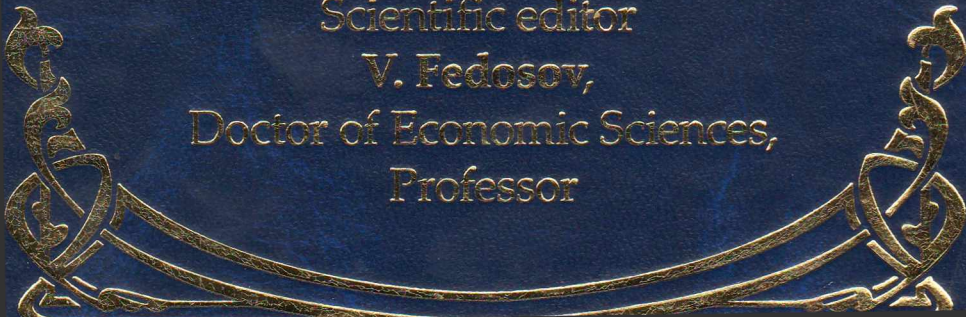




Andriy Krysovaty, Viktor Fedosov
Serhiy Yuriy, Petro Yukhymenko

Financial
Thought of Ukraine:
Genesis and Evolution
in two volumes

volume 1
MONOGRAPH



Scientific editor
V. Fedosov,
Doctor of Economic Sciences,
Professor

Andriy Krysovaty, Viktor Fedosov, Serhiy Yuriy, Petro Yukhymenko

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Berlin 2016

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This is the original two-volume work by the national economic and financial scientists on the evolution of the financial science of Ukraine.

The first volume deals with the theoretical and methodological foundations of the financial science. It clears up the genesis issues, the rise and development of the financial science since ancient times till our days. In the light of the national and world financial thought evolution, a great number of items connected with finance and financial science development in the historical aspect have been considered. The peculiarities of the formation and development of the financial science, the institutional foundations of the Ukrainian financial science have been cleared up. A considerable attention is given to the modern revival of the Ukrainian financial science, research of the Kyiv economic school scientific achievements and their influence on the formation of the financial scientific institutions in Ukraine nowadays. The authors raise the questions of financial theory which have been investigated and discussed insufficiently, reveal the conceptual foundations of modern world and national financial science and practice, variety of scientific schools, approaches and methods. This important work is to a definite degree an attestation of the maturity of the national financial science at the stage of its revival at the beginning of the third millennium.

The book is for the scientists, teachers, students, post-graduates, all those who are interested in personalities of the Ukrainian financial science.

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Finanzwissenschaft in der Ukraine: Entstehung und Entwicklung

in zwei Bänden
Band 1
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Die vorliegende zweibändige Ausarbeitung wurde erstellt von ukrainischen Wirtschaftswissenschaftlern und Finanzexperten zur Entwicklung der Finanzwissenschaft in der Ukraine.

Der erste Band stellt theoretische und methodische Grundlagen der Finanzwissenschaft dar, beleuchtet Fragen der Entstehung, Bildung und Entwicklung der Finanzwissenschaft von den vergangenen Sowjetzeiten bis zur Gegenwart. Aus der Sicht der Entwicklung der nationalen und globalen Finanzwissenschaft wird ein breites Spektrum von Fragen zur Finanzierung und Entwicklung der Finanzwissenschaft beleuchtet. Die Merkmale der Formierung der ukrainischen Finanzwissenschaft und ihrer institutionellen Prinzipien wurden analysiert. Besondere Aufmerksamkeit wird gerichtet auf die Wiedergeburt der ukrainischen Finanzwissenschaft, der Forschung mit ihren Ergebnissen und insbesondere der Ökonomenschule von Kiew und ihre Auswirkungen auf die Formierung von Finanzzentren der Wissenschaft in der Ukraine in der Gegenwart. Die Autoren berühren auch wenig erforschte und diskutierte Fragen der Theorie der Finanzen und stellen neue konzeptionelle Prinzipien der globalen und nationalen Finanzwissenschaft und Finanzpraxis in ihrer Vielfalt von wissenschaftlichen Trends, Konzepten und Methoden vor. Diese groß angelegte Arbeit ist bis zu einem gewissen Grad eine Art Zertifizierung der Reife der ukrainischen nationalen Finanzwissenschaft in der Phase der Wiedergeburt zu Beginn des dritten Jahrtausends.

