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## STATE REGULATION OR ECONOMIC FREEDOM: THEORY OF THE PROBLEM

The problem of the role of state in economic development administration of the country is constantly in the centre of attention of scientists in the sphere of economics and experts. Economic community represented by supporters of liberal and contrary theoretic views holds permanent discussions about the boundaries of economic freedom.

There are various viewpoints on the role and interference degree of the state with economic development, modernization and economic growth provision. In Russia, for instance, there are directly contradictory views among economics scientists. Thus, the known economist A. Illarionov [1] supposes, making reference to the experience of Western countries, and especially Ireland, that the share of

government expenditures in GDP of the country characterizing the degree of state participation in economic development must not exceed 18-21%. Other scientists economists, such as D. Lvov, S. Glazev [2;3] consider, that the market must play a subordinate role and only large scale state interference is able to provide progressive processes in economic and public modernization and achievement of the country sustainable development. In many cases Russian economists speak not only of strengthening state control and regulation but of increasing direct state interference with socio-economic processes including the problems of nationalization and deprivatization of main units of country economy as well.

At the same time, regardless of various views, it is possible to outline four basic postulates, which to our mind, are indisputable.

Firstly, the state must always be present in economy, at any stage of the country development and can not be neutralized completely.

Secondly, discrepancies in views manifest mainly in admitting the complex of functions, which are certainly in state competence. The main of them are: providing the accomplishment of state laws and legal

order control; providing national security; macroeconomic stability and creation of favorable conditions for the country sustainable development; formation of necessary public institutions; rendering services to the society in the sphere of public health service, education and others; public social care; environmental protection; antimonopoly regulation with the aim of market pitfalls and deformation control, using the means of prices, tariffs, taxes, salary management and etc.; state entrepreneurship. However, various theoretical models, realized by different countries, may admit different functions package within the sphere of government activity.

Thirdly, in practice, depending on circumstance, conditions or present situation the government carries out any of the enumerated functions in one volume or another. In some cases, for instance, in modern period of global economic crisis, the increase of the role of the state positively influences economic growth, but in any case the government accomplishes the set tasks more effectively, if its activity clear priorities are emphasized.

Fourthly, determination of more rational degree of state interference with economy depends on specific character of the country, conditions and stages of its development, its role in world economic system, level of institutions and internal market sophistication, also on peculiarities of national culture and public mentality.

At present, qualitative changes are taking place in world economic development which can not but affect the change of the level of state interference. The developed countries, having passed the period of industrialization, entered postindustrial stage of development, transnational corporations spread outside the national borders, the competitiveness of small business increased. Definite balance between the companies has set, and at the same time, state entrepreneurship has shown its relative inefficiency. Therefore at average the share of government

expenditures in GDP of developed countries started to increase much slower.

At the same time, in conditions of formation of huge corporations a strategic management at the state level not only preserves its significance, but gains a new role. Especially, the role of the state in economy, in terms of economic non stability and deepening of global economic crisis, increases. The matter is: to make use of big corporations in favor of national competitiveness growth in these conditions it is necessary to create an effective control system of their activity and interaction with the state economic system. Such a system gives the state the opportunity:

- to organize partnership with industrial capital;
- to provide a sustainable return of duties into budget, effective antimonopoly regulation and prevention of conspiracies against the state;
- to create conditions to strengthen innovative processes providing economic growth;
- to orient private sector to take part in social processes, to stimulate businessmen to participate in breakthrough projects and investing critical, but necessary industries for the society;
- to solve the problem of the entrance of the state into world markets with competitive products and etc.

For huge corporations the advantages of economic interaction with the state are in the possibility to use state power for the entrance to the world markets and overcome their monopolization in relations between countries, to use state resources for the growth of competitiveness of own products and etc..

For developing countries, with the market in the process of formation, the problem of the role of the state in economy administration, its modernization all the more so keeps to be complex. Mainly it depends on what way is chosen for the country – economic modernization from above, when its processes are initiated by the state, or modernization from below, where it is realized and financed by private sector under the state support.

In order to determine the choice of the model of macroeconomic policy and evaluate the role of the state in modernization of economy and society it is important to change the degree of state participation in economic processes versus indicators of economic growth. The most spread indicators used in different countries to evaluate the degree of state interference is the ratio of government expenditures to GDP. However, the state influence on economic processes

is not just limited by budget expenses. Western scientists proposed the way of defining the index of economic freedom (EFW Index) which consists of 10 main indices, based on 50 indicators. [4]. These are indices, characterizing:

- direct interference of the state with economy by means of combined government expenditures (including regional and local budget, state funds) and share of national economic sector;
- fiscal policy- amount of taxes;
- external economic policy – the amount of import-export duties;
- currency policy and inflation;
- investment policy;
- openness of banking and financial systems;
- state regulation of prices, tariffs, and salary;
- private ownership protection;
- corruption level;
- the degree of bureaucratic regulation of market.

