

ECONOMIC TRANSFORMATION: CHARACTERISTICS AND SETTING PRIORITIES

Abstract

The author of the article analyzes the key tendencies inherent to modern transformational economies. The attention is emphasized on the importance to study the transition economic processes not only from command-administrative to market economy, but also from industrial to postindustrial society on the global scale. This paper elaborates the basic features of transformations, and indices, that indicate the degree of their completeness.

Key words: transformation, transformational economy, transition economy, liberalization, post-industrial society

I. Introduction

The topicality of investigating the process of economic transformation is determined by the needs of forming the target state of economic system in future that meets the highest level of the efficiency amount: technological, resource, social. The practical significance of such studies is achieved when they are aimed at finding some optimal way to achieve final effective state of a "planned" economic system.

II. Problem Setting

In recent decades, economic theorists devote considerable attention to the study of the transition state in economy. The relevance of such research has, before all, practical character as they are aimed at finding the optimal way to achieve the planned economy system, which, for example, can be a developed social market economy that can replace the command-administrative economic system in former socialist countries. The main objectives of the study are the specification of the nature of transition states in modern economies, identification and analysis of the main characteristics of transitional economies, as well as their interactions with the systematic transformations of industrial society to post-industrial in a globalized world.

III. Results

Transitional (transitive) economy is the notion that usually determines the transformation of the centralized non-market model of economic development with strict command-administrative methods of management to an open economy in which the functioning of the market mechanism is combined with flexible methods of state regulation [6, 371]. Transformation in the broad sense is considered as a universal form of economic systems related to their continuous quantitative and qualitative changes in the evolutionary and revolutionary changes. Transformation in the narrow sense is an internal component of the evolutionary process connected with a profound renewal of economic system during its abrupt qualitative changes [2]. In studies of "transitive" economies it is meant that the transition state is a temporary phenomenon, and the construction of the equilibrial, functional market economy should be the result of it. The understanding of transition as a manifestation of one of the basic laws of dynamics in economics, law transition from quantitative to qualitative change, moving to a new economic organization is more versatile. The most common properties of economic transit include intersystemitization, instability, nonstationary, variability of components, nonlinearity, reduction of the operation efficiency and information overheating [1].

The lack of clearly defined property rights, which is one of the fundamental components of organizational infrastructure of market economy and at the same time a vital condition for the emergence and development of a new stabilizing sector of the class of small and medium-sized enterprises is the most essential obstacle to the economic success of the transit system [8, 135]. Privatization became the universal tool for transformation system of property rights in Central and Eastern Europe.

Defining the main long-term goal of transition to 28 countries to create a market economy, the World Bank offered the following four criteria for assessing the progress of transformational reforms: 1) liberalization, 2) development of property rights and ownership, 3) availability of appropriate institutions, 4) orientation of social policy. The main criterion for the completion of reforms was defined: economic transition is completed only when problems and further reforms in these

countries are similar to the challenges faced by the countries with developed market economy and comparable income levels [10]. However, in the former socialist countries the transition to a new economic system is not only establishing a market economy, but also creating conditions for a transition to a post-industrial society.

Today the change of ownership system and governance in the economic transformation is intertwined with the process of transition from industrial to post-industrial society. The peculiarity of it is not only changes in the material basis of society (technology, quality of life), but the re-evaluation of values and mentality of people. The main directions of these changes are humanization and greening. The most economically developed countries today are in the transition to a post-industrial, information society. However, gradualness of this process makes it impossible to notice qualitative leaps that must be present in each transition. These qualitative changes include environmental priority over economic values, humanization and democratization primarily in economic relations, weakening of the influence of spatial limitations on professional and cultural human activity and, as a manifestation of this, the emergence of international economic and political alliances and associations, and global distribution and development activities of transnational corporations' activity.

Although the idea of de-industrialization of the national economy as specific feature for the practical implementation of reforms in Central and Eastern Europe is common, in most cases, this process of de-industrialization has nothing to do with the progressive movement to post-industrial society [2, 77]. Moreover, the share of high-tech production in the industrial structure decreases and the proportion of resource consumption industries, related to primary processing of raw materials, increases. The processes in transition economies are the result not only of market transformation, but also a consequence of global trends of moving to post-industrial society [1, 38]. Thus, there is the laying on of two types of transformations in the global economy – market and post-industrial. In this respect, the main objective of transitional economies is not simply to reform their economic system for creating a competitive economic environment, but also to create the necessary conditions for the

formation of post-industrial type of society with its quality features and value ideals, particularly in the economic life.

