



STATE REGULATION AS A FACTOR OF SUSTAINABLE ECONOMIC DEVELOPMENT

Kseniia Bondarevska

Dnepropetrovsk State Financial Academy, Dnepropetrovsk, Ukraine

© MESTE NGO

JEL category: **K2, O1**

Abstract

The special attention of the state should be attached to agricultural sector of economy because it performs important functions such as supply of food security of the country, assistance in employment of rural population, formation of export potential. The necessity of state intervention in the processes of functioning of this branch is predetermined by its features, among them the climatic effects and seasonality of production. That is why the strategic task of agrarian policy of the state is to form the effective competitive agricultural production, which is able to provide the food security of the country and the increase of export of some types of products. Implementation of such tasks is impossible without strengthening of role of the state backing of this important industry.

The importance of state regulation in agriculture are considered, as well as the current conditions of activities of the agricultural enterprises on the basis of the growth of globalization trends are reflected in the article. The main components of state regulation, such as subjects, objects and functions of management at the national, regional and local levels; goals, objectives; methods and instruments of state regulation are determined. The barriers for the development of the agricultural sector in Ukraine are identified, and the necessity of adaptation of agricultural activity to international standards is grounded. The key directions for improvement of regulation mechanism in agricultural sector that will promote to the sustainable economic development of the national economy are offered.

Keywords: *state regulation, innovations, budgetary-tax regulation, financial support, price policy, sustainable development.*

1 INTRODUCTION

At the present stage of development of economic systems the drawbacks of the mechanism of market economy are appeared more often. Among the negative results of the market actions is reduction of the enterprise stability, inflationary fluctuations, imperfection of foreign economic

policy, increase of unemployment and staff turnover, etc.

The special attention of the state should be attached to agricultural sector of economy because it performs important functions such as supply of food security of the country, assistance in employment of rural population, formation of export potential. The necessity of state intervention in the processes of functioning of this branch is predetermined by its features, among them the climatic effects and seasonality of production. That is why the strategic task of

Address of the author:
Kseniia Bondarevska
✉ Kseny-8888@mail.ru

agrarian policy of the state is to form the effective competitive agricultural production, which is able to provide the food security of the country and the increase of export of some types of products. Implementation of such tasks is impossible without strengthening of role of the state backing of this important industry.

2 THE ANALYSIS

The mechanism of coordination and optimal correlation of state and market elements is provided in the developed countries of Europe. Its balance depends on the overall economic state in the country, the specific nature of production conditions, the effectiveness of all methods and instruments of impact. The experience of countries, where agrarian industry is considered to be the basis of vital activity of society, certifies the efficiency of mechanism of state regulation. The leaders of agrarian production among the countries of European Union are traditionally considered to be Germany and France, one of the world's leaders is the USA. In the countries of EU the volume of state support of agrarian sector is 35% from the amount of the manufactured products, in Japan and France – 72%, in the USA – 40%, in Ukraine – 8.3%. In European countries the state support of agrarian production is carried

out through the provision of law interest credits, maintenance of the fixed prices, implementation of direct cash payments, etc. Herewith, 90 % of prices of agricultural produce as subsidies for support of agrarians through high prices on means of production fall under state regulation (Maliy, 2008, p. 19).

Most foreign countries regulate the prices on agricultural produce, raw materials and food. There is orientation of providing the certain level of profits on accumulation in agriculture. Thus the classic methods are used, in particular, the establishment of controlled prices, the determination of limits for the change of price, the control of price policy of monopolies and large producers, the creation of conditions for their decrease.

The agriculture development in Ukraine is characterized by low level of profitability of production (in 2012 year – 20.5%) in terms of absence of clear mechanism of state regulation of agrarian economic relations. Basic types of stockbreeding are unprofitable, in particular cattle and poultry. Certain difficulties for Ukraine are caused by membership in WTO in view of competitiveness of domestic enterprises.