Die Arbeit sollte von Interesse sein für Wissenschaftler, Lehrkräfte, Studenten, Doktoranden und alle, die sich für die Geschichte der Finanzwissenschaft interessieren.

Forschungsinstitut der Internationalen Wissenschaftlichen Vereinigung
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Preface	9
<i>Section 1. THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF THE FINANCIAL THOUGHT</i>	
1.1. Conceptual approach.	31
1.2. Methodological paradigm	55
1.3. Methods of analysis.	78
<i>Section 2. CLASSICAL AND NEOCLASSICAL SCIENTIFIC SCHOOLS OF THE FINANCIAL THOUGHT</i>	
2.1. Predecessors of the English classical political economy.	100
2.2. Classical school	128
2.3. Historical school	143
2.4. Marginalism	155
<i>Section 3. MACROECONOMIC THEORIES OF FINANCE</i>	
3.1. Keynesian scientific school	177
3.2. Post Keynesianism	198
3.3. Monetarism. Money dominance	225
3.4. Financial priorities of modern monetarism	253
3.5. New classical macroeconomics	277
3.6. Financial and institutional architectonics	299
3.7. The Concept of Financial Regulation in the Context of Globalization	341
<i>Section 4. UKRAINIAN FINANCIAL THOUGHT: GENESIS AND EVOLUTION</i>	
4.1. Kyiv Scientific School of Finance: Origin and Development.	366
4.2. Formation of Main Centers of Financial Thought	382
4.3. Formation of the Ukrainian financial doctrine	400



4.4 Identity Establishment and International Reputation of Financial Thought of Ukraine.	415
4.5. Little-known achievements	483
4.6. Decay and ideology promotion during the Soviet period	509
<i>Section 5. REVIVAL OF UKRAINE'S FINANCIAL THOUGHT AT THE MODERN STAGE</i>	<i>531</i>



The publication of the edition that you hold in your hands, dear reader, is a remarkable event in the scientific life of our country. Two volumes in its unity are dedicated to one theme i.e. the revival of unjustly forgotten, of which the Ukrainian nation can be proud. This is about the history of Ukrainian financial thought, which in its development went through a difficult and thorny path from genesis to the renaissance and global recognition in the late nineteenth — early twentieth century, it is about its decline and almost ruins in times of Bolshevism and the gradual revival that continues today under conditions of Ukraine's independence. The authors clearly understand that it is impossible to reveal the whole wide many-sided palette of Ukrainian financial thought in one publication. So they determined the circle of scientists who, in their opinion, were the founders of the various areas of financial science in the nineteenth and twentieth centuries. Creative activity and civic-mindedness of most of them did not permit it to die during the time of Bolshevik ruin and their work formed the basis of today's financial science revival. Thus, in the broad context of the evolution of the global financial opinions, works of the most significant Ukrainian economists and financiers of the nineteenth and twentieth centuries have been analyzed in this publication, which made a significant financial contribution into the development of the science. Some of them are still working productively today, leading scientific schools known in many countries. In the publication you can also find essays about their life and career.

Authors are aware and fully understand great responsibility, ethical, moral and purely human aspects of their approach while identifying personalities of Ukrainian scientists-financiers and assessing their place, role and importance in the development of financial thought in Ukraine. Under no circumstances required restriction of the group of scientists in this publication can be seen as ignoring or underestimating the big team of talented Ukrainian scholars of financial science whose biographical information and stories from the textbook works are not included into these two volumes. Today Ukrainian financial science is developing at a rapid pace; the number of researchers and researches is increasing. The range of works dedicated to macro-financial operations, corporate finance, insurance and financial markets are expanding. The researches in the field of financial risk management have been activated. Ukrainian scientists more often turn to the works of the Western financial science, to the rich treasury, which was left to us our by the scientists of the past epoch, their immense theoretical heritage.

