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The liberal idea and modernization of Ukraine's economy

The consequences of realization of a liberal idea in Ukraine's economy have been analyzed in this article. The evolution of liberalism has been considered as well as the formation of its two trends. Ideological prerequisites of modernization of the current socio-economic system as an important determined process of the provision of a successful survival of the country in the long run have been studied.

Nowadays our country has faced another historical choice as a result of at least a 20-year period of socio-economic reforms. Due to the unfinished and failed reforms that were also affected by the global economic crisis, a very unstable situation has appeared in the society and, in the framework of which, many vital social contradictions haven't been settled and keep on increasing in a latent form as well.

The ways of finding solutions to all these problems, either they're rational or spontaneous, in many respects depend on their perception and scientific understanding as well as on actions of reformats. Therefore, the problem of ideological base of socio-economic transformations, which was mentioned in the article of V. M. Gates, the vice-president of NASU, is acute and vital.

In the above-mentioned article, the problems of modernization of the current socio-economic system are considered as a necessary determined process of enhancing a competitive ability and successful survival of the country in the long run. The author understands "modernization" not only as an economic element but also as a social one that comprises a historical outlook and the level of private freedom of a worker.

According to V. M. Gates, liberal-democratic transformations must become an ideological basis of such modernization that were declared in the beginning of these reforms, and appeared to be conservative ones. The scientist is trying to answer that difficult question why that happened.

About the realization of a liberal idea in Ukraine's economy

Today any unprejudiced observer can notice how a borrowed and realized liberal idea without any previous consideration has affected the overall economy of our country.

The liberal idea itself wins due to its simplicity. Its seeming simplicity of the main postulates along with obvious economic successes since 1990's in developed countries, where a neo-liberal idea was dominating, has become a major reason of its blind borrowing.

It was believed that price liberalization and freedom of choice of an economic activity must have balanced the markets at the expense of equilibrium between supply and demand. But that was just the first step. The next step was

privatization that had to focus the actions of entrepreneurs on production of those products, which were in high demand as well as on more profitable investments of private equity. With time, it must have entailed structural transformations with market demand.

And finally, macroeconomic stabilization as a part of the general policy must have set tough budget limits for the government and the central bank in the field of increasing money supply that could lead to tough financial discipline for enterprises. Strict budget limits and free prices must have made companies change their investment and production structure for meeting customers' needs that, in its turn, would contribute to effective distribution of resources.

According to the reformates, economic openness must simplify pricing for markets and contribute to the integration of domestic enterprises into international competitive environment.

Today, the consequences of the liberal policy in Ukraine can be considered as not very comforting. The most important problem of reforming the national economy is in that market mechanisms haven't led to the changes in their structure in order to meet market needs. On the contrary, structural distortions have affected Ukraine's economy. Industrial decline has become not structural but general. The decrease in GDP has reached 62% if to compare with the one of the 1990's. It's much more than in Russia and even more so in the countries of Central and Eastern Europe.

New incentives, born by liberalization, haven't released competitive forces. On the contrary, there appeared opposite tendencies: reinforcement of monopolism and unregulated openness of the economy. The integration into households worldwide has shown maladjustment of most domestic enterprises to international competition due to lack of organization and technologies. Neither line of goods nor quality of goods as well as pricing parameters didn't correspond to world standards. Towns and villages turned out to be in poor condition, having lost the previous economic base – monotowns. The system of settlement was destroyed that became an unprecedented case in world history. The competitiveness of the domestic market was ruined and chances for its reconstruction were unreal. The structure of Ukraine's economy doesn't correspond to the needs of the internal market. Consumer demand and investments turned out to be low. Ukrainian people remain one of the poorest nations in Europe.

Besides, the liberal trend of transformations has caused such problems as chronic inflation, an underdeveloped internal credit market, brain drain and outflow of capital, large-scale corruption, explicit and implicit unemployment, decline in living standards of most people, moral decline, a huge stratification and constant decrease of population.