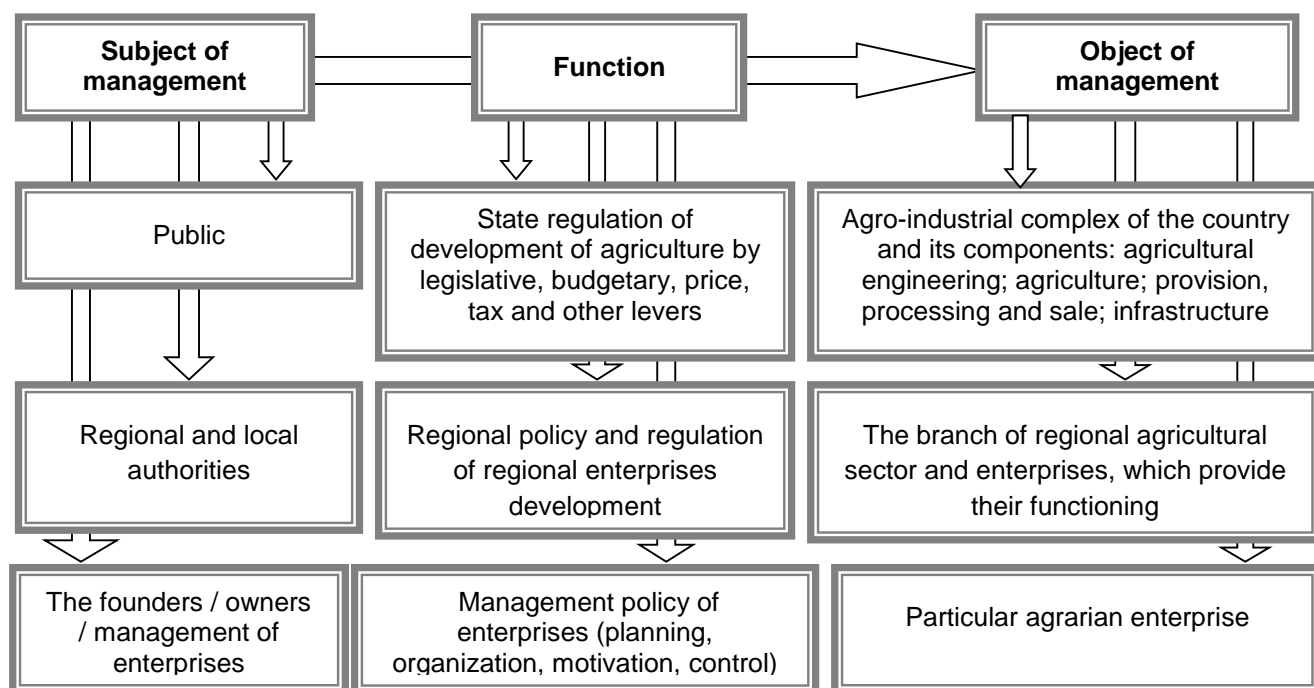


Figure 1. The system of state management in agriculture

With the purpose of minimization of negative factors of globalization and warning of possibility of crisis there is a need to introduce clear approach as to development and realization of state regulation measures. Forming of competitive agrarian production has to take place due to international norms and standards and be based on the rational use of the financial, labor, material, technical and innovative resources.

The main subject of stabilization of agricultural development has to become the state that implements its action on three levels of management (Figure 1).

Due to the specification of subjects and objects of state regulation of the economy as part of state management, it is useful to define its primary purposes and methods that are acceptable to implement in modern economic conditions.

