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FORMATION OF INDUSTRIAL POLICY
 UNDER RESOURCE CONSTRAINTS

Information and methodological aspects of decision making and models of industrial policy under resource constraints are defined. The methods of industrial policy within the meaning and nature of exposure to the object are discussed.

Keywords: state industrial policy, institutional transformation, competitiveness, industry, selective approach, technological way.

Анпілогова Ж. Д. Формування промислової політики в умовах ресурсних обмежень. Визначено інформаційно-методичні аспекти прийняття управлінських рішень та моделі формування промислової політики в умовах ресурсних обмежень. Обґрунтовано методи промислової політики (за змістом і характером впливу на об'єкт).

Ключові слова: державна промислова політика, інституціональні перетворення, конкурентоспроможність, промисловість, селективний підхід, технологічний уклад.

Анпилогова Ж. Д. Формирование промышленной политики в условиях ресурсных ограничений. Определены информационно-методические аспекты принятия управленческих решений и модели формирования промышленной политики в условиях ресурсных ограничений. Обоснованы методы промышленной политики (по содержанию и характеру воздействия на объект).

Ключевые слова: государственная промышленная политика, институциональные преобразования, конкурентоспособность, промышленность, селективный подход, технологический уклад.

Introduction

Industry is the basis of country's economic potential. Only a competitive industry can ensure competitiveness of a country as a whole. Therefore, public policy, namely, state programs that are developed, legislative acts, procedures of regulation and government support measures should be subordinated to ensure the competitiveness of domestic industry. The main purpose of structural changes should be in increasing the technological way of industrial production in the country for making a larger share of value added industrial products.

Analysis of recent research

Formation and implementation of national industrial policy is discussed in a quite detailed manner in the works of V. S. Yerohin, L. Kuznetsova, V. Landyk, A. Mikhailenko, A. Nikiforov, V. Novitsky, M. Pashuta, V. Semynozhenko, L. Yakovenko, M. Jakubowski and other scholars.

Statement of research objectives

- to identify the informational and methodological aspects of decision making and models of industrial policy's formation under resource constraints;
- to justify methods of industrial policy (in content and in character of impact on the object).

Results

Further growth of industrial production in Ukraine and creation of preconditions for positive changes in its structure are not possible without meaningful and purposeful state industrial policy. Moreover, in the most favorable version this policy should serve as a tool of implementation, which is based on public consensus on the strategy for industrial development of the country. During the formation of national industrial policy there is a need to solve fundamental question of what structure of industrial production do we plan to create.

One point of view at the optimal structure of the industry we would have if we assume it is based on the concept of integration into the global structure of the economy, and another – if it is based on the concept of autonomous (isolated from the world economy) universal structure of the national industry. In the first case the bases of the criteria is the competitiveness of national businesses in domestic and world markets and the task of public services is to assist strong industrial structures by creating needed institutional environment. In the second case lists of weak sectors of the industry are made, for which the state should provide help through the mechanisms of structural policies (usually through

direct financial assistance from the state budget, tax benefits etc). In contemporary market conditions the first option is preferred while priorities for the criteria are based on purely market character.

The correct definition of the place and role of the state industrial policy at the present stage is one of the important conditions for accelerated economic growth and social wellbeing of the Ukrainian people. The role of the state in the process of reforming the industry comes down to taking a set of measures that can «accelerate the adaptation of production to the market economy» [7, c. 59].

Before turning to the disclosure of the nature, methods and content of national industrial policy, we consider it appropriate to give a definition of the industrial policy. In general, under the state industrial policy we understand a system of targeted agreed measures implemented by the state in order to increase the competitiveness of goods and services of domestic producers in domestic and foreign markets and to overcome threats to country's economic security.

In the process of economic transformation attitude towards the industrial policy in Ukraine was not straightforward: from complete rejection of regulation to selective support. Postulates of deregulation, denying the necessity of state regulation of industrial development were heard the most in 1992. Threatened to deepen and to accelerate the decline in production the measures of total (front) industry's support by offsetting debts of enterprises and concessional lending were introduced in late 1992 and in 1993 that had damaging effects of inflation.

