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POTENTIAL APPLICATION OF THEORY OF ECONOMIC WELFARE IN UKRAINE THROUGH SOCIAL MARKET POLICIES**Романовская Александра Игоревна** – аспирантка Национальной металлургической академии Украины

This article presents the overview of Theory of Economic Welfare and analyzes its potential application in Ukraine through implementing of Social Market Policies.

Key words: Public Policy, Economic Welfare, Development.

Ця стаття презентує огляд Теорії Економічного Добробуту і аналізує її потенційне застосування в Україні шляхом реалізації Соціально-ринкових реформ.

Ключові слова: Державне Управління, Економічний Добробут, Розвиток.

Данная статья представляет обзор Теории Экономического Благосостояния и анализирует ее потенциальное применение в Украине путем реализации Социально-рыночных реформ.

Ключевые слова: Государственное Управление, Экономическое Благосостояние, Развитие.

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Agenda formulation. 21st century brings numerous challenges to all countries around the world. Developed and welfare states are affected by the globalization process to more extent, whereas transition countries have to deal with both improving of the internal socio-economic situation and meeting the global standards. The possible conflict line – the relation between private and public stressed by economic and social uncertainty – becomes a crucial issue. The policy of socio-economic welfare addresses this problem and suggests the fundamental concepts to secure economic and social prosperity. The purpose of this paper is to research the concept of economic welfare and learn the successful experience of Germany as well as to identify the possibility of its application in the Ukrainian context. The model of social market economy that was implemented in Germany after World War II has led to successful reconstruction of the country in a short time; therefore, its main principles may be relevant to the ruined economy of post-communist Ukraine and enable the state to achieve positive socio-economic results.

Analysis of existing research. Theory of economic welfare. The theory of economic welfare is a complex of principles that set criteria for quality of social life and lead to prosperity of all members of society. A. Smith and D. Ricardo, representatives of classical political economy, argue that economic welfare is achieved through the accumulation of social wealth; thus, the main indicator of economic welfare in society is the income per capita [1]. At the same time, the conditions of economy matter: the development should take place under perfect competition that would enable to unite private and public interests. A. Marshall, while formulating neoclassical principles of economy, highlights that for economic development people play the more important role than production factors. [2]. Accumulating wealth is nothing more than means of sustenance and source for sufficient physical

strength and moral spirit, whereas the person itself is a producer and final consumer of this wealth. Neoclassicals argue that achievement of economic welfare is performed by meeting social needs through the optimized use of resources. Under perfect competition unfair distribution is unavoidable, therefore, the society needs to apply tools for securing welfare through government intervention in order to improve access to social wealth and encourage the individual development of every member. One of these mechanisms is the social welfare policy that secures defence, health care and education [2]. Although further research in the field of economic welfare argue on the proper extent of government intervention, all of them admit the necessity of a balance between private and public interest in welfare economy.

Pareto, a member of the mathematical stream of the neoclassical economic school, thoroughly researches the main characteristics of formulation of social wealth and claims that social welfare could not be equal to the sum of personal welfares. He defines maximized economic welfare as a point in the society when the further deviation from it and further allocation of resources would not improve the economic situation of one rational society member without worsening the economic situation of the other [3]. This optimum does not imply social optimum or intend to achieve social justice. Pareto efficiency is achieved under the following assumptions:

- every individual can properly estimate personal welfare;
- social welfare is estimated in units of individual welfares;
- the welfares of single individuals are not comparable;

The present concept has taken on several forms:

a) The Utilitarian approach defines the level of social economic welfare as a sum of individual utilities of all society members. The principle of

income distribution is based on the concept of decreasing marginal utility: for rich people the extra unit of imposed income is worth less than for the poor – “Bentham’s postulate” [4]. Under specific conditions this approach might suppose income distribution from the highly efficient economic subjects to the poorest ones.

b) The Liberal approach characterizes economic welfare as weighted utilities. In this case economic welfare is a measure that society uses to estimate the utilities of single individuals according to their ability to contribute to wealth. The market is defined as unique regulator of economic welfare, the biggest advantages are gained by most talented and hard working and the distribution is absent [4].

c) The Egalitarian approach requires the equally shared distribution of all accumulated wealth; this type of economic welfare is considered a background for the Bergson-Samuelson social welfare function [5].

H. Sedgwick, following the principles of neoclassical economics, researches the economic welfare both in terms of society and individual preferences and identifies the conflict line between private and public interests [6]. He draws a conclusion that the state should distribute the accumulated wealth and so increase total welfare. At the same time he argues that a distribution decreases the incentives to work and thus should not cover the sphere of production. One of the most important contributions of H. Sedgwick is the research of current interests versus the future ones. He creates the basis of mixed economy and defines non-economic components of welfare.