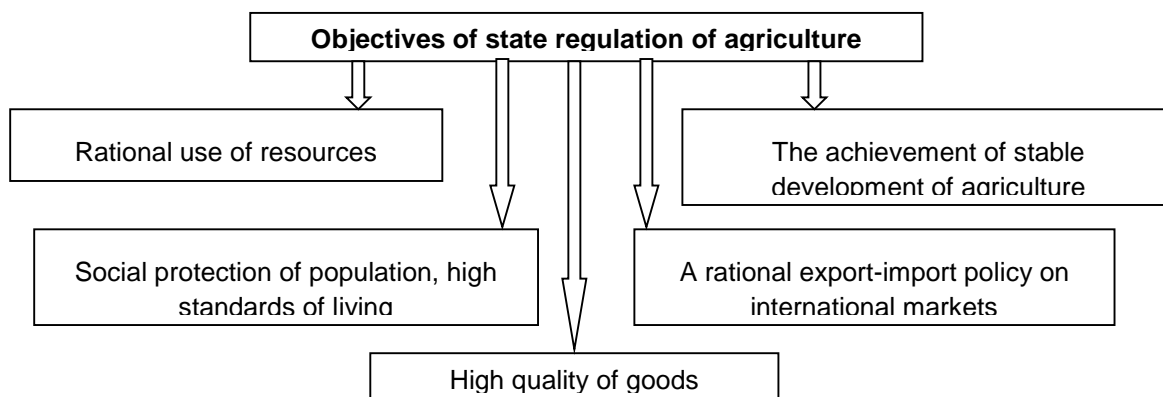


Figure 2. Key objectives of state regulation of agriculture

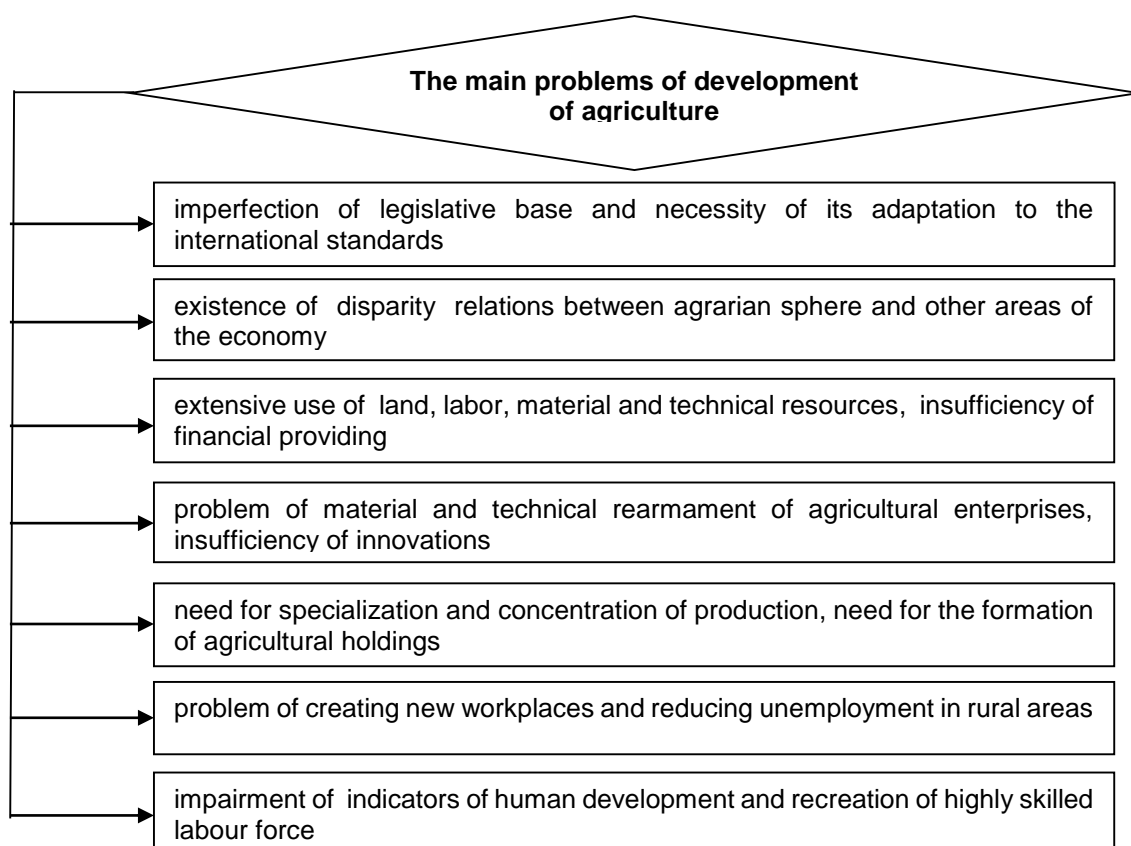


Figure 3. The primary problems of development of agrarian sector of Ukraine

The main purpose of state regulation of agrarian sphere is to provide socio-economic stability in agriculture and food security of population considering world globalization and integration tendencies. The tasks to be performed by the state as subject of management contribute to the ultimate goal (Figure 2).