Thereafter, the main idea was a selective support for certain types of production based on the state priorities. However, «the number of «priorities» was excessive, their definition, to put it mildly, was not devoid of subjectivity, risk of industry's lobbying and waste of state money increased» [6]. In this regard, the criteria of branch selection gave way to the criteria for higher efficiency of the projects (Presidential decree on investment projects competition based on state examination appeared in 1994: the winner could expect to receive 20 % of investment funds from the state). However, due to financial crisis the state failed to fulfill the promise.

«Macroeconomic approach» reigned in 1995-1996, that means that the stress was made on the financial stabilization. This was seen as a necessary and sufficient condition for economic growth, stimulation of investment and large-scale flow of foreign investment in the domestic production. Despite the success in suppressing inflation in 1996-1997,

the expected «investment boom» had not occurred. And in August of 1997 one of the heads of the executive branch of government at that time stated that Ukraine still could not afford the industrial policy. It is obvious that the costs of implementing this or that course of the state should not be determined in the statics but in dynamics, considering the associated with that real national economic effects (including multiplier effect of demand), clearly evaluating losses caused by lack of investment of this or other projects. In this approach, projects of industrial policy may have a competitive internal rate of return and, respectively, they become quite acceptable for the budget available for the forecasting horizon.

Since mid-1990s theorists and practitioners have paid much attention to industrial policy as a tool to influence the development of industry, but to date still have not managed to develop socially recognized, theoretically understandable and practically effective industrial policy. Thus, in academic and in practical terms, the question remains open.

Today there are several conceptual and methodological approaches to industrial policy. Some of them are based on theoretical bases and practical nature of the liberal-monetarist model of market reform that had been implemented for several years in Ukraine: in 1992-1993 – in the most difficult and its odious form (variant of «shock therapy»); in 1994-1996 – in the relatively more moderate manifestation (associated with a gradual move towards the implementation of liberal purposes); in 1997-1998 – with an emphasis on the application of monetarist methods for saving achieved so far quite fragile and relatively depressed stabilization [3].

Liberal monetarist model assumes that the market formation is a spontaneous process: economy should be liberalized and relationships of its subjects will start to effectively self-govern themselves under the influence of «the invisible hand of the market». Therefore, emphasis is made on deregulation, on removal of inherent state economic restrictions (centrally controlled and planned distribution) on the involvement of market mechanisms. Policy is made for maximum openness of the economy to the world market, including minimizing barriers for importers' expansion.

Economic relations are built on the principle of natural selection, challenging regulatory role of the state, at least until financial stability is achieved and inflation is suppressed at any price. Methods of such suppression lie in strict restriction of money supply, the essence of which, in our opinion, is in oppression of the real sector.

Thesis that «lack of national industrial policy is the best policy» is a principled position of liberal reforms' authors [2; 4]. However, the history of market economy showed that the liberal-monetarist model (its specific variation implanted by the IMF), is inadequate to Ukrainian conditions: its complete collapse was marked by financial crisis.

Most of Ukrainian economists (theorists and practitioners) follow a different approach to economic reform, including measurement of the value of industrial policy in this process [1; 5]. The essence of this approach is in reliance on state regulation with the use of not only market methods, but firstly methods of direct state support, direct redistribution of resources and their concentration in the priority development areas of the real economy.

The practice produced two main types of state industrial policy – system-wide and selective. The essence of the system-wide industrial policy is the creation of general conditions that contribute to the development of industry and acting as if horizontally. Its actions do not have any electoral purpose (a clear focus on the industry, corporation, region), and more or less uniformly affect all market players, creating economic and institutional, organizational and legal environment of their activity. It is mainly macroeconomic in nature.

Such policy has liberal character, because its binding vector is in providing at least formal equality of external conditions (economic and legal) for all market actors. In this regard it substantially relies on measures of financial stabilization of property relations' transformation. However, system-wide industrial policy has a nature of conducting: based on it state forms in a sense the economic order, which sets for the abovementioned entities some generally acceptable frameworks of activity and allegedly from the outside state imposes on them rules of economic behavior. It certainly includes measures of state influence on economic life, tax, monetary, currency and customs regulations, labor laws, technical and environmental standards, etc.

Unlike the system-wide, selective industrial policy acts as targeted influence on defined groups of subjects on the market (companies, certain types of production or entire industries or regions). Its action is directed vertically: making regulative influence from the center on the stage of national economic hierarchy up to the primary production (the company), it is in this sense primarily microeconomic in nature. In this kind of policy regulative and management activities of the state are more clearly manifested, its interventions in relation to the real sector.