Proper attention is paid to an individual in the development of market economy by A. Pigou. He distinguishes between economic and non-economic welfare and argues that changes in the economic component do not necessarily lead to fluctuations in non-economic welfare [7]. In a non-economic welfare he includes such factors as quality of life, working conditions, leisure time, access to education, environmental conditions and health care. As an indicator of non-economic welfare he defines the size of the national dividend – a part of income of society that can be expressed in monetary terms. Along with this Pigou highlights the negative effect of non-economic nature, such as accidents, professional diseases, work of women and children, unemployment and pollution; they are later defined as externalities. All of them lead to a reduction of social welfare but it is difficult to measure the precise extent. Pigou formulates the criteria of improving of social welfare – the increase of total utilities distributed without increase of production cost and equitable income distribution according to social cost [8]. It derives from the market value of necessary goods and services that an individual cannot get on the competitive basis. The further economic research in this has still not come to a single approach of evaluation of this value.

An interesting approach for the theory of economic welfare is suggested by the institutional economics scholars such as K. Viksel, J. Buchanan,

G. Stigler [9]. They research the economic welfare from the point of view of Homo Economicus – the rational and self-interest maximizing individual. However, these individuals are responsible for the conditions in the particular society. According to Buchanan, the public choice theory becomes the background of achieving welfare [2]. He argues that there are certain goods that are difficult to obtain only through the market; therefore the balance is achieved under existence of certain social institutions and rules.

The common economic welfare was a subject of research of Shtoltzmann R., R. Shtammler, O. Shpamm (New Historian School) [10]. The elaborating of this area began in the 90s of 19 century and the main postulates of this school state that non-economic factors are the most crucial for all kinds of welfare. The special emphasis of these researches is on social justice and the active nature of social reform, that in their turn lead to economic progress.

In general, the theory of economic welfare requires good and reflective indicators that would measure the welfare and be appropriate for a particular country. Literature suggests numerous groups of indicators and the main of them may include:

- Indicators of income;
- Level of revenue sharing between different population groups;
- Indicators of personal consumption;
- Indicators of economic activity of population;
- Indicators of cultural and educational level of population;
- Performance assessment of public health;
- Demographics;
- Performance assessment of housing conditions of the population;
- Indicators of social tensions.

Goals of the article. At the present stage the theory of economic welfare continues to be formed, therefore, there are numerous approaches to achieve and evaluate economic welfare. Globalization promotes the emergence of new needs; however, they are different in advanced and transitional economies. In order to adopt the successful principles, the paper looks at economic welfare of Germany and its potential application to the Ukrainian situation.

Social Market Economy Model – Experience of Germany. The theory of the social market economy was formulated in 20th century under principles of neoliberal economic stream as a practical theory of governance basing on the ideas of ordoliberalism. The philosophy of ordoliberalism is typical for middle class orienting towards political, cultural and ethical ideals and suppose: respect of property, competition in economic and political spheres, readiness to risk in implementation of new ideas and responsibility for it, compliance with legal and moral norms, devotion to work and moderate consumption of resources (Labrousse, Weisz, 2001).

The methodology of the theory of the social market economy is a result of scientific research of three groups of neoliberals. According to Röpke and Rustow, the economic system has the following

tasks: to secure the economic order in the society and create appropriate conditions and incentives for public participation. W.Eucken, the representative of Freiburg school, classified national economies and identified common stages of economic development for different countries [11]. He assumes that neither authoritarian ruled nor absolutely competitive market can ensure sufficient development and suggests "competitive order" as a principle of welfare. This type supposes a competition; however the state provides redistribution of income in order to solve social problems. Since 1948 Eucken has published the Magazine "Horde" (Order) that becomes a name for new type of economic welfare. His model includes economic and social policies. Economic policy encompasses two areas: creation and improvement of social growth order and ensuring economic growth. Social policy includes policies towards self-support, social insurances and redistribution.

A. Müller-Armack and L. Erhard define the main goal of social market economy and determine the specific policies to enable market economy to solve social problems [12]. According to them, welfare combines economic freedom and social equity. Economic freedom enable individuals to act according to their rational interests and goals, to choose the profession freely, apply personal knowledge, skills and talents, consume material and moral goods. Social equity is based on implementing the redistribution mechanism that would prevent excessive enrichment of small group of people. The criteria of social market theory are:

- effectiveness of economic order;
- existence of social security schemes;
- strong competition and free-market regulation;
- implementing of strong state regulation basing on protection of competition;

According to these principles, the concept of social market economy supposes the construction of the particular social structure that would be competitive and include appropriate tax and monetary and fiscal stabilization policies and social policies. Public spending on social needs include: social insurances towards risks, accidents and sickness and particular types of financial assistance – housing schemes, help to single parent families and loans. For example, a pension reform of 1957 created the conditions for retirement security of workers and employees according on their income and also allowed access to the pension funds of people who were out of production field.