The current situation which was folded in agriculture of Ukraine has a number of problems that require urgent resolution. We consider that the main obstacles to the effective development of agriculture are as shown on the figure 3.

Among the key purposes of state policy of development of agricultural enterprises it is possible to select two groups: macroeconomic and microeconomic. Macroeconomic purposes include providing of stable rates of development in agricultural, food security of the country, formation of its export potential; reduce the level of labor migration and unemployment in rural areas. In turn microeconomic purposes are determined in the following directions: maintaining of high profitability and competitiveness of agricultural enterprises; prevention of bankruptcy.

The mechanism of state regulation includes such important components as the methods and tools of this process. The methods of state regulation are the ways of state influencing to objects of management through the authorities for the purpose of providing the effective functioning of the economy. Modern scientists-economists define the methods of legislative, financial, price and social regulation that specified through the use of specific tools of influence. In modern conditions the state has a whole complex of effective regulators, among which: taxes, subsidies, investments, credits, interest rates, benefits, financing of the special purpose programs and others.

Thus, legislative regulation of agriculture is the development of laws that provide the functioning of market structures, consumer protection and public interest in agriculture sector of economy.

A positive aspect of state policy is the acceptance of legislative base that should regulate and provide the effective development of the agricultural sector. In this respect it should be highlighted: Law of Ukraine "About State Support of Agriculture in Ukraine" from 24.06.2004, №

1877-IV (current version from 08.11.2013); Law of Ukraine "About the priority of social development of rural areas and agriculture in the national economy" from 17.10.1990, № 400-XII (current version from 10.06.2012); Law of Ukraine "About the Fundamentals of State Agricultural Policy for the period up to 2015 year" from 18.10.2005 № 2982 -IV.

However, the question that needs to be resolved is the actual functioning of key positions of the legislative base taking into account modern tendencies.

Another question is the financial support of agrarian enterprises in the form of budget subsidies. According to the Law of Ukraine "About State Support of Agriculture in Ukraine" budget subsidy given with a purpose the support of level of effective demand of Ukrainian consumers of agricultural products and to prevent the unprofitableness of the Ukrainian producers of such products (Zakon 1877-IV, 2004).

Financing the agricultural sector from the state is carried out on principles of the irreversibility of funds and their purpose direction. The important aspect of the role of state influence in this area is the increase of degree of control over the use of trust funds and compliance of the financial discipline. To ensure the effectiveness of the use of allocated funds it is necessary to regulate not only the amount of financial funds, but also the efficiency and the purpose directions of their use.

Special attention is given to the mechanism of taxation. This system should take into account the peculiarities of agricultural enterprises and the specific conditions of agricultural production (for example, seasonality and action of climatic conditions). Besides, the mechanism of profit taxation of the agrarian enterprises should consider the size of agricultural land, financial indicators, regional and territorial characteristics.

In the conditions of growth of competition, each agricultural enterprises must support its competitiveness through introduction of innovation, renewal of material and technical base. However, the innovative development of agricultural enterprises is reflected not only in the application of the latest innovations in the sphere of machinery, equipment and powerful machines. No less important role played by the use of high-

yielding crop varieties and productive animal breeds, and also innovation in the management area (modern methods of management, planning of basic production processes, labor organization and production, personnel motivation, assessment of results and control of activities). In turn, the state must support the technical and technological re-equipment through joint efforts with the international agricultural corporations in the context of attracting the financial resources and best practices. The orientation of state policy should be aimed at creating large integrated agricultural systems based on innovation. Large agrarian enterprises have the considerable land, material and labor resources. The main question is the rational use of these resources. Possibility of increase of own competitiveness can become reality if will be expansion of production capacities, modernization of equipment, introduction of innovation and involvement of investment. However, it is possible only if a large agricultural enterprises will be created and state support will be held.