Among the great community of the Ukrainian financial science the following names should be highlighted V. Andrushchenko, O. Baranovsky, V. Bazilevych, M. Bilyk, A. Danilenko, V. Vishnevsky, A. Hamankova, A. Krysovaty, M. Krupka, I. Lunina, I. Luty, S. Lyovochkin, V. Melnyk, M. Melnyk, Ts. Ogen, S. Onyshko, V. Oparin, D. Polozenko, A. Sokolowska, L. Tarangul, O. Cherniavsky, S. Yuriy, P. Yukhimenko and many others. However, despite the existence of individuals and academic achievement, Ukrainian financial science is still at the stage of its revival that has lasted for 20 years and its development is mostly expansion. Scientific knowledge accumulated so far, does not allow making a qualitative breakthrough. However, in modern conditions, when with the increase of complexity of the tasks of the national economy world, globalization processes accelerate, including financial, Ukrainian financial idea has to take this leap to ensure structural and institutional transformation in the financial sector, which will correspond to the new economic requirements and challenges of geo-financial environment. In solving this current problem, we hope for support of our talented young people who know foreign languages and have a great desire to work efficiently.

A large amount of factual and critical material has been included into the publication, revealing the creative achievements of the Ukrainian financial thought. The works of contemporary scholar financiers, the biographies of which are given in the second volume, are available in majority of book collections of leading academic and public libraries. Therefore, the authors try to draw attention only to those individuals, to urge interest of young researchers in their scientific achievements by using the bibliographic information.

This systematic and multifaceted publication is the authors' attempt to at least partially fill in the existing gap of the national literature on the genesis and evolution of financial thought, though lots of things have been done in this important area of financial science in the last decade.

Long time ago a great German philosopher H. Ritter noted that «in the sciences using previous works of past times we reach the knowledge, which we can contribute to the further development of science; at the same time we should not forget that we once learned and nothing suddenly ripens»¹. We turn to these words of prominent German scientist of the nineteenth century because it was German economic and financial school that played an especially important role in the formation of the Ukrainian financial thought.

¹ Quotation by: Rieter H. *Historische Schulen* / Rieter H. // *Geschichte der Nationalökonomie* / O. Issing (Hrsg.). — 4. erw. u. erq. — München : Aufl, 2002. — S. 137.

The focus on the German experience in science and education was quite comprehensive. After all, many Ukrainian and Russian scholars studied in German universities, they acquired theoretical and practical knowledge gained by advanced Western European science. Especially stable relations were formed with German science and education. In the first place they were supported by Russia's leading universities. In Ukraine, university education originated only in the early nineteenth century (Kharkiv University — 1805, Kyiv — 1834). Earlier, Ostrog school and Kyiv-Mohyla Collegium (from 1701 — Academy) had a significant impact on education of Ukraine and Russia. After the decay of these educational centers caused by general policy of the tsarist regime, the bet in university education in Russia was placed on recruited foreign academicians.

The assessment of the problem of education in Ukrainian was given by economy and finance scholar J. Kulisher (1878–1933), who stressed that the public education was the worst organized in Ukraine and Russia. «It has been over two centuries (meaning the eighteenth and nineteenth centuries — Ed.) it could not get off the ground forward. Since Peter the Great attempts to recruit «young boys for science» had been repeated, i.e. they were captured, kept in prison and «custody.» But such education for state not for domestic needs gave thin, ugly fruits; it was designed not to revent Russian (and Ukrainian — Ed.) people as educated foreigners, but provide the necessary material for the «barracks and offices», it became a «government order or treasury delivery of adolescents» to study a particular program «for consumer distillation of half-educated people in homegrown and exotic boarding schools. The school, which turned young men education in training of animals, developed among students primitive way of struggle — desertion; escapes and breakouts from school with recruits became chronic diseases of Russian (and Ukrainian — Ed.) life»¹. This attitude of young people and their parents to education changed only in the late eighteenth — early nineteenth century.

Since the beginning of university education in Ukraine the works of German professors have been used as basic textbooks. Thus, according to J. Schumpeter (1883–1950), J. Sonnenfels' well-known book — «Grundsätze der Polizei, Handlung und Finanzwissenschaft» (1765) until the mid-nineteenth century remained the official textbook in Austria-Hungary. His ideas influenced famous Ukrainian economist-financier M. Baludyansky (1769–1847), who became later the first rector of the revived St. Petersburg University. Baludyansky gave a course of political economy at the University, which, as you know, in those years, was mainly designed according to the ideas of Adam Smith and contained some elements of the

¹ Kulisher I.M. Essays on financial science / Kulisher I.M. —Pg. 1918.— P. 31.

theory and practice of finance (policy of taxes and fees). As a practitioner, he was involved into work in the Ministry of Finance, where he actively participated in the development of the famous «Plan of Finance» in the framework of financial system reform in Russia and Ukraine, which was carried out under the leadership of Speransky (1772–1839).