A materialization of the liberal idea in Ukraine is a type of that model of capitalism that was formed in our government. It lacks positive historical quality that is common for foreign models of capitalism – ability for quick and quality development of the productive forces. To understand the key mistake of the Ukrainian model of capitalism, it's important to remind about its roots, its material and spiritual base. This model owes the privatization process of national property,

which was grasped at a very low price but wasn't created through private capital of owners.

The Ukrainian capitalism, if to compare with the one in other countries, missed the stage of free competition and immediately was formed as capitalism of a few group of companies in each of the key industries, when a narrower sector of the national economy was occupied by small and medium businesses.

Such a model, which implies the dominance of a few big companies that control the market, divide it between one another as well as charge prices, is called "capitalism of oligopolies" in the language of economic theory, while in our post-Soviet terminology it's called as "oligarchic capitalism".

Under such a political system, unequal and uncompetitive prices are charged, that is prices, which much more exceed competitive ones that were formed as a result of actions of market prices. Their growth hasn't been caused by a growing demand or increasing costs, but is a result of management's decisions.

A typical example, in this respect, is fuel and food pricing in the internal market that is the result of oligopolistic price formation in the spheres of production and selling products, which are usually in high demand. In other industries, the situation is the same.

Thus, an oligopolistic structure of the economy is not only the reason of growing prices and inflation as well but also a drag on investment and consumer demand that leads to the economic slowdown.

Oligopoly has become the main reason of innovation, development and qualitative transformations of the economy. Obtaining high profits, the oligopolistic circles are not interested in modernization of their productive instrument, new technologies and plants.

The current industrial structure of the national economy with its dependence on market conditions of external markets is not only the consequence of the Soviet period but also of a sharp decrease of demand on metals and chemicals in the internal market. For the last two decades, domestic capital has for almost a decade of its existence domestic capital did little to create new industries. Only mobile telephone industry and large retail chains can be admitted. And these new sectors of economy are created mainly with the help of foreign capital, which is interested in promoting their products (phones and consumer imports) in the Ukrainian market.

Negative trends in the sectoral structure of the national economy are also due to low profit in domestic market industries, while the export sector profitability is 2-3 times higher than the average for the whole industry.

While there is a huge differentiation of industrial profit rates, existing structure of the economy will not change. Therefore, it is necessary to align industrial profitability. However, market mechanism cannot pull the economy out of this structural distortion. In this case, it is illusory to account on domestic market strength because of its oligopoly.

So, today the problem lies precisely in correcting those structural distortions that are caused by market imperfection. It is an axiom of modern economic theory. But its solution requires a new model of the economy, therefore questions arise:

Which model is necessary for the Ukrainian economy? What criteria must it meet? Why does liberal model that has so many supporters of the form in which it was embodied in the Ukrainian economy, need modernization? What does liberal idea consist of? Let's continue the discussion concerning this issue.

Evolution of the liberal idea

The historical experience of socio-economic transformations shows that its success and effectiveness depend on particular ideological doctrine, expressing the interests of a large part of society.

It must represent the main ideological value paradigms that are shared by most citizens. Only when citizens have common interests, there can be certain ideology. In those cases when the ideology is imposed from above, for the interest of certain social forces, it turns into a false form of social consciousness and does not reflect reality adequately.

Any kind of judgment about "deideologization" of all forms of socio-economic life is an evidence of historical exhaustion of those values that existed in society. Such processes demonstrated the change of ideological paradigms: the rejection of dogmas and values of Soviet ideology and its replacement by a new liberal one, although it was presented as public life "deideologization". In fact, these processes indicated historical exhaustion of social consciousness false forms.

The beginning of these social consciousness forms was laid by the revolutionary events of 1917 when, in accordance with established national tradition, not already existed and more developed socio-economic system was borrowed, but a scientific concept, based only on a forecast about the future of the developed capitalist countries. This concept became a theoretical basis for the development of the new society ideological doctrine, called "socialism."

Experiment that required enormous effort and huge human casualties, failed, and the ideological concept proved to be false, which was confirmed by the whole course of historical development.

