
Theory and methodology of economic processes research

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THEORY OF ECONOMIC REGULATION: NEW ASPECT

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The article covers the key aspects of the economic relations based upon the current state of economy. A new view on the economic norms and standards and their interrelation has been offered. Proved by the retrospective analysis, the significance of regulation of the economic processes is substantiated.

Keywords: *economic regulation, standards, norms, evolution of economical thoughts.*

Introduction. The effectiveness of functioning of any system is based on standards which are the basis of its constant work starting with the nature as a whole and ending with any special biological system, starting with economic organization of the society and ending with family economics, etc. It is worth mentioning that on the whole regulation in nature is realized without any direct participation of man who cognizes the outer world and follows the standards existing.

In social sphere of life, standards are established by society. This establishment fixes ethic and legal order of relations between citizens, technical characteristic curves of production, economic principles of behaviour of the subjects of management and also on their basis develops norms. The definition of standards in economic relations is one of the most important tasks of the society. Correctly established standards harmonize functioning of the whole economic system, favour the effective circulation of capital both at macro- and micro level. The cases when standards are not established or they are established incorrectly or they are not observed, lead to considerable losses that in their turn cause crisis phenomena both in separate branch of management or in economics as a whole system. Thus, the problem of economic regulation is extremely important and scholars and practical persons of all the stages of the development of the society pay much attention to it.

Analysis of recent researches and publications. In science, regulation of economic relations breaks out from ancient times but it acquired its greatest flourishing and basis in period of foundation and development of money commodity and credit economy. This problem has become the subject for discussions for many scholars. The world famous scholars as V. Pete, J.-B. Sey, A. Marshal, F. Quesnay, F. Taylor, G. Emerson, F. Gilbreth, J. Keins, J. Hicks, V. Leontiev, M. Friedman, I. Fisher, O. Williamson, F. Haiek, F. Fukujama and also native scholars A. Galchinski, V. Geyets, A. Gritsenko, I. Lukiniv, A. Moroz, M. Savluck and the others have been actively investigating this problem.

Main purpose of the article. Taking into account the high importance of establishing the standards as one the main steps in economic regulation, the author is trying to implement Ukrainian terminology into world economic science, and to show the importance of standardisation for the economics.

Results and discussions.

It is important to notice that there is no correct equivalent for such terms as «Норма» and «Норматив» in English. The terminological problem increases when we take into consideration the inconsistency while using such terms even in our native Ukrainian language.

So, the author decided to use in this article the English term “Standart” as an analog for Ukrainian term «Норма», and the term “Norm” for Ukrainian term «Норматив». It seems the most appropriate way to deal with the terminology.

All the subsequent text uses such a terminology.

Nowadays, the theoretic methodological basis for economic regulation as essential condition for the effectiveness of economic processes is not developed enough. In economic literature there are different interpretations for the notion of regulation but all of them as a rule are related by common term “expenses”. Thus, In Ukrainian encyclopaedia of economics “regulation” is defined as the development of norms and establishment of standards for the expenses on various sources (labour, materials, etc.). [4, 599] In Dictionary of Economics compiled by Russian scientists, term “regulation” is defined as process of the development of norms and establishment of standards of labour, time, material and expenses on the other recourses. [2, 369] As is clear from the aforesaid term “regulation” is traditionally considered as a process directed on regulation of expenses. This approach having been formed since the time of foundation of industrial age still prevails in modern theory of economics. We can't state that this approach is erroneous but it essentially restricts understanding of the problem of regulation in conditions of modern world.

As is well known, on conditions of industrial development of management as to the low level of the demand and competition on the market, profit can be increased owing to the decrease of production expenses. In XIX century G.-B. Say formed the rule concerning the management of production: in order to decrease profit, it is necessary to decrease the production expenses. This rule had been functioning for a couple of centuries. Approximately one hundred years later, P. Samuelsson wrote that producer decreasing his expenses could survive in conditions of competition of costs and maximally increase his profit that in its turn is reached owing to application of the effective methods of production [11]. Therefore, in modern world when market competition becomes more severe (but not in

the result of functioning of the factor of cost but in the result of the appearance at the market of more exquisite methods and forms of firm's rivalry) decrease of expenses on production can't be the main principle of work of the managers of factories. The survival of enterprises depends more and more upon the factors of long-term order but not on the economy on some kinds of direct or overhead expenses.

Nowadays, it is impossible to exist in conditions of competitiveness without any essential innovations and investments, which cause calculation of income in terms of vagueness of the results of usage of capital. Today without any regulation of process of circulation of capital it is impossible to reach constant circulation of value with calculative standard of profitableness and risk. Therefore, in modern conditions it is principally necessary to consider the notions of "economic regulation", "standard" and "norm" in a new fashion.

