



Economic Theory

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**ECONOMIC DEVELOPMENT
IN THE CONTEXT OF THE DICHOTOMY
OF T. VEBLEN**

Abstract

The problem of analytical interpretation of indicators of economic development, which deals in international comparisons of their efforts in Ukraine was studied.

Key words:

Analytical interpretation, macroeconomic indicators, economic development.

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If analyzing the economic development of Ukraine, then immediately arise unexplainable discrepancy of values of various macroeconomic indicators from the position traditional theory of economic analysis. Thus, it seems as this theory – for figurative expression of J. Robinson – «box of tools», which are set for interesting results [15, p. 265], is helpless in cases where they, that is results, do not fit the traditional interpretation – conclusions arising from the analytical interpretation of the real state of the economy. So, this problem has particular scientific and practical importance.

Despite the fact that the analytical interpretation of the indicators of economic development was covered by many prominent scientists [1, 14, 15], the above discrepancy of some macroeconomic indicators of theoretical explanations of their meanings in terms of formal mathematical laws is elucidated not enough. With this in mind, the goal of this paper is an attempt to understand the problem with the above theoretical interpretations of the outstanding American economist-sociologist T. Veblen (1857–1929), who is the founder of institutional direction in economic science, as neither empiricism nor aksonomizm are unable to show the evolution of economic phenomena and processes [7, p. 74].

In his famous work «Theory of dormant class» (1899) T. Veblen, criticizing the static study of economy, considers it not as a frozen system, but as an evolutionary, controlled process, which he called «cumulative sequence» [5, p. 32]. In this, in our opinion, clue of apparent paradox lies, when indicators of the countries that have a high level of own resources, are several times lower than those with little ones (Table 1).

It clearly illustrates so-called «Resource curse», or «Dutch disease»¹ as countries with rich natural energy resources (top of the table) even with a favorable trend in their prices after 1990, instead of increasing GDP per capita must drop from 3,5 times – Russia, to 4,8 – Azerbaijan and 7,8 times – Ukraine.

However, no statistical techniques can explain why the former USSR, and now most of the former Soviet republics have 15 times less the gross domestic product per person than, for example, France, which has reserves of natural resources are smaller than even in Ukraine. At the same time Baltic countries, which left the Soviet Union almost immediately with its collapse, according to this index outperformed both Ukraine and any other country in the CIS. And Poland, with only 33% of level of Ukraine on this indicator in 1990, now is more than five times ahead of us.

¹ The «Dutch disease» in the scientific literature is reduction of economy's sector that produces tradable goods (T-sector) due to discovery and development of gas fields, oil and other minerals, or raising prices. Growth of M-sector, which produces and exports minerals, can increase the welfare of citizens, leading to imports of traded goods and production of non-tradable goods in the H-sector (mainly in service industries) [13, p. 23].

Table 1.

Gross domestic product per person²

Countries	Years					
	1990	1995	2000	2005	2006	2007
Ukraine	8108	3920	3706	5605	6058	6559
Kazakhstan	7096	4497	5405	8966	9529	10242
Russia	12686	7854	8606	11864	12793	...
Azerbaijan	...	1888	2534	4573	6081	7519
Estonia	10081	7955	11002	16654	18558	19908
Latvia	10988	6265	8644	13218	14913	16530
Lithuania	12028	7236	9429	14085	15254	16676
Poland	8054	8932	11632	13573	14432	15381
Czech Republic	16243	15525	16806	20281	21501	...
Germany	25013	27099	29738	30495	31407	32229
France	24249	25244	28357	29785	30250	30722

Source: Статистичний щорічник України 2004 / За ред. О. Г. Осауленка. – К.: Держкомстат України, 2005.– С. 572–573.

When to view these indicators not in the spirit of taksonomizm, but T. Veblen's genetic approach in which «...material civilization is a system of institutions – institutional structure (fabric) and institutional growth (growth).... Obviously, the economic research is entirely devoted on vernacular movement of (elemental) human nature within the set, stable institutional conditions, can reach only the static results ... As reaction, of which human behavior consists of, is in accordance with the institutional framework and the incentives that have institutional sense» [2, p. 92], the explanation of the paradox may be, in our opinion, with great certainty.. After all, economic development, as a result of interaction of different factors (changes in technology, population growth, etc.) that are mutually reinforcing, while depends on the behavior of economic agents, who largely adhere habits inherited from the past. Therefore, it is not surprising that conflict with the general trends of the world economy in Ukraine through traditional methods of economic and statistical analysis can not be explained.

Of course, you can go through usual way, using cliches of Soviet political economy, as indicators of the USSR and Ukraine compared with the figures from 1913, or to use the latest, which some authors suggest, arguing: «The analysis of physical indicators for more than thirty years can make reasonable conclusion: Ukraine has never had so powerful, cost effective and financially sustainable agriculture, as in years before reforms» [12, p. 372], and the rea-

² At prices that are internationally comparable and purchasing power parity (PPP) 2005; dollars USA.

sons for its poor current state are explained in the same way by saying «next degradation of agricultural sector is a result of so-called market reforms in agriculture and industrial food production» [12, p. 372].