The collapse of socialistic values and ideals did not mean that society started to live without a certain ideology. In society, as in nature, there are no gaps. Instead of collapsed values and ideals of socialism, there appeared the new ones, which reflected contradicting interests of those social groups responsible for economic transformations, brought to life in the early 90s. All the spheres of social life (economy, education, culture, etc.) began to experience the impact of the new ideology, which became a "concentrated expression" of any specific political associations, movements and parties.

It happened so that the time when socio-economic system and the main ideological doctrines of the former Soviet Union changed coincided with the dominance of liberal ideas. The collapse of the communist idea has further strengthened in the minds of millions of people the view of liberalistic triumph in the world. Famous American philosopher Francis Fukuyama talked about "global liberal revolution", which was covering new and new countries and transforming them in accordance with the "universal model of development," and about the lack

of ideological "viable alternatives". According to F. Fukuyama, "not liberal practice, but liberal idea has won"²

If talking about socio-philosophical characteristics of the "liberal idea" concept, then there appear at least two questions: what is idea by its definition? why should global capitalism, with all its features, be considered a "victory of liberalism"?

Answering the first question, we should remember that according to Hegel's definition, idea is a "unity of the ideal and the real", "finite and infinite", "affirmation and negation," i.e. "the possibility that has its own reality in itself", therefore it is a "process"³. Following this definition and trying to answer the second question (why has the liberal idea most fully revealed itself in the forms of global capitalism that exist today), it is necessary to admit that modern liberalism by its essence became ideology and practice of modern capitalism. In other words, modern capitalism is the objective embodiment of the liberal ideas and the "end of history", according to F. Fukuyama. In modern capitalism, in its phenomena and facts, the liberal idea has not only implemented and dissolved, but also exhausted. Thus it cannot and is not ready to criticize capitalistic reality.

There was a time when liberalism acted as driving force behind revolutionary changes that were taking place in the system of capitalistic economy in the XVIII-XIX centuries. We are talking about liberalism, focused on the concept of "ownership". It is this notion, according to Ludwig von Mises, that determines the concept of liberalism⁴.

When the struggle of the bourgeoisie against the old regime for the alignment of its opportunities ends with victory, then social counterbalances are needed against the domination of the bourgeoisie. If there are no social counterbalances, then according to A. Smith's "universal ideals" of freedom and equality can be forgotten. In "Nature and Causes of the Wealth of Nations" A. Smith says that we should not trust traders and merchants, they will always be unfaithful with society; but there can be created a mutual balancing of conflicting interests that their sum is to work for the needs of society, and not for the selfish class⁵. Admirers of liberalism and democracy come across this great and liberal idea. It is necessary to determine how social groups expressing different interests can control each other so that none of them can fully implement its egoistic interests. In conclusion of chapter 11 of the above mentioned A. Smith's work he encourages society to be vigilant against the class of merchants and industrialists always inclined to "mislead and oppress society"⁶.

That is, according to A. Smith, proper law-governed state, proper market economy that works for society, and not for the individual corrupted oligarchic

² F u k u y a m a F. The End of History and the Last Man. M., PLC "AST Publisher", 2010, p. 75.

³ See H e g e l G. W. F. Encyclopedia of the Philosophical Sciences. P. 1. M., "Thought", 1974, p. 402–404.

⁴ See M i s e s L. v o n. Liberalism in the classical tradition. M., "Nachala – Press", 1995, p. 26.

⁵ See S m i t h A. Nature and Causes of the Wealth of Nations. M., "Eksmo", 2007, p. 282

⁶ See the same

clans. Consequently, A. Smith puts the question of limiting "laissez-faire" moral principle and considers it one of the possible types of economic order.

But in a country, where primary sector dominates, it is possible to move towards the law-governed state only if the logic of "mutual deterrence" works. Raw materials resources are easily controlled by a limited authority group, which actually turns out to be a monopolist in power and control over financial flows. It is much more difficult to create a system of balancing in here. This matter is politically very specific. Can we create an effective system of oligopoly control in such conditions, would they be favorable or not? It is necessary to develop the system of raw materials and energetic control over oligarchic clans, which would not allow them doing what they want.