To proceed from suggested understanding of economic processes it would be logical to understand term "regulation" as process of definition of standards, procedures, establishment of norms and their usage with the main aim of effective circulation of capital during relatively long period of time. The given definition is more extent that the previous ones and corresponds to the modern level of the development of economics.

As to the notions "standard" and "norm", there is a disparity in their interpretation in economic literature and generally accepted understanding. Thus, in Modern Dictionary of Ukrainian Language by V. Busel we can find the notion of standard as a "common legalized generally accepted obligatory order, state and so on. Generally accepted rule..." [3, 626]. For instance, we consider ethical standards to be an established order of relations in the society or rules of persons' behaviour. Legal norms are the formal obligatory rules of behaviour, which have a common character and are established or sanctioned by the State in order to regulate social relations. As for the norm it is a showing of standards [10].

At the same time in native economic literature standard is understood as "maximally permissible quantity of material, labour, financial resources for production of unit of output, discharge of the unit of labour or giving the unit of services..." [4, 587]. Norm is understood as "showing that characterizes the level of usage of tools and means of labour, subjects of labour, alive labour itself, money, etc.". [4, 594] Actually this approach is directly connected to regulation of expenses but it is not directed to the analysis of economic processes on different levels. Therefore, with the aim of development of the conception of regulation taking into account the generally accepted notions, relies existing in economics will enable to approach the understanding and solving of important problems of economics systematically. It would be essential *to include in system of economic standards some rules which should regulate the accomplishment of economic operations*. That would favour the more rational consumption of the resources. We should take into account that rules should be determined proceeding from the objective processes of the development of economics.

Norm is a showing that is calculated and established by a man on the basis of particular standards. If standard is a qualitative characteristics of the effectiveness of circulation of capital, the norm is a quantitative showing. Standard is usually wider notion that norm. Standard is of common character in other words to say it is a principle;

establishment of principles of accomplishment of economic processes is one of the most important tasks in economics.

Thus, in the process of regulation correlation between norm and standard is established.

If economic standards are more constant in terms of knowledge existing in this branch of science, then we should state that norms are relatively changeable.

In the process of regulation, it is of great necessity to provide the unity of qualitative and quantitative characteristics of the circulation of capital that builds the basis for understanding of economic processes and their regulation.

The suggested approach to the character of regulation gives an opportunity to make out economic tasks, which should be solved by members of the society systematically and purposefully. It can be confirmed by the analysis of approaches (conducted by the world famous scholars) to solving the tasks, which occurred in some periods of time. Thus, economic table of famous French scholar F. Quesnay appeared resulting from the necessity to get over the non-equivalent relations between members of market, which happened in France in XVIII century. F. Quesnay wrote that human society is a part of the world structure that is subordinated to the laws of nature. Not only in nature but also in the society the exchange is accomplished as to the principle of equivalence [7].

As to the scholar's point of view, the main condition or the rule that provides stability of exchange and system in common is the representation of resources. Analysing the situation of economics of the country, F. Quesnay concluded that equivalence of economic relations at the basis of representation of productive resources mustn't be broken by State and that all regulative actions of Government are admissible only in terms of market standard. He considered that braking this economic principle would lead to ineffective usage of capital (both at the level of separate management and at the level of the whole State) and to the negative social consequences which evidenced the events in France at that time.

Physiocratic approach to the economics on the basis of equivalence gave F. Quesnay an opportunity to be one of the first scholars to reveal the standard as correspondence of costs on goods and services of the quantity of money in his country. But at that time this standard didn't have any practical application and it was brought to the quantity showings only in XIX century.

In XIX century economists from the USA were engaged in the perfection of the theory of regulation on the basis of unity of standards and norms. At that time economic notions like "standard" and "norm" were closely related to the necessity of the development of theoretical basis of effective usage of limited resources of people at the market of North America. The problem of work regulation was studied by famous economists and practical peers as F. Gilbreth, H. Emerson, F. Taylor, G. Ford. The famous American scholar H. Emerson was one who had fully investigated the essence of economics and methodology of regulation on his monograph "Twelve principles of productivity"(1912), which hasn't lost its essentiality up to the present day.

In the process of regulating labour H. Emerson searched for the basis of its productivity. In the process of research, the scholar concluded that "tenseness" and "productivity" is not the same, these are totally different notions. To work intensively means to strain to the work maximal efforts and to work productively means to strain to the work minimal efforts [16].