The competition is the key element of social market state since it promotes the balance and optimal solutions for economic and social problems and encourage the effective performance of all social results. Therefore, the main goals of social market development of Germany are:

- 1) Achievement of high welfare under the principles of competition, economic freedom, full employment, stable prices and freedom of international trade;
- 2) Securing and encouraging of social justice that would lead to social progress;

Practical implementation of the ideology of social market economy was performed by L. Erhard who transformed the theory into practical policies that suppose:

- high level of prosperity for all social groups;
- expanding the activity of small and medium-size private enterprises under the competition;
- promoting full employment;
- stable budget and taxation systems;
- high level of welfare as a basis for the development of civil liberties and democracy.

These principles became the basis of German reconstruction after the World War II and led to the fact that in 1948 the level of production and indicators of social life achieved the pre-War stages (German Economic Miracle). In general, the main features of German social market concept are as follows:

- regulation of property rights, monetary and exchange procedures based on financial legislation;
- competition based on the sound legal basis and established promotion of competition in key economic sectors;
- well-defined procedures of foreign economic activity;
- established rules of labor and social relations according to protection of employed workers, social insurance, development of labor and social courts and system of organizations regulating social and economic policies.

Today Germany along with other welfare states is facing new challenges caused by globalization and transformation of society; however, its successful experience of implementing principles of economic welfare might be relevant to transitional economies. The potential application of basic provisions of the theory of social market economy to Ukrainian situation is researched further.

Potential application of the concepts of economic welfare in Ukraine. There is no clearly identified priority of direction of the Ukrainian socio-economic development so far. Numerous principles are formulated in laws, legal acts and orders, however, they may contain contradictory information and rather list expenditures than highlight performance of particular socio-economic policies. For example, the reports on economic development (State Statistics Services of Ukraine, 2007) release the following information [13]:

- 3.1 times increase of expenditures on "support of national enterprises"; (2000-2007);
- 29.3% decrease in number of people with income lower than the minimum subsistence level; (2000-2007);
- 1.04 times growth in employment aged 15-70 years; (2000-2007).

This information does not reflect the actual situation since the increase of expenditures does not necessarily imply the improvement of business environment and ensuring an appropriate level of competition. Additionally, there are other explanations for decrease of poor people number caused by demographic situation (population decrease for 5% within 2000-2007) as well as growth in

employment might be caused by youth employment. Thus, the goals of the state are not clear. Moreover, since The Global Crisis of 2008 and political decline have ruined the balance in Ukraine even more, the theory of economic welfare and experience drawn from the German concept of state market economy acquire practical significance; they would allow the Ukrainian economy to combine economic development and improvement of social life.

The current situation of Ukraine in the socio-economic field can be characterized as follows:

1. Significant property stratification in the society. Excessive enrichment of a small group versus poverty of the majority along with the lack of middle class (result of USSR repressions towards intellectual elite and excessively liberal policies just after it collapse) leads to the absence of driving forces for socio-economic development.

2. Significant share of social spending in the state budget; this leads to low economic activity among population towards securing their own (individual) welfare.

3. Poor social sphere, caused by low quality of housing and medical services.

4. Social passivity of the population and insufficient civil consciousness about their role in the development of their own country.

In order to overcome these issues and encourage the developing the principles of the model of social market economy should be adopted. However, the most progressive policies previously used in the other welfare states should be properly adjusted to the Ukrainian context. Since the German (as well as Scandinavian or Mediterranean states') history, culture and mentality differ significantly from the Ukrainian, the blind copying should be avoided. The policies should include:

1) Stimulation of competitive business-

environment and promotion of competitiveness of domestic goods and services.

2) The restoration of social justice in society through social equity and tax regulations, which will form the middle class;

3) Increasing the individual responsibility through professional education policies;

4) Implementing the social and economic policies at the local levels that would gradually change the post-communist perception of the "strong and powerful" state and enable small groups to contribute into welfare.

The key parts of social market economy can become and should be the basis of socio-economic development of Ukraine. Social market model of economy of Ukraine requires a combination of strong state and a strong market, so the establishment of market orientation in the economy should be conducted in along with corresponding strengthening of the state's role in the social sphere. These tasks of socio-economic development are means of achieving the preferable results - the growth of economic welfare.

Conclusion. The theory of social welfare and social market economy model reflect demands of the transitional economies and contain the guidelines to improve economic and social standards in particular society as well as achieve the balance between private and public interests. As German the experience proves, their application allows creating special successful strategies for national economic development in different countries, including Ukraine. Of course, the transitional economy of Ukraine is challenged by its own features; however the gaining and proper adjustment of the experience that has been successfully used in welfare states creates a sound ground for its own way to economic and social prosperity.

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