Thus, liberalism, identified with capitalism as a system of pure free competition and not as really existing, represents only one of the two trends of liberalism, called "economic" trend in literature, as opposed to another – "moral" or "ethical-political" trend⁷.

For "economic liberalism", which is based on "property", the highest stage of development is the Mainstream liberalism in modern neoliberal form of liberalism, opposed to collectivism, or means of opposition to authoritarianism which suppresses the person. The other stream of liberalism, built around the concept of morals, is rooted in the Age of the Enlightenment. The Pillars of the Enlightenment, such as Voltaire, A. Smith, I. Kant, and others, put forward ideas of rational criticism of capitalism from moral and ethical perspective developed during that age⁸. For example, Kant's second categorical imperative states: "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end"⁹. The defining feature of such kind of liberalism is "rational foundations of morals".

Continuing moral traditions of Enlightenment, Hegel viewed the morals as a standard reference point of individual thinking¹⁰. But moral reference points and moral thinking gain political value only when they coincide or are close for a large enough number of people¹¹. Implementation of moral requirements of liberalism can be assigned to political *will* (as combined aspirations of actual political figures) which is directed to the embodiment of these values. Invasion of such *will* in "laws and conditions of production", from the positions of liberal values is unnatural. John Stuart Mill formulated it as follows: "The laws and conditions of the production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them"¹². But it is remarkable that this author considers this

⁷ See Kapustin B. What is Liberalism? "Free Thought" №9, 2004, p. 48.

⁸ See.: Kapustin B. The critics of political philosophy. Selected. M., "The territory of the future", 2010, c. 350.

⁹ Kant I. Fundamentals of metaphysics and moral. Work in six parts. P. 4. P. I. E, "Thought", 1965, p. 270.

¹⁰ See.: Gegel G. B. P. Philosophy of the law. E, "Thought", 1990, p.

¹¹ See.: Kapustin V. Critics of political philosophy, p. 350.

¹² Mill J. Art. Fundamentals of political economy. P. 1. E., "Progress", 1980, p. 337.

characteristic of capitalism fair for *production*. As for *distribution*, he regarded it as available to "changes" and open for "will".

The liberal "economic" idea based on "the property right" means that the property has a right to dictate to a society laws of its preservation and growth even if they conflict with fundamental principles of freedom, morals and democracy. Reflecting this "property right", the prominent theorist of neo-liberalism F. von Hayek in one of his interviews said about Pinochet, "The dictator can govern liberally. It is also possible that the democracy could govern absolutely not liberally. I personally prefer a liberal dictator to a non-liberal democratic government"¹³.

Summing up, it is possible to come to the conclusion that modern "liberal mainstream" owes its origin to one of two types of the liberalism called "economic liberalism" From its perspective, moral imperatives as well as civil society institutions serve only as means of conservation of ideals of liberalism, and consequently, for the existing neoliberal model of capitalism.

For the other type of liberalism which is based on the ethical standards stemmed from historical practice, the critical relation to the status quo of capitalism becomes, using I. Kant's basic concept "categorical imperative". Moral and social responsibility of politicians and intellectuals should proceed from raising the question of the alternative models of capitalism. It's the role of politicians and intellectuals to act as exponents of various social groups' discontent about an existing state of affairs. This is what's going to be an element of formation of a civil society seen not only as certain public organizations, but as how many the certain types of practical actions in which the most different institutions and structures are involved. In other words, these are such types of public practice when the population turns from ordinary men in the street into citizens. Unlike the man in the street, a citizen is focused on social life and "public welfare". At the same time he as well as any other ordinary person is focused on "the personal well-being". This becomes one of the main conflicts of the civil society. Resolving this conflict by searching for a new model of capitalism is the self-renewal of the society in sync with democratic development.

Thus, in a social and economic practice two types of liberalism developed into modern liberalism and conservatism (neo-liberalism) and their distinctive features with reference to the economies of the USA and Western Europe were demonstrated by Paul Krugman¹⁴, winner of the Nobel Memorial Prize in Economic Sciences, and with reference to Ukraine – by V. M. Geyets in his centerpiece article.