But then how to explain that, for example, the quality of natural capital such as agricultural land in Ukraine is much higher than in European countries, and effective performance, despite this, we have with the opposite meaning (Table 2).

Table 2.

**Economic efficiency of the agricultural sector
in Ukraine, Germany and France**

Indicators	Years					
	1990	1995	2000	2005	2006	2007
Productivity of cereal crops, quintal / hectar						
Ukraine	35,1	25,1	19,5	26,0	24,1	21,8
Germany	54,1	61,1	64,5	66,2	64,1	63,6
France	60,8	64,6	72,4	67,1	66,9	63,5
Poland	32,3	30,0	25,2	31,4	25,9	32,4
Productivity of sugar beet, quintal / hectar						
Ukraine	275,7	204,7	176,8	248,2	284,7	294,2
Germany	496,6	497,5	616,6	601,9	577,4	643,0
France	668,3	667,5	759,0	773,2	788,2	822,9
Meat production per person, kg						
Ukraine	84,0	44,5	33,6	33,8	37,0	...
Germany	91,2	71,3	76,4	83,6	85,0	...
France	101,2	109,2	109,7	101,8	85,0	...
Milk production per person, kg						
Ukraine	478,0	331,1	250,9	289,6	284,0	...
Germany	394,1	350,3	345,4	334,5	339,0	...
France	460,7	437,5	422,0	428,6	408,0	...

Source: Агропромисловий комплекс України: стан, тенденції та перспективи розвитку. Інформаційно-аналітичний збірник (випуск 6) / За ред. П. Т. Саблука та ін. К.: ІАЕ УААН, 2003. – С. 728, 730, 736, 738; Сільське господарство України 2007 рік / За ред. Ю. М. Остапчука. – К.: Держкомстат України, 2008. – С. 372, 375, 391.

It turns out that market relations in Germany and France or Poland did not interfere these countries to form an effective agricultural production, and in Ukraine for some reason it gave the opposite effect. It should be stressed that is

no question of lack of these authors' preparation, because, speaking by style of T. Veblen, you can say: «...These economists do not lend intelligence and awareness. ...The weakness of their theoretical framework is embedded in their postulates, which restrict the study of theological generalizations or «deductive» manner. On the causes of change or the deployment of [time] order phenomena of economic life they still say nothing, since their theory is constructed not in terms of cause-effect relationships, but in terms of teleology» [2, p. 86–87].

When trying to apply deductive method, we first need to stay with a limited understanding of human nature from the economic point of view, beyond the humanitarian context, and apply an interdisciplinary approach, which, by T. Veblen, covers social philosophy, anthropology and psychology. These institutions determine economic development: «Economic interest accompanies all human life: being a part of life, it permeates the process of cultural development. It generally affects the culture, so it can be argued that all institutions to some extent are economic» [3, p. 28].

Therefore, it can be quite firmly convinced that ignoring of these economic interests of individuals is the main cause of both the past and the present chronic backwardness of the agrarian sector of Ukraine, from results achieved in Europe, where long-reigning of market economy – especially since it is a state of almost all post-socialist countries (Fig. 1).

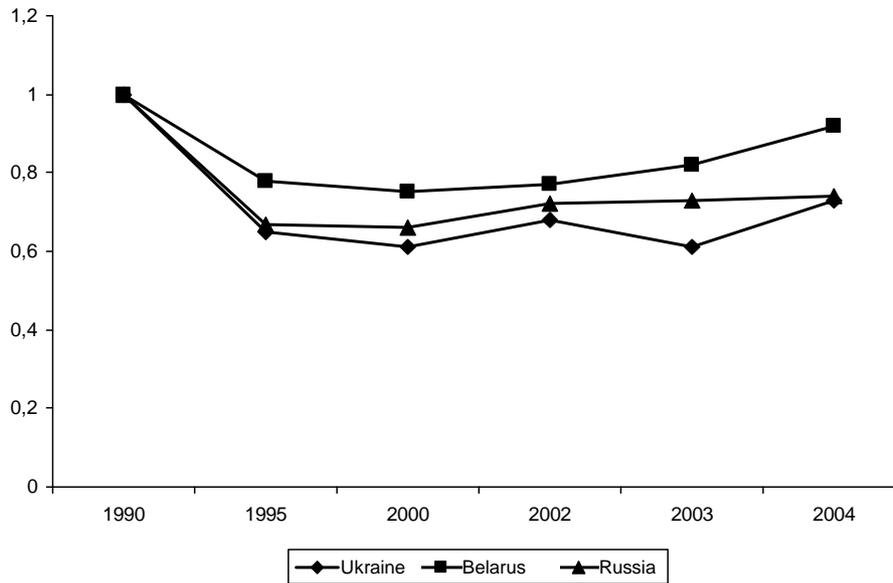
This «similarity» of trends of economic performance, in our view, convincingly proves in the USSR and now in post-socialist countries, using the statement of T. Veblen, «is that the institution of property as well as a number of representations and stereotypes of money that fall under the definition this institution or concentrated around it, do not generate any customary or generally accepted canons or standards of evaluation, do not form any immediate aims, ideals and aspirations» [2, p. 24], just because it was the main reason why all attempts to somehow overcome the crisis in the growth of economy of Ukraine in late twentieth century Institute of Economy of USSR has prepared a research report «On the causes of economic slowdown of the Ukrainian SSR» [9], although at that time about any reform of state property could be no question, therefore, they can not explain it.