Therefore, the formation of favorable innovation trends deserves the special attention in conditions of globalization processes. The main competitive advantage of Ukraine in this area can become a significant natural resource potential for agricultural production. Among the key directions of state policy are identify the priority areas of innovation at three levels: national, regional and local; creating the mechanisms for support the innovation activity; protection of rights and interests of subjects of the innovation activity; financial assistance to enterprises if the innovative projects are executed; encouragement of bank institutions that allocate funds to implement of innovative projects; introduction of a special tax regime for agrarian enterprises, that implementing the innovations; development of modern innovation infrastructure.

Another important instrument of state policy is price regulation. Due to the relatively low selling price in agriculture (realization prices on the separate types of products are below than prime prices) carried the unjustified redistribution of agrarian income in behalf of processing industry and trade (Babenko & Bondarevska, 2013).

In turn, the price level influences on possibility of timely payment by the enterprise of credits, taxes

and duties, providing the labor payment and motivation. In this situation it is reasonable to introduce the price control mechanism to ensure a positive profitability of major agricultural products. The price aspect of state policy should be to rebuild through the introduction of regulated prices on basic types of crop and livestock production of agrarian enterprises, including: corn, sunflower, sugar beet, milk, livestock cattle, pigs and poultry. The introduction of regulated prices will leverage to additional financial resources and strengthening of state control by development of the agricultural sector. Also, using the price mechanism a decision of other actual problem becomes possible - establishing equal relations between industries and agriculture.

Decision of key problems of agriculture depends on other aspects that are also regulated by the state: financing and insurance. In foreign countries credit system includes not only commercial banks but also other financial institutions (credit funds, credit unions, etc.).

The credit system in Ukraine is not enough developed now. However, the state is able to control the quality of credit services and to provide the effective activity of credit infrastructure on the whole.

The system of insurance of agricultural enterprises matters in case of compensation given by natural disasters. An important function of the state is the legislative regulation of relevant processes.

Among the main problems that need to be resolved are building of rural infrastructure, providing of high living standards for rural population. At this moment a large number of working-age population migrate from villages to big cities for search of work and achieve the high social status.

Prestige of agricultural labor declines, primarily due to the low level of payment. The involvement of young people to rural areas and softening of migratory processes remain the actual questions. Particular attention should be paid to creating of new workplaces; increase of labor payment level; create the attractive credit system; improvement of education and training system, improving the transport and communication infrastructure;

expansion of the network of educational, recreational, cultural and sporting facilities.

To our opinion, optimally economic model for Ukraine can become the using of wide instruments of the state regulation taking into account the action of market laws. In this case, the functions of the state will belong to the legislative providing of agrarian sector; defense of competition as the main regulator of the market mechanism; rational distribution of incomes and resources to change the structure of the national product; providing of stabilizing of the economy growing; establishment of control for the level of inflation and employment of population and so on.

Practical experience has shown, that state support of agriculture yet in Soviet time was accompanied of positive social and economic growth in certain periods. In particular, in the year 1990 it was achieved the highest indicators of agricultural development (Bondarevska, 2013).

However, state intervention in the economic processes should be carried out only on a scientific basis. Otherwise the consequences could be disastrous.

Well-known is the fact that in the early 90s of XX century was conducted the agricultural reform as dividing by shares of land resources, division of a large collective enterprises into many small farmers, most of whom have not been able to survive in the competition. In addition, this policy was reflected in the liquidations of the scientific achievements of Soviet scientists and farmers that were used in production during many years. It's advanced production techniques, sustainable crop rotations, new technologies and others.

According to the opinion of the researchers, the basis of crop rotations was destroyed by the fact that in our country the agricultural production was transformed from the planned into the spontaneous, which subject only to the market. This phenomenon is not understood in terms of an understanding of whole civilized world, and how understand the market relations on a village the vast majority of people in our country, beginning from simple producers and concluding high state officials (Eshchenko & Opryshko, 2011).