As shown earlier, when principles of neo-liberalism conflict with freedom and democratic norms, the latter are sacrificed for the sake of the fundamentals of liberalism. Let's analyze this problem in more detail.

¹³ See.: H a y e κ F. A. Liberalism and Economic Order. Cambridge, 1993, p. 145.

¹⁴ See.: Krugman P. The motto of the liberal. E., "Europe", 2007, p. 287.

Democracy and liberalism

Social and economic literature discusses the question of the costs of formation of democracy, or more exactly, possible negative influence of "premature" democratization on economic growth¹⁵.

Results of the conducted researches lead to a conclusion that in the countries with high quality of institutions (low corruption, high level of a law and order, and healthy investment climate) democratization is beneficial for institutional building and economic growth, and in the countries with weak institutions it weakens them even further and undermines economic growth¹⁶.

It has been noted that economic models in which the property rights are protected are called "liberal". Comparing concepts of "liberalism" and "democracy" one would find out that Europe was at first liberal and only then - democratic. In the XIX century in the European countries rights of persons and firms were protected, though these countries could not be called democratic. In the late XIX and early XX centuries more than half of adult population in Europe did not have the right to vote because of residential qualifications and property restrictions. Countries in the Far East, that scored impressive economic success during the past decades, followed the same route from liberalism to democracy.

In Latin America democratic institutions appeared before liberalism became firmly established. Those countries brought into the world the mass phenomenon of "non - liberal democracy"¹⁷. In the 90s the ranks of "non-liberal" democracies were joined by many former soviet republics including Ukraine.

The essence of the phenomenon of "non-liberal democracy" is the fact that when competitive elections of the high ranking officials were introduced those countries failed to provide the rule of law, protection of rights of the person and economic agents (such as property rights and execution of contracts). Therefore, the countries where these rights become protected are called "liberal". Such protection can be provided only by strong institutions.

Researchers of the influence of democracy on economic growth note: it can hardly be a simple coincidence that practically all the countries that successfully catch up in economic growth either postponed democratization until achieving a rather high standard of wellbeing, or practiced "one-and-a half-party democracy" (one large ruling party and several small opposition parties that have no real chance to assume power). Thus, economists believe that fast introduction of democracy in the countries with the weak law and order may cause numerous negative economic and social consequences¹⁸.

Researches state that democratization is more effective if carried out in parallel with strengthening of the law and order. The answer to the question of what speed

¹⁵ See.: Polterovich V. M. .Popov V. V. Democratization and economic development. "Social science and modern times" № 2,

¹⁶ See. : the same, p.25.

¹⁷ See. : the same, p.14.

¹⁸ See. : the same, p.25.

and sequence of democratic reforms are optimal for not slowing down economic growth should become one of the important directions of scientific researches.

But it is already possible to maintain with confidence that the social and economic changes which took place in Ukraine during the reforms would qualify for the definition of “non-liberal democracy”. The national economic system lack working mechanisms of effective competition, market concentration and accumulation of the capital for the most productive firms; there are no incentives for effective utilization of industrial potential; there are no “transparent” and universally complied rules of economic behavior; etc.

When speaking about such major sign of liberalism as “private property” one can mention that in the Ukrainian economic system the property right is incomplete, derivative and dependent on political authority. In fact there are no legal guarantees and judicial mechanisms for protecting property.

All these features of the national capital prove that it is deprived of the institutional legal basis which is the main distinctive characteristic of economy of modern industrialized countries. But it is a well known that in social systems, as well as in nature the vacuum tends to be filled. Institutional legal vacuum is filled with the opposite phenomena - such as domination of informal attitude in economy; a dominating role of the administrative authority in economic relations; lack of trust, etc. V. M. Geyets very convincingly proves it in his work¹⁹.