A parallel movement towards modification of social and economic systems of individual countries and at the same time to post-industrial organization of integral societies in a globalized world causes structural and functional weakness of economic systems. This affects the processes of economic growth during the periods of special problems aggravation, connected, on the one hand, with the structural transformation reforms, and the objective processes of post-industrialization and informatization, on the other hand. Tendentiousness of this process is shown in Figure 1, which represents a deep transformation dependence of transition economies from the external and internal influence of imperfect reforms, while developed markets demonstrate the moderate economic growth without significant shock vibrations.

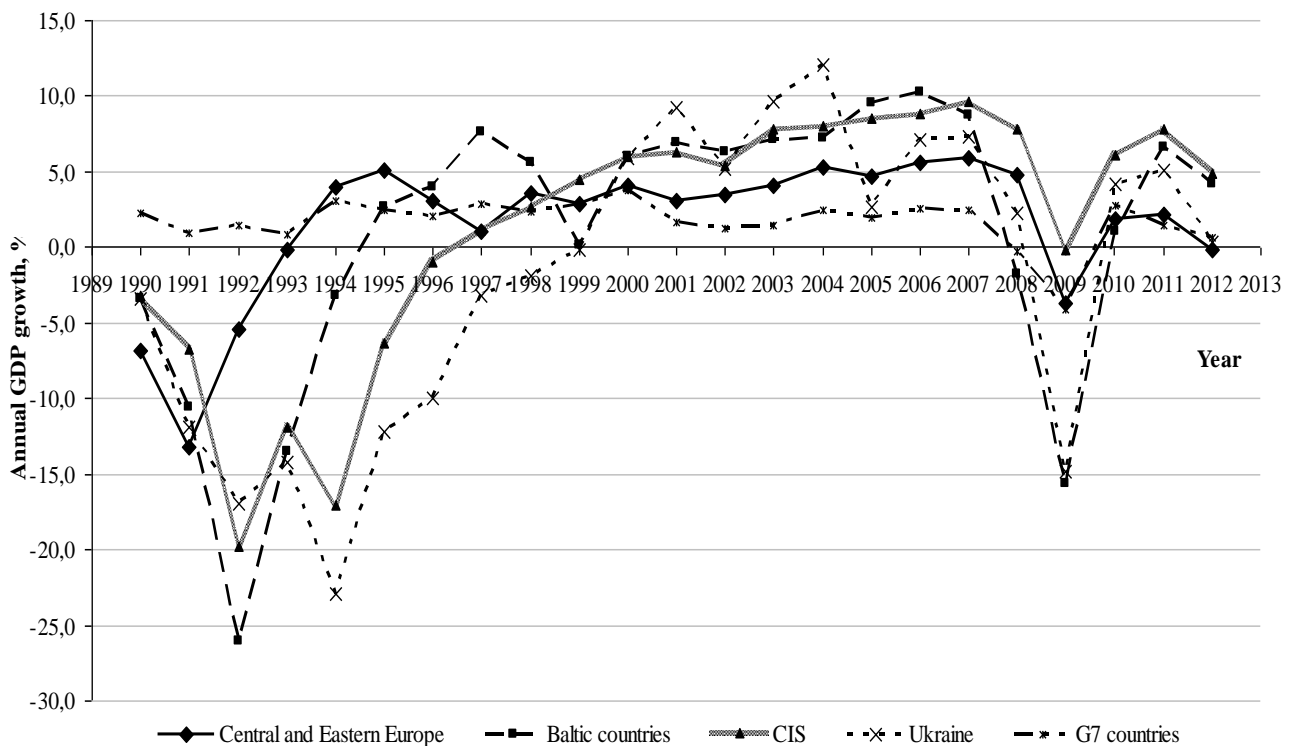


Figure 1. Dynamics of GDP change in determined country groups in 1990-2012

The experience of economic reforms gained in Central and Eastern Europe, reveals the most probable trends and patterns of economic transformation. The starting point of market reforms in all countries was the abolition of price controls,

which led to a significant rise in supply of goods. Thus, during the years 1992-1996 consumer price index in Moldova increased by 1.5 thousand times, in Tajikistan – 15.4, in Kazakhstan – 21.6, in Armenia – 26.4, in Belarus – 39.6, in Ukraine – 42.5 thousand times [7, 225]. Monetary methods of inflation overcoming were not successful. This is because the reactions of economic agents to monetary measures in transition economies, differ greatly from the reactions of enterprises in market economy. Therefore, none transformational economy succeeded in practice to avoid inflationary price increases.