At that time a large number of farmers have decided to unnecessarily expand the sowing areas of individual crops. It leading to violation of

the scientifically grounded crop rotation and by this caused to decrease of gross output of crop production within 5%.

The consequences of negative processes can be seen today. The disadvantage of the structure of modern agricultural production is the so-called "Sunflower boom", resulting in a significant increase in production of sunflower on a fairly large acreage, and the failure of basic conditions of farming - the right alternating rotation of crops. Among the consequences of this behavior of producers are decreasing of soil fertility, reduction in yields. This is not only because of the policy of agricultural enterprises relatively to maximization of profits, but also due to a lack of state regulation.

It should be noted that the issue of state regulation of the economy associated with the name of the British economist John Keynes. Judging the group of Ukrainian scientists, the main areas of state regulation of Keynes are (Amosov, Syvokon', Stativka, & at al, 2013):

- budgetary tax regulation, which involves the manipulation of government purchases, transfer payments and taxes;
- credit and monetary regulation, including the freezing of nominal and decline the real wages, price increase, regulation of the interest rate, conducting securities transactions; lending;
- the use of "moderate inflation", which allows increase the business activity and employment through the growth of prices; and "regulated inflation", which involves the introduction of the practice of deficit financing, issuance of money for their lack;
- redistribution of income in favor of social groups that receive the lowest incomes for increase demand and growth money demand of mass buyers;
- conduction of the full employment policy aimed at preventing significant unemployment, expanding social security system.

According to the opinion of domestic scientists, the market functionality exposed to regulatory mechanism established by the state, which defines the parameters and limits of its designs, limiting the actions of the "invisible hand". So it is important to form the infrastructure of institutions of market and information support of small

producers. And professional associations and civil society must play the interim role for consolidation the efforts, which determine the competitiveness of agricultural producers (Shpykulyak, 2010).

Achieving of high rates of development of the agrarian sector of economy is determined by the competitive position of agricultural enterprises. Indicators of its activity must be considered during creation of the state regulation model. Consequently, the indicators of efficiency at the local level are production effectiveness (labor

productivity, product profitability, profit); price and quality of products; liquidity and solvency of production. The certain indicators at the sectorial and regional levels are the average figures of financial and economic activity of producers, foreign trade balance, and gross value added per one employee. At the national level the indicators of foreign trade, productivity of production factors, balance of trade of agricultural products, the level of rural employment and other quality characteristics of the international division of labor were taken into account (Mohylnyi, 2005, p. 366).

Table 1. Indicators of effectiveness of the use of agricultural lands of Ukraine and other countries of Europe

Countries	Gross products of agriculture on 1 hectare of agricultural lands, euro	Land of capacity, hectares / 1000 euro of gross products
Ukraine	268.7	3.72
EU countries (15 countries)	2 189.2	0.46
Germany	2 442.6	0.41
France	2 188.0	0.46
Czech Republic	899.0	1.11
Poland	783.9	1.28
Bulgaria	685.1	1.46

Source: (Trehobchuk, Skurska, Yaroviy, & Pradun, 2004, p. 42)

Thus, the effectiveness of agrarian complex at the national level is formed due to high indicators of agricultural enterprises. The particular importance belongs to the effectiveness of the use of land, financial, human, material and technical resources, as expressed through the indexes of productivity, profitability, capital productivity, capital intensity and equipment of funds. Currently in Ukraine there are untapped reserves as to increase of the effectiveness of agricultural production, especially in comparison with other countries (Table 1).

According to the analysis of proper indexes, the gross products of agriculture of Ukraine in a calculation on 1 hectare of agricultural lands is below in 8 times, compared with the EU countries. And land of capacity is higher in 7 times accordingly. Thus, there is a need for more efficient use of available resources.

3 CONCLUSIONS

Each state of the world is interested in increase of efficiency of agricultural production. That is why the progressive methods and instruments of state influence should be used. Effective management of social and economic processes will enable the creation of conditions for the rational use of available resources and increase of efficiency.