Thus, the absence of the institutional and legal framework and dominance of the administrative informal relations with the lack of trust is a favorable prerequisite for functioning of the oligopolistic economic structure and hinders the formation of the unified competitive markets nationwide.

The national economy disintegrated into the numerous territorial and industry segments with strong elements of administrative control. Such segmentation of the domestic market is accompanied by a sharp decline in its efficiency and high level of transaction costs.

Analysis of the mentioned limitations inherent to such type of capitalism that is established in the Ukrainian economy, showed that ignoring the institutional and legal basis as a condition for formation of an effective model of the economy was a serious miscalculation in the course of the reforms.

As noted, the current economy model of Ukraine is called “oligarchic” because there is a concentration of disproportionately high share of financial and managerial resources in the hands of a few business groups that control the major part of the export and processing of raw materials. Due to the formation and support of these business-groups the national economic system got its own social base.

However, since these groups are mainly oriented for export and are included into the global economy as its subordinate, peripheral parts, their economic position entirely depends on the situation in the global economy. This means that in the Ukrainian economy there is no self-replicating mechanism of sustainable growth based on its own. Such system even in its internal structure is not able to

¹⁹ See. : Geyets V. sub. work, p.12 – 19.

reduce the gap of our country from the developed countries, to improve the welfare of its citizens and to ensure the internal stability.

Economic, political and cultural modernization, aimed at overcoming the negative trends in Ukraine is necessary.

In this connection two questions rise: what are the possible main features of the new economic model, transition to which is becoming more and more urgent task for our country? What is the way of moving to this new model?

From the position of the neo-liberal doctrine, such statement of the problem in general is not relevant because, according to its founding principles, the market system itself will dot the i's and cross the t's. From this perspective, the attempts to interfere with the spontaneous processes of natural market selection will only hinder the development of the effective market structures and transition resources to the so-called „efficient owner”. But as the nearly twenty-year practice of market reforms in Ukraine shows, the present economic model developed under the domination of the neo-liberal ideas, which almost brought our country to the marginal development in both economic and social aspects. During the implementation of the neo-liberal ideas in Ukrainian society there was a loss of human, intellectual, industrial and moral potential. The country is brought to the dangerous point after which the decay of the basic institutions of society begins.

However, in determining the modernization ways of the existing economic system it is necessary to proceed from the specific situation inherited from the past. These specific historical circumstances determine the boundaries of the possible, and not the a priori theoretical constructs²⁰. But even the solution of urgent problems should not shut off the long-term vision of the tasks which will allow to create the foundations of the dynamically developed economy based on the strong civil society and the state.

An alternative to this is the further implementation of the neo-liberal idea, which is the material embodiment of the stagnant economic system, supplemented by weak and corrupt central and local authorities.

Consequently, it is necessary to define the basic contours of the model you want to create. Its main features include the ability to self-development and qualitative growth; involvement in the process of development and modernization of all strata of society and territories; use and update of all of society's resources, and first of all – the human one.

With regard to the modernization of the existing economic system, the question is, first of all, to establish the system of institutions, both state and public, which, on the one hand, would protect the legitimate interests of all participants of the economic relations, and on the other hand would ensure the effective use of the available productive capacity, and secondly, to adopt a meaningful strategy for socio-economic development (including the industrial policy) and to develop a system of incentives, required to achieve these goals. Crisis recovery requires the

²⁰ The consideration of particular historical peculiarities of the development of separate countries is done by famous representative of German “historic school” F. List. In his book “National system of political economy” he writes, that the magnificence of nation, its economic potential and military power are determined by human resource not by physical one.

formation of a new economic model, and in particular - a new model of state regulation on the new moral and political principles.

As it was recently emphasized by one of the greatest scientists of the modernity the German philosopher J. Habermas, who has significant influence on the world's social and political thought: "I do not see a viable alternative to the global capitalism, but an urgent political task, in my opinion, is to "tame" capitalism with the help of the right international norms and institutions. The current global financial crisis should serve as a final warning to the West about the catastrophic consequences of non-intervention of the neo-liberals to the economy". This is a very important observation of the living classic of the world philosophic ideas.

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