Index of economic freedom being calculated by Fraser's institute includes still greater amount of measures, including also informal ones such as the time spent by public officials on negotiations with representatives of private businesses [5]. Calculation of these indices started to be realized just from 1993-1995 and as the experience showed its realization is difficult because of irreconcilable data characterizing state interference in economy, or their absence. The change of influence of the state on economic growth is traced only on the base of general government expenditures. However, these data also let Western scientists make a set of important conclusions, having significance for Kazakhstan as well:

- character of influence of the share of government expenditures on economic growth defined by the groups of countries for 1970-2005, essentially changes in the course of time: at the beginning of the period weak positive influence is marked, in 80-s it becomes negative, but the last time there is no any notable influence;

- the greatest part of government expenditures in the percentage to GDP – at average about 43% is characteristic for developed Western countries with per capita income of GDP not less than 25 thousand USA dollars a year and Eastern Europe countries, that is countries with developing market – about 40 %, herewith GDP per capita here is lower almost 3 times – from 3 to 9 thousand USA dollars a year. The least share of government expenditures – about 25% to GDP, is counted in South Eastern Asia



countries with high rates of economic development and average GDP per capita – up to 12 thousand USA dollars a year, and also in Latin America, where government expenditures are often little – from 6 to 26 %, and per capita GDP is very low – from 2,7 to 6 thousand USA dollars a year [6];

- the least influence or even negative influence of government expenditure growth on the economy is observed in developed countries, therewith in leading countries of economic growth (Ireland and Korea till the world crisis 2007-2009) negative correlation of these figures is viewed. So, in all the world countries, according to the calculations of the World economic forum [7], the coefficient correlation was 0,15, in developing countries and countries with the market being formed -0,22-0,28, then in developed countries its value was negative – 0,20.

In our opinion, the degree of state interference with economy is more legal to control not only in reference to government expenditures to GDP, but also according to dynamics and structure of this index reflecting the methods and directions of expenditure of public funds. Also, the control of the character of state support of business has a great significance, that is the assessment of the fact whether all the directions and spheres of private sector or mainly competitive industries, and also the branches able to improve the economy structure, are supported. That is, the most important in providing positive tendencies in economic growth is increase of state investments for the support of scientific research and development project, for introduction of innovative projects and development of ICT technologies.

Consequently, it is possible to make such a fundamental conclusion: to provide economic growth, the total growth of government expenditures in absolute volume and in reference to GDP is not so important, as provision of progressive structure of government expenditures, that is a structure directed to industrial modernization of economy, forming its new type based on innovations and knowledge and, finally, on economic growth.

At the same time the analysis has proved that in developing countries, for example, in Latin America negative influence on economic growth is made by factors connected with wastefulness of governments with irrational government expenditures. This implies that the struggle with corruption; the creation of effectively working institutional basis of the state, stiffening of the control of targeted application of state

budget will play a positive role in economic development of the country, increase of its GDP and consumption growth.

Following from the above said, it is possible to point out the next groups of factors of state regulation of economy which determine economic growth:

- support of effective structure of government expenditures:

a) the control of targeted expenditure of the state facilities, and reduction of ineffective state expenditures;

b) the state support of effective business;

c) state stimulation of scientific research, innovation and ICT – technologies;

d) state support of developing progressive branches and production of processing industry:

promotion of quality of institutional foundation of the state:

a) improvement of legislation in economic field;

b) efficient protection of national economic interest;

c) providing effective disposal of financial assets;

d) struggle with corruption;

e) quality of communication service, Internet access;

f) decrease of administrative barriers for running business and etc.

In whole, the research of main factors and dependency of state influence on the economic development and realization of processes of industrial modernization enables to point out the modern regularity in this problem- if in previous times in different countries it was possible to speak of negative role of intensification of the state interference, or on the contrary, positive influence of state regulation on the economy, at present it is impossible to set a single-valued dependence. Today the state regulation of economic development should foresee the use of complex form and methods combination assuming the strengthening of state interference with some spheres of activity and sectors of economy and its weakening in some other ones. In other words, we conclude, that there is no long-term regular link between the degree of state participation in economy, GDP growth and possibilities of modernization of economy. But it is fair to say, that in critical conditions of development of world economy the role of the state in realization of main factors of economic growth and industrial modernization is being strengthened, that is the significance of state financing and state

support of scientific research and projects, venture projects, introduction of new technologies, developing of educational and intellectual potential of the country grow.

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## Резюме

Елдің экономикалық дамуын басқаруда мемлекеттің ролі экономика ғалымдары мен тәжірибешілердің назарында әрқашан орын алуда. Ілімдік көзқарастағы экономикалық қоғамдастық экономикалық бостандық шегі туралы пікірталасты әрқашан жүргізуде.

## Резюме

Проблема роли государства в управлении экономическим развитием страны постоянно находится в центре внимания ученых-экономистов и практиков. Экономическое сообщество в лице сторонников теоретических воззрений ведет постоянную дискуссию о границах экономической свободы.

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