Active and effective systemic selective industrial policy provides for certain mandatory economic and organizational conditions. Selective approach in supporting selected industrial units is used primarily in circumstances of recovery of the economy after the economic crisis, when the normal process of expanded social reproduction begins to recover and the first real possibilities of real accumulation appear.

Today many different methods of industrial policy are known in the world. They were tested in practice in many countries and form a standard set. In our opinion, it is appropriate to classify these methods according to the content (and also in the nature of impact on the object).

The feasibility of using methods of information is that the main objective of state industrial policy is to ensure that the industrial development entities (enterprises, relevant governing bodies) have structured, processed using scientifically based methods data on the social-economic environment that give these subjects a possibility to make more effective decisions in their production activities (including development of marketing). This forecasting, analytical and information activities of the state have a possibility of influencing the participants by orienting them in industrial and economic processes.

Methods of macroeconomic regulation are aimed at creating general real production environment necessary for the development especially to achieve financial stability, to overcome state budget deficits and to suppress inflation, to ensure a positive balance and stability (or at least predictability) of the national currency. Failed attempts to deploy active industrial policy in 1992-2000 years in Ukraine are largely due to instability at the level of macroeconomics. Thus, the condition of macroeconomic environment is a prerequisite for industrial policy and a restrictive factor in setting its objectives and in applying some of its methods.

Resource methods, in our opinion, are the most effective ways of a direct impact on industrial facilities. They can be also called secured because they aim to give market actors reproductive resources for solving problems of industrial development. Specific forms of resource use various methods. First of all, they are associated with the system of government contracts and procurement to address subsidies and loans, formation and use of insurance risks funds (investment, exports, etc.) with tax benefits. From this perspective, industrial policy includes financial support for training and retraining, as well as necessary labor migration, implementation of basic

research and R&D applied nature. State may also completely or to some extent bear the social costs, which allows mitigating the effects of industry restructuring and the transfer of social facilities.

Institutional methods are the methods and techniques of industrial policy formation in accordance with market principles, legal, organizational and economic environment, approved general market economic order for all business, i.e., affecting not selectively, but the industrial system as a whole. They have an adjusting and stimulating impact on the subject of management. Implementation of institutional methods does not involve spending resources directly on the subjects of industrial policy (economic sectors, types of production, enterprises, and regions). Costs are associated only with holding the organizational and economic transformations, the creation of appropriate market institutions and regulation of industrial development.

The class of methods of influence on industrial development analyzed here includes all sorts of administrative techniques and instruments: quotas, licenses, standards (requirements for quality goods and services, sanitary standards, guaranteeing food security for humans), and environmental standards. Tools of economic legislation are also included to the class of methods of influence on industrial development, including those that provide legal basis of employment under complicated market conditions.

During the market transformation period from all objects of institutional transformation, in our view, the crucial importance has the ownership arrangement and development of the rules of privatization of state property. If the privatization process is not finished, not brought to its logical conclusion, which is the emergence of effective owner, sensible

industrial policy in general is impossible, since the latter essentially influences the conscious economic interest inherent in a legal owner. Occupying and trying to expand its niche in the market, owner does not simply want to increase revenues, but he wills to reinvest obtained profits to strengthen his current and future positions in the market. And so he may be interested partner of the state in implementing the priorities of industrial development of the state.

Another significant task of applying institutional methods of industrial policy is the formation of organizational and economic structures needed to solve industrial problems: all kinds of industrial and commercial associations, primarily on corporate basis (corporations, holding companies, financial-industrial groups), special economic zones and other forms of associations of producers and consumers, the creation of market infrastructure serving the interaction of its subjects.

Conclusions

Thus, the formation of the securities market, which gives adequate capital mobility, is particularly important for the industrial development. In Ukraine, «the core of the reform program of the industrial complex must become institutional arrangements and organizational measures aimed at improving its integrity level». Stimulating and de-stimulating impact on organizational and economic structure of industry, aimed at realization of national interests, is done with the tools of state industrial policy. In this case, virtually everything that characterizes economic policy in general is used (economic legislation, regulation of ownership, antitrust actions and support competition, fiscal, monetary and pricing policies, regulation of foreign economic activity, planning and development of various targeted programs, etc.).

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