Therefore, the state policy with regard to the stable development of agriculture includes:

- perfection of legislative and normative basis;
- increase of budgetary payments and dotations in the development of agriculture and clear control of efficiency of its use;
- price policy as establishment of the controlled prices on the basic types of agrarian goods;
- forming of large integrated agricultural enterprises with retooling of material and technical base and introduction of innovations;

- use of elements of concessional taxation of agricultural enterprises;
- providing agrarian sector by the institutes of credit and insurance infrastructure;
- increase of payments of agricultural labor, the use of effective mechanisms of labor motivation;
- recovery of rural areas, expansion of educational, health, cultural and sports establishments in rural areas.

4 WORKS CITED

- Amosov, O., Syvokon', V., Stativka, N., & at al. (2013). *History of Economics and Economic Thought: textbook*. (O. Amosov, & V. Syvokon, Ред.) Kharkiv: Magistr.
- Babenko, A., & Bondarevska, K. (2013). Actual questions of the state regulation of the agricultural sector in Ukraine. *Economics*, 24(277), 42-45.
- Bondarevska, K. (2013). *Effectiveness of the use of personnel of agrarian enterprises: monograph*. Dnipropetrovsk: DSFA.
- Eshchenko, V., & Opryshko, V. (05 2011 г.). *Sivozmina - porjadok na zemli*. Получено из Ahrobiznes S'ohodni: <http://www.agro-business.com.ua/component/content/article/31-2011-05-11-22-29-29/395-2011-05-11-22-29-37.html>
- Maliy, I. (2008). About the romanticizing of private property in land and the crisis of the agricultural sector. *Economic theory*(3), 11-20.
- Mohylnyi, O. (2005). *Regulation of the Agrarian Sphere*. Uzhgorod: IBA.
- Shpykulyak, O. (2010). Institutional support of the development and regulation of agricultural markets: an analytical assessment. *Economy AIC*(4), 150-157.
- Trehobchuk, V., Skurska, N., Yaroviy, V., & Pradun, V. (2004). *Improvement of land relations in agriculture: research report*. Kyiv: United institute of Economics.
- Zakon 1877-IV. (24 06 2004 г.). *Pro derzhavnu pidtrymku sil's'koho hospodarstva Ukrayiny, Verkhovna Rada Ukrayiny; Zakon vid 24.06.2004 № 1877-IV; Dokument 1877-15, chynnyy, potochna redaktsiya — Redaktsiya vid 11.08.2013, pidstava 406-18*. Получено из rada.gov.ua: <http://zakon1.rada.gov.ua/laws/show/1877-15>

Received for publication: 23.03.2014
Revision received: 30.09.2014
Accepted for publication: 11.10.2014

How to cite this article?

Style – APA Sixth Edition:

Bondarevska, K. (2014, 07 15). State regulation as a factor of sustainable economic development. (Z. Čekerevac, Ed.) *MEST Journal*, 2(2), 23-31. doi:10.12709/mest.02.02.02.03

Style – Chicago Fifteenth Edition:

Bondarevska, Kseniia. 2014. "State regulation as a factor of sustainable economic development." Edited by Zoran Čekerevac. *MEST Journal (MESTE)* 2 (2): 23-31. doi:10.12709/mest.02.02.02.03.

Style – **GOST Name Sort**:

Bondarevska Kseniia State regulation as a factor of sustainable economic development [Journal] // MEST Journal / ed. Čekerevac Zoran. - Belgrade : MESTE, 07 15, 2014. - 2 : Vol. 2. - pp. 23-31.

Style – **Harvard Anglia**:

Bondarevska, K., 2014. State regulation as a factor of sustainable economic development. *MEST Journal*, 15 07, 2(2), pp. 23-31.

Style – **ISO 690 Numerical Reference**:

State regulation as a factor of sustainable economic development. **Bondarevska, Kseniia.** [ed.] Zoran Čekerevac. 2, Belgrade : MESTE, 07 15, 2014, MEST Journal, Vol. 2, pp. 23-31.