Regarding the agricultural sector, first signs of crisis in 90 years of the twentieth century was the reduction in livestock animals, despite excessive costs³ of society for food products of animal origin, and on 01.01.1991 it was like this: Cattle – 92,1%; cows – 96,2%, pigs – 96,5% to level of 1986.

So then according to «cumulative sequence» – a term T. Veblen – happened that thing which Mr. Sabluk formulated as follows: «It is not known what the situation will be, but then an apparent dilemma became: either to abandon the command-administrative methods, of this credo routine distribution system, or to continue the slow but positive acceleration vector slipping into recession that at any moment could turn into a collapse, in economic catastrophe» [10, p. 3].

Figure 1.

Indexes of gross agricultural output in some post-industrial countries



Source: Сільське господарство України 2007 р. // Статичний щорічник. – К.: Держкомстат України, 2008. – С. 372, 375, 391.

Of course, instytutsializm of T. Veblen should not be considered as static, and much more – dogmatic, because in the early twentieth century when it appeared, the situation in the economy was different than it is today. Therefore, further development of society has led to the emergence of neoinstytutsializm, represented by R. Coase, A. Williams, J. Buchanan. And instead of inductive method – from individual cases to generalizations of traditional instytutsialists (T. Veblen, U. Mitchell, J.K. Galbraith), neoinstytutsialists are stable on the principles of deduction, that is explain specific phenomena of social life, based on general principles of neoclassical economic theory. However, both the first and second acknowledge the fundamental principles of instytutsializm – value for the evolution of economic phenomena and processes of social institutions and the possibility of economic analysis using standard tools of microeconomics [7, p. 80–81].

A proof of the truth of institutional theory of T. Veblen on the evaluation factors of economic development, in our view is that, despite the shortage of energy resources in some countries and focus their stocks in others, even against

a background of multiple jumps in their prices in the XXI century it had very little to the last ones. Indeed, as argued T. Veblen, it is an institution rather than the price mechanism, managed the allocation (distribution – Author) of resources, because the price mechanism operates in markets, which act and are formed in these markets [11, p. 115].

So we can say that «habits inherited from the past» are a factor that promotes or hinders economic development of certain countries. For «human behavior (economic or any other) subject sequence of causes and consequences, such as during the formation of habits (habituation) and by virtue of common requirements, ... growth and mutation of the institutional structure is the result of the behavior of individual group members, as institutions arise from the experience of individuals through the development of habits, and in this experience institutions operate directly on behavior, determining its goals and objectives» [2, p. 90, 93].

Maybe, being in this position in many ways you can accept the so-called claim as «Resource concept», or «Dutch disease» with a typical paradox: countries that have large amounts of natural resources – oil, gas, coal, nonferrous metals, usually develop more slowly than the less rich on resources economy, reason for this can be technological, institutional, political, macroeconomic (primary specialization, simple technology, slow accumulation of knowledge, etc.) factors [8, p. 2], not unreasonable, especially if you compare this with Veblen's dichotomy of industry and business, rationality and irrationality, because it clearly illustrates that T. Veblen called «behavior caused by actual knowledge» and «behavior caused by habits of thought» [4, p. 156], considering the first as a source of progress, since technology and behavior are caused by actual knowledge, and supports of these advanced features are engineers and technocrats, who have necessary and sufficient knowledge, skills and abilities that are integral to lead institutional forms in line with the latest technological changes. On the contrary, the behavior caused by habits of thinking, associating negative incentives, resist changes and progress [7, p. 78–79].

And it is appropriate to recall that for decades in the USSR these «perverse incentives and inclinations» were cultivated, when engineers and technocrats, usually had much lower wages than average workers, had much longer to wait in line to get an apartment, car, than others, and the echo of this negativism is not overcome by now.

However, the ambiguity of evaluation of T. Veblen's theory as his contemporaries and current scholars, especially neoclassic, is the basis for further research of outlined problem.

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