Emerson H. built his research in the sphere of economics on the basis of natural regularities. He wrote: “Nature teaches us that elevated results are reached not by means of increasing but by means of decreasing the efforts...But we can still master these lessons...To breathe more often than usual is as hard as to breathe more slowly than usual, but it is the most easily to breathe with a normal, common rhythm” [16, 126].

The merit of American scholar lies not only in the fact that he established standards of labour. H. Emerson on the basis of these standards calculated the norms – qualitative showings of standards. Thus, he grounded the methodology of regulation. Besides the regulation of labour, he was engaged in the problems of regulation of circulating money, first of all materials and power repositories.

Merit of H. Emerson also lies in the fact that he was the first to give the definition of the notion of “economic standard”. He understood this notion as “written and certified” norms and number of works, which provide the effectiveness of the usage of resources. F. Taylor And H. Ford were also engaged in the problem of establishment of economic standards.

Despite all the obvious merits of American scholars in the development of the theory of regulation, we should mention that their efforts were directed on investigation of the problems of regulation of capital in terms of the enterprise. Members of American and English neoclassical schools also investigated regulation of relations at the micro level at the end of XIX and at the beginning of XX century. First of all we should mention the members of these schools – A. Marshal, I. Fisher and A. Pigou. Fisher and Pigou worked up instruments for fixing the standards of money in the system of national management [9]. Economists who actively investigated the problem of regulation of economics at micro level were the scholars of the period of “great depression”, these are J. Keynes, J. Hicks and V. Leontiev.

As is well known, analysis by Keynes included the qualitative and quantitative characteristics of economic process that can be a vivid example of methodology of regulation of economics at micro level. H. Emerson described the approach to the establishment of standards and norms concerning the expenses of resources at the factory and J. Keynes investigated the approach to the regulation of economics at the level of State. He established the rule, which said: in terms of increase of the demand with the help of money credit policy and budget regulation at the market unemployment is decreased and in terms of restrictive policy inflation is decreased [6].

Merit of Keynes lies in the fact that he tried to turn norms into the establishment of qualitative showings, and accomplishment of these showings would give an opportunity to provide the stability of functioning of economics of the country. He considered inflation in terms of which the processes in the country along the ear are increased not more that for 10% to favour the economic development stimulating the solvent demand and processes of investing. Keynes’s Approach to the regulation differed from other approaches suggested by the representatives of neoclassical economic school. Keynes proposed to influence the demand in the process of regulation of economics at micro level. This was the peculiarity of the approach to the problems of regulation suggested by the representatives of Keynes’s school though some scholars estimate it ambiguously. Some of them were interested in the question if natural regularities of market in terms of this approach aren’t broken. Nowadays

this question is one of the most important in Keynes' theory.

At the basis of regularities of existing demand and rules of equivalent representation of capital fixed by F. Quesnay in XVIII century American scholar of Russian origin V. Leontiev developed norms for well-balanced development of economics at the level of State in form of tables "expenses-production". These tables essentially differ from tables suggested by French scholar, which were only an instrument for fixing the standard of the development of economics. Standards established by American economist were used in highly developed countries of the world when calculating the bulk of production of gross output, necessary for accomplishment of existing demand. As is well known these tables weren't used widely because of the absence of direct criteria of the stability of evaluated factors [8].

Famous English scholar J. Hicks had also made an important contribution to the theory of regulation of the capital. His approach to the research of the problem of standard of the percentage to the capital was based on natural phenomena of market environment and first of all on the demand for money [15].

In 30-th of the past century under conditions of activation of theoretical studies on the problems of normalization the use of the term "normative economics" spread in the world economic view [1].

In the second half of the XX century, with the strengthening of neoclassical approaches to the development of economics, more and more scientists begin to investigate at different levels the problems of forming of norms and their impact on socio-economic relations. F. Hayek was one of the first to offer the study of "wide order of human co-operation", that is the total amount of all rules, norms, values and accepted standards of conduct which allow individuals to effectively interact in a capitalist society [17]. In that period investigation of norms of conduct of agents of management start to be realized at the turn of different sciences and, foremost, of sociology, economics, law, history and political science.

From that moment, theoretical development of fundamental basis of neo-institutionalism deepens. A well-known scientist of this field of investigations o. Williamson noted that institutions are "the main political, social, legal norms which are the base for production, exchange and consumption" [13, 31]. In opinion of one of the founders of the theory of neo-institutionalism, D. Nort, norms are the determinative for the contract cost reduction. He considered that if we had no norms that require, for example, inter-respect of ownership, we would have to convent about the rules of possessing the property in every separate case. Such situation would neither contribute to the market exchange, nor to the investments or economic growth [18].

