", amounting to 2 unemployed per 200 people, whereas it is 2 per 20 in Europe. To be more precise, as of 30 November 2015, it was 523,1 thousand officially registered unemployed in the country torn by war! Despite the fact that Ukraine today is trying to follow the innovative way of adhering to the export oriented model of the economic development, as a proof, the increasing of gross domestic product (GDP) in Ukraine since 2010 has had an upward character. Export makes up a great proportion in the structure of the country's GDP and if the country is dependent on the import, therefore it's the most vulnerable to the crisis tendencies. As according to the estimate, the percentage of the export in the structure of the GDP in 2015 reached 51%, and that of import - 56.5%. Besides that, highly ineffective material oriented character of this disbalance intensifies the connection between the smallest changes of the business climate and economic development of Ukraine, which is already critical enough. More details are shown in Figure1.

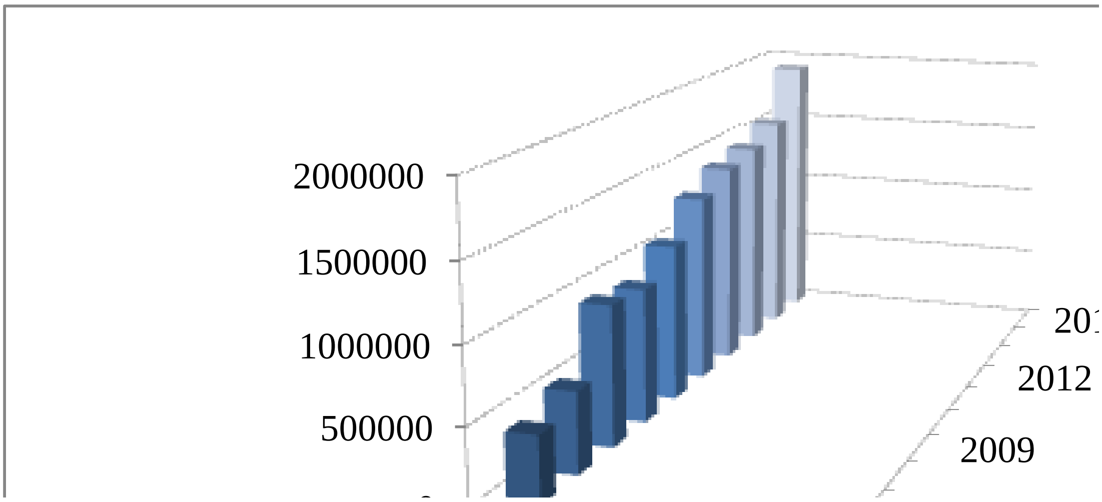

Figure 1. Ukraine's gross domestic product from 2005 to 2015
Source: [9]

Thus, in 2009 GDP dropped 3.7% comparing to 2008, which is explained by the influence of the global financial crisis on the domestic economy. Beside this fact, the pegging of Ukrainian hryvnia to dollar has led to the decrease of the national currency purchasing power [10]. Even in 2010 the change of real GDP comprised 104.1% comparing to the corresponding period of the previous year, and in 2015 22,8% increase in the volume of the domestic production was possible through the adoption of several laws that support national output. Yet, such a low growth of national measure once again emphasizes the serious character of crisis developments in economy and minor ability of Ukraine to quickly overcome the crisis and restore production levels.

The way of Ukrainians through the prism of centuries was hard and thorny. There were times of demoralizing ordeal when national identification and national idea were oppressed or ruined. Good geographical disposition of Ukraine always attracted the neighbors who tried to invade these lands and assimilate industrial people living there. Finally, the Ukrainian people newly formed on the ruins of the the Kyivan-Rus Empire find themselves again in a not simple situation [17].

The program of the state and business' top-priority measures to help overcome the fallout of the social-economic crisis in Ukraine should include as follows:

1. **Investment stability.** The world community yet again insists on the importance of investments that provide for the country's economic strength. Those states that manage to sustain investment attractiveness and avoid its meltdown in the period of global crisis, show better results of post-crisis recovery. The less the country's losses would be in the investments, the less such country will lose in economic dynamics on the whole, as well as in private sector's access to financial resources. Investors criticize the Ukrainian legal system for its inefficiency; overelaborate procedures, unpredictability, corruption and a tendency towards interference.

2. **Strengthening of national currency.** Expansion of crisis processes in Ukraine in 2008-2009 and in 2013-2015 had an unavoidable consequence of significant depreciation of national currency. Future currency policy should become understandable and transparent through the use of adequate instruments of the currency financial strengthening (in particular, the policies of interest, forward operations, inadmissibility of "endless" and non-transparent re-financing, etc.