Instead of the above-mentioned tutorial there will be equally worthy work of Heidelberg Professor K. Rau. That university has played a crucial role in appearance of the whole galaxy of Ukrainian financiers. Many economists-financiers of pre-revolutionary Ukraine, which later contributed in to the formation of national (Kyiv) financial school, attended lectures and prepared their thesis's there. The close relationship of Ukrainian university education, which was in its infancy, with advanced financial opinion in Germany contributed to the fact that the problems of financial science became more and more important in studies of Ukrainian scientists.

German politician of the same nineteenth century K. Sacharias said: «Without finance science the other sciences of state would be a dead letter»¹. K. Sacharias clearly emphasized with this the universal importance of financial science to the state, government and economy in general, hence, the importance of defining its scientific achievements. Thus, all finance existence — from its genesis to the present period is closely linked to the functioning of the state and its institutions.

Ukrainian scientist and financier I. Tarasov drew attention to the need of studying the scientific heritage in general and financial history in particular. In 1883 he wrote: «... history enables not only to explain the essence of previous modern, but also on the basis of modern to predict the future to some extent. Thus, the present state of theory and practice of public sector institutions in the history of studies of finance interpreted...»² I. Yanzhul considered financial knowledge to be an essential component of education in general. According to him, more or less acquaintance with financial science overall is «an absolute necessity for every educated person»³.

Practice did not refute the theory in its value, but expanded its application beyond the purely public field. Thoughts of aforementioned prominent German figure and Ukrainian economists-financier of the same period relate the present scientific fields connected to the problems of the market economy, because it is obvious that all applied sciences covering the

¹ Essays on the history of financial science: St. Petersburg State University / [O. N. Ansberg, Yu. V. Bazulin, S. A. Belozerov etc.]; ed. V. V. Kovalev. — M.: Prospect, 2009. — P. 3.

² Tarasov I. T. Studies of Financial Law Science: An Introduction. Generalities / Tarasov T. — Yaroslavl: Tipogr. Province. Board, 1883. — P. 27.

³ Yanzhul I. I. Basic Principles of Fiscal Science. The doctrine of state revenues / Yanzhul I. I. — M.: State, 2002. — P. 34.

business relationships more or less have a financial dimension. This is not about some far-fetched priority or ranking of science, but about the financial component is an integral element connecting the vast majority of applied economic studies. In connection with this the proposed publication should contribute to the general increase in the level of financial education, a deeper understanding of the complex and multifaceted world of economy and finance.

Modern Ukraine, if not white, is obvious light gray spot on the world financial map and, in fact, in the history of economic doctrines. One of the main reasons for this is the lack of long-term state and prolonged Ukraine's being part of various empires — in the twentieth century in the former Soviet Union with its ideological dogmas and clichés, the admissibility of all national only in form and only homeland at the Soviet Union. Nowadays the scientific topics from the history of finance were not considered urgent and almost no dissertations and publications were on this subject. In Soviet economic literature the works of many of our predecessors were either ignored or presented in a distorted form, the authors were accused of bourgeois apologetics or the «Ukrainian bourgeois nationalism». There was an attempt to erase their names from the memory of Ukrainian people. All this has left its mark on the scientific field, methodology and theoretical approaches, the nature and direction of research of Ukrainian financial thought. As a result, there is no integral reflection of the evolution of the Ukrainian scientists' financial thought of the nineteenth and the beginning of the twentieth century from non-Marxist point of view in financial studies of different fields.

Soviet propaganda tried to represent Ukrainian professors of the past as those who «kowitzed to the bourgeois West» and therefore made no original contribution into science. Let's note that there was really an «impact of the West», but just in tries to recreate the achievements of Western science in Ukraine national spiritual traditions that were always clearly reflected and some works joined the world treasury of financial thought.