The decision on the liberalization of foreign trade was not prepared sufficiently, as it caused a large flow of cheaper and quality foreign goods that contributed to the decline in domestic production of many goods of light and food industry, motor industry [6, 379].

Another trend typical for countries with economies in transition is an essential conflict between accumulation and consumption, which is mainly solved in favor of consumption. Competition in transition economies is led not by lower production costs, but by strengthening of corporate power as a form of control over production and market for getting cheap loans and resources. In contrast to market economy where price is seen as a point of equilibrium between supply and demand of goods, in transition economy it is under the influence of monopoly power. First of all it concerns the price of raw materials, equipment, and labor. In transitional economies one can observe a significant difference in prices for the same products, not only within one country, but also within a region or city. This is due to the fact that the vast majority of prices is set by monopolistic way, bypassing competitive mechanisms.

However, one of the most significant and characteristic features of transition economy is «transformational recession» [5, 4]. It is due to the fact that in the transition economy primarily old institutions and mechanisms of activity give up, and new, characteristic of market system, are forming. Among the most distinctive features of transformational recession one can name a transition from a seller's market to a buyer's market (i.e. from deficit economy to economy of insufficient

demand); structural reorganization, which is more intense during the transition period as compared with the usual economic cycle; violation of economic coordination, i.e. uncertainty and risks generally characteristic of market economy, but increase significantly in transformational economy; incompleteness of major institutional reforms and, above all, the uncertainty of property rights and the backwardness and imperfection of financial sector; a sharp decline in investment; impoverishment of population and fast income differences; high inflation rate and hyperinflation, etc.

The instability of processes in transitional economy is hard to predict because there is a great deal of factors that contribute to the heterogeneity of processes of transition to market. These processes can be classified according to several criteria:

1. Form of ownership. State-owned enterprises of transformational economy as opposed to countries with market economy operate in non-market conditions. This means that non-market institutions regulating businesses are still functioning in transition economy.

2. Branch structure. The enterprises of different industries react differently to the influence of investment and consumer components of demand and have different dynamics.

3. The size of the enterprise. The dynamics of small businesses and large businesses varies greatly under reforms. Direct interest in the results of operation and lack of complex technologies create the conditions for rapid growth of labor productivity in small and medium-sized firms. Large companies, in contrast, require significant investment and change of managerial personnel.

4. Asynchrony of transition processes. Thus, the privatization of small, medium and large enterprises is not a whole, but a step by step process.

5. Regional peculiarities.

6. Structure of import and export.

The market economy transformation is a strategic task that aims at radical change in the nature of economic relations between production and personal consumption. In transition economy two fundamental problems are simultaneously solved: firstly, the implementation of radical market reforms, and secondly, the

realization of an active anti-crisis policies aiming at overcoming the production recession, recovery of the national economy and its restructuring on the basis of modern industrial and agricultural policy and, hence, at achieving the economic growth [3, 29]. The task of restructuring is an impact on the transformational economy, which compensates crisis deformation and creates structural conditions for optimal functioning of the economy in the post-transition period.

IV. Conclusions

Thus, there are important structural changes, restructuring in modern transformation economies. The restructuring of the economy in general requires a strictly defined mechanism – means, forms and methods by which it is carried out in the shortest possible time and with the greatest effect. These methods include privatization, liberalization of prices and foreign trade, the change of ownership in the country, which are often accompanied by significant declines in production. The tasks of economic transformation change over time, influenced by global trends. The newly created (or transformed) economic system, forming under the influence of popular technocratic ideas, serves as the basis of social development not only of the individual countries, but also the entire country groups. The tendencies of post-industrialization (intellectualization, informationalization) and the globalization of the economy are common in socio-economic transformations of modern economic systems; particular is defined by transformations of individual groups of countries in transition from traditional to market economy, from command-administrative to socially-oriented market economy, from industrial to post-industrial economy.

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