3. **Stabilization of foreign balance.** Foreign balance is another sphere of formation of considerable risks peculiar to Ukrainian economic environment. The country is for a long time having negative balance in its foreign trade, which is in the first place due to low-competitive export and high raw material and energy import. With that, the rapid accumulation of foreign trade deficit and its maintenance within several quarters will form high devaluation pressure that would

"explode" as a shock devaluation of national currency, which was vividly proved by the currency crash in winter of 2015. This is why Ukraine can improve its foreign trade position and essentially lower risks of devaluation shocks only if it significantly increases production of competitive commodities with high added value.

4. **Reduction of debt obligations.** Complications experienced by external economics are explained by the fact that the Ukrainian foreign debt, both state and private, was extremely increasing within the last years. It was before 2007 that the share of the state debt in its proportion to the GDP was continually decreasing at the expense of its maintaining on a relatively stable level, but its amount, beginning from 2008, sharply raised due to expansion of crisis phenomena and subsequent state's need in government loans, on the one hand, and in connection with the opp-ression of economic activity, on the other. The trends are represented in Table 1.

The necessity of IMF loans repayment and accumulation of real sector accounts payable were the main factors of the increase of foreign obligations. The foreign debt's service was not possible without sufficient gold and foreign exchange reserves. However, the reserves were observed to reduce beginning from 2008 against the background of increasing foreign debts. And the renewal by the state of its gold and foreign exchange reserves seems to be the only way out of the situation.

5. **Social improvement.** Expansion of crisis manifestations undoubtedly affected the people's welfare. In fact, there actually was a "conservation" of the level of real wages. Taking into account a rather stable dynamics of the real sector of economics, we would advise our statesmen to pay attention to the problem of employment which can not be solved by way of reduction of state expenditures.

Table 1. Foreign debt, export turnover, and GDP correlations, with the UAH/USD exchange dynamics

Years	Foreign debt/Export,%	Foreign debt/Gross domestic product,%	UAH/USD100,00 at the end of the period
2005	82,2	47,5	533,17
2006	74,2	47,2	530,91
2007	89,3	45,9	502,20
2008	108,5	50,6	502,53
2009	132,1	56,0	505,05
2010	118,4	55,9	776,82
2012	191,6	88,7	797,65
2013	192,2	77,3	799,10
2015	193,6	78,1	799,30

Compiled by authors basing on [17-18]

According to P. Krugman's recipes as to overcoming crisis (these based on Keynesian principles), the state must economize, but whatever mechanisms it would use for that purpose, it should remember that its policy of saving of expense may not "ruin the job market" [19].

It is beyond all doubt that the national economics experienced serious hardship. However, the difficulties were not the result of external aggression, but in the first place a consequence of longtime accumulation of systemic deformations and the absence of framework conditions for stable economic development. The Russian aggression and trade sanctions had only speeded up and deepened the economic crisis now experienced by Ukraine. And the next meltdown of 2014 – the beginning of 2015 was not unexpected but to a great extent forecasted, especially in conditions of intensification of external impacts.

3. CONCLUSIONS

Ukraine stays to be the only European country lost in the inter-crisis space. A rather poor economic dynamics of the country today – in conditions of enduring military aggression, deepening and expansion of negative trends in economics, poor public administration system confidence, high corruption, weak fiscal discipline, unsatisfactory investment attractiveness, and excessive debt burden – points to pre-default risks and the loss of the country's rightful place in world economics.

Besides, there is still no basis for sustainable economic recovery in Ukraine, which results in conservation of producing sector and standard of living, which, in its turn, limitedly affects gross demand and oppresses business environment.

This is why the change of economic model in Ukraine would imply a number of key transformations in state regulation, administrative-territorial system, local self-government, public health, education, social maintenance, power-generating sector, all these requiring coordination between different state subjects and regulators; immediate and categorical reduction of state debt; balance of state and local budgets; equalization of motivations, etc. Thus, in the context of administrative reform, the state should elaborate it and suggest to its citizens, and, in the first turn, its economic subjects, those property rights, authority functions, infrastructure, tax laws that would encourage people to initiate new ideas and transform them into beneficial business models on a practical level. And this is only a logical way to raise the population's of the country wellbeing and find the way out of our critical situation.

And the systemic and consistent corruption therapy is the first and the topmost thing to be started with in Ukraine.

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