It should also be kept in mind the extraordinary mix of Ukrainian and Russian economic and financial opinions during statelessness and oppression of the Ukrainian language in certain periods of our history. This complicated problem was also raised by some pre-revolutionary and modern Russian researchers who wrongly represent significant part of the achievements of the Ukrainian economic and financial school as achievements of Russian economic and financial thinking¹. The authors of this publication aimed to

¹ Svyatlovsky V.V. *History of Economic Ideas in Russia* / Svyatlovsky VV — Pg., 1923. T. 1; Blyumin I.G. *Sketches of economic thought in Russia in the first half of the nineteenth century* / Blyumin I.G. — M., 1940; Stein V.M. *Essays on the development of Russian social economic thought*: 3 m. / V.M. Stein — M., 1955-1966.

show this relationship, to reveal the spirit of creativity and originality of Ukrainian financial and scientific school. Particular attention is paid to the Kyiv economic school, to some students, who actually launched the Ukrainian economic and financial thought. It is clear that the system of selection of that time of leading teachers to tsarist imperial universities of Russia, which included Ukraine, tried to level these limits and that manifested itself, in particular, in the extraordinary migration of many of the scientists from Ukraine to Russia and again from Russia to Ukraine. However, the world economic science acknowledges, the existence of Kyiv financial school, which was crucial for authors in shaping the content of this publication.

The development of financial science in Ukraine at the stage of its formation had cells, which were mostly universities, and representatives of financial thought were lecturers and students of these universities. This trend continues today. At the end of the nineteenth century Ukraine had several universities. Some of them operated in eastern Ukraine, which was part of the Russian Empire — in Kyiv, Kharkiv and Odessa. Some were in the part of the Austro-Hungarian Empire — in Lviv and Chernivtsi. Lviv university was founded in 1817 (as the University of Francis I) and well-known as the working place of famous Polish economists (L. Bilinski (1846–1922), V. Ohenovski (1840–1908), S. Hlombinski (1862–1943) and others) and Chernivtsi university — in 1875 (as University named after Franz Joseph). There mostly worked Austro-Hungarian economists (F. Kleinwaechter (1838–1925), A. Amonn (1883–1962) as a privat-docent in 1909; Schumpeter and others began teaching job. Whenever possible, the authors tried not to be limited only by the Eastern Ukrainian universities, the philosophical center of which was the Kyiv economic (financial) school.

One of the first worth noting was Kyiv University, which travelled the way from the Imperial University of St. Vladimir (1834) to Taras Shevchenko National University of Kyiv. An outstanding role in the organization, formation and development of financial thought at Kyiv University played its graduates. This is particularly Vernadsky (1821–1884), which in addition to the implementation of research activities in 1869 was the manager of Kharkiv branch of the State Bank and from 1870 to 1876 he worked as the head of the local Society of Mutual Credit and professor M. Bunge (1823–1895), who for three terms (1859–1862; 1871–1875; 1878–1880) headed the university as rector, from 1881 to 1886 held the post of Minister of Finance and from 1887 to 1895 worked as the head of the Cabinet of Ministers Empire. They had produced a galaxy of eminent scientists and economists and financiers who later worked in Kyiv and

Ukraine as well as other universities and formed the basis of financial research at the Kyiv school in the XIXth — early XXth century.

The teachers of economic disciplines in the University of Kyiv were known in that time scientists: A. Antonovich (1848–1917), K. Vobly (1876–1947), A. Bilimovych (1876–1963), V. Zheleznov (1869–1933), P. Kovanko (1879–1938), I. Tarasov (1849–1929), M. Tugan-Baranowsky (1865–1919), G. Sidorenko (1832–1899), G. Tsehanovetsky (1833–1898), M. Tsytyovych (1861–1919), M. Yasnopolsky (1846–1920), L. Yasnopolsky (1873–1957) and others. They examined various aspects of financial science at the world level.

Among the internationally renowned economists, who began their scientific life at Kyiv University, should be also mentioned E. Slutsky (1880–1948), S. Podolynsky (1850–1891), J. Janson (1835–1893), V. Novozhilov (1892–1970) and others. All of them united predisposition to the theory of market economy. For this reason Kyiv scientific school was extremely important for the formation and implementation of financial and economic policy in 1880–1890 years. Thus, when Moscow and St. Petersburg left-oriented intelligentsia's impact on society reached the peak, Kyiv School of Economy Studies, whose members largely did not embrace socialist ideas, was a supporter of the market economy. This was the identity of the Kyiv school.

An important development step in financial science of Ukraine and Kyiv scientific school was finding of higher commercial private courses in Kyiv in 1906 (in 1908 — Kyiv Commercial Institute, now — Kyiv National Economic University named after Vadym Hetman). The founder and first rector of Moscow University became Dovnar-Zapolskiy who graduated from Kyiv University and defended his master's and doctoral theses under supervision of well-known historian Vladimir Antonovych.