Appearance of theory of social capital became a logical continuation of development of neo-institutionalism. By the social capital, as well as by institutions, the "norms of mutual collaboration are implied. Such norms characterize relationships among groups of people" [14, 45].

Of course, the theory of neo-institutionalism is a considerable step forward in development of social relations, but, in opinion of specialists, it has the certain disadvantages in application to economics. Firstly, some economists consider that social capital is an "abstract notion which is hard or it impossible to turn into a subject of

measurement” [14, 35].

The problem lies in the fact that in the theory of neo-institutionalism the connection between standards and their quantitative indexes (norms) is not sufficiently investigated. Modern theory of normalization, which is built on pure definition of inter-connection of qualitative and quantitative descriptions of economic process, is different in the way that it solves the questions of measuring of socio-economic relations.

Secondly, the approach to the solution of the general economic issue of rational use of resources on the basis of transaction outlays, that make up the kernel of quantitative analysis of neo-institutionalism, is important, but insufficient.

The conceptual approach on the basis of establishment of standards and norms of circulation of capital enables to solve the questions of efficiency of managing the economic process.

In the last few years, the appearance of modern monetary approaches to the economic process control in different branches of economics improved the theory of normalization.

With evolution of the society and, foremost, of financial economics, in conditions of expansion of credit relations and creation and wide use of various financial instruments, the problems of normalization on macro- and micro-levels are mainly solved on the basis of money laws and principles of their operation, that found the reflection in the use of certain financial norms [5].

Many scientists tried to solve the problems of normalization of economics by means of finances. The most outstanding of them were the following: M. Friedman, Stiglitz, A. Shvarts, G. Markowitz, M. Miller, V. Sharp, F. Modigliani, R. Merton. Of course, their scientific development works were the continuation of researches of their predecessors, namely of D. Hume, A. Marshal, A. Fisher, A. Pigou and others. But considerable progress of representatives of modern monetary school was the fact that they built a certain system of managing the economics by means of money, that is able to measure objectively economic relations in the society, depending on the existing demand on it.

It should be mentioned that the advantage of modern representatives of the monetary theory lies also in the fact that they, continuing the research of predecessors, have clearly defined the basic principle of the financial assets circulation: the amount of money at the market is to be determined by the present on it demand. Thanks to this principle the scientists made an essential contribution into the theory of normalization on the basis of classic approach. The development of modern instruments of calculation of financial norms became the result of their researches.

In the last decades the processes of normalization of national and incorporated economies of the advanced countries of the world are more often carried out on the basis of the financial normalization with the help of banking systems. It is hard to overestimate the importance of the banking system in normalization of economic relations in the civilized society. It was substantial in olden times, and in the long run its role only grows. From the end of the XIX century, in the economic thought there exist a strong belief that a determining role in the economic process control, both on macro- and micro-levels, belongs to the banks [12].

How do the banks normalize economic processes? What principles must they follow

when calculating the norms? These questions are the theme of a separate article.

Conclusions and further researches directions. Summing up everything that was said above, we will note that the problems of standardization have an extremely great importance for economics.

The approach of standardization, offered in this article, needs subsequent development, however it already allows to see the prospects of solution the problems of theoretic-cognitive and managerial functions of normalization. With the help of normalization we, on the one hand, define the regularities of market processes in economics, on the other hand, setting the norms and following them, we manage these processes. Therefore it is hard to overestimate the importance of normalization as a certain methodology in economics which harmoniously links theory with practice.

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ТЕОРІЯ ЕКОНОМІЧНОГО РЕГУЛЮВАННЯ. НОВИЙ АСПЕКТ

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У статті розглянуто ключові аспекти економічних відносин, беручи до уваги сучасний стан економіки. Запропоновано новий погляд на економічні норми і нормативи. Спираючись на ретроспективний аналіз, автор обґрунтовує важливість регулювання процесами у економічній системі.

***Ключові слова:** економічне регулювання, норми, нормативи, розвиток економічної думки.*

ТЕОРИЯ ЭКОНОМИЧЕСКОГО РЕГУЛИРОВАНИЯ. НОВЫЙ АСПЕКТ

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В статье рассмотрено ключевые аспекты экономических отношений, опираясь на современное состояние экономики. Предложено новый взгляд на экономические нормы и нормативы. На основе ретроспективного анализа, автор обосновывает важность регулирования процессов в экономической системе.

***Ключевые слова:** экономическое регулирование, нормы, нормативы, развитие экономической мысли.*