In terms of the history of finance his master's thesis «Public sector of Grand Duchy of Lithuania during Jagiellonian dynasty rule» (1901) is of particular value. Over the years, M. Dovnar-Zapolskiy worked as assistant professor of Moscow University, professor and head of the Department of History of the University of Kyiv and rector of Kyiv Commercial Institute. The last one the scientist had led for 12 years. He wrote the draft of Constitution of Belarusian People's Republic (1918). Leading finance and economy scientists K. Vobly, E. Slutsky, P. Kovanko, L. Yasnopolski, M. Mytilini etc. worked at the institute. A graduate of the Law Faculty of Warsaw University K. Vobly, later professor of University of Kyiv and rector of the Kyiv Commercial Institute in 1917–1919, Academician of the USSR and Honored Worker of Science of USSR, who published more than 200 papers, researched such finance branch as insurance («Fundamentals of

economics of insurance», 1925). The issue of money, credit and profit are in the attention focus of the scientist in his brief essay about science of finance («Initial course of political economy: history, theory, finance», 1918). The subject of financial science, according to K. Vobly, is the doctrine of state revenues and expenditures, state credit, financial management and control¹.

In 1920 Kyiv Commercial Institute was transformed into Kyiv Institute of Social and Economic Sciences, and in September of the same year it was renamed into Kyiv Institute of National Economy². During the 1921–1922 biennium M. Mytilini, a graduate of the Law Faculty of Kyiv University, worked here. While working at the institute, he held various positions: dean, vice-rector, rector. Mytilini M. is the author of fundamental textbooks «Elements of Financial Science» (1926) and «Fundamentals of Financial Science» (1929).

Kharkiv for a long time remained a pretty powerful center of financial thought in Left Bank Ukraine, namely the University of Kharkov (now — V.N. Karazin Kharkiv National University) and the Kharkiv commercial school of Emperor Alexander III (now — Kharkiv National University of Economics). Kharkiv National University is one of the oldest universities in Eastern Europe was founded in November 1804 on the initiative of prominent educator V. Karazin, in accordance with a letter of Alexander I. University inauguration was held on January 29th, 1805.

Among the prominent representatives of economic thought of the XIXth — early XXth century there should be named M. Alekseenko (1848–1917), O. Antsiferov (1867–1943), K. Hattenberger (1844–1893), P. Mihulin, M. Sobolev (1869–1945), P. Sokalky (1796–1858) G. Tsehanovetsky, P. Tsytovysh, L. Yasnopolsky and others.

K. Hattenberger was a Doctor of Political Economy and a professor of Police Law. He received his master's degree at Kharkov University, and doctorate — in Kyiv University. He paid a lot of attention to the methodology of economics (he was a supporter of J.S. Mill's views). In the sphere of his scientific interests mostly prevailed problems of bank credit, monetary, cooperation and labor legislation, the impact of financial institutions on economic development. In a definition of the subject and method of political economy K. Hattenberher clearly outlined economic direction and subject of police law — industry, transport, and trade and so on. In scientific terms he was particularly interested in the impact of

¹ Voblyi K.G. Basic political economy. History, Theory, Finance / Voblyi K.G. — K., 1918.

² Kyiv natsionalnyy ekonomichnyy universitet imeni Vadym Hetman. (Vadym Hetman Kyiv National Economic University). *Storichnyy Postup: 1906-2006* / Ed. A.F Pavlenko. — K.: KNEU, 2006. — P. 16.

government financial management at production, distribution, exchange and consummation¹.

A former student of the Law Faculty of Kharkov University M. Alekseenko (1848–1917) started in 1869 his teaching and research activities at the same university; in 1880 he was elected a professor of financial law and a rector of Kharkov University from 1890 to 1899. The circle of his scientific interests included the problems of taxes, public credit and state debt management, history of financial thought. As a specialist M. Aleksyeyenko was continuously involved in various governmental committees, as a member of the IIIrd and IVth State Duma headed its budget committee.

Ivan Myklashevsky, a renowned scientist, (1858–1901) worked at the Department of Political Economy of the university from 1896 to 1901. At the same time talented economist-financier and politician P. Mihulin (1870–1948) also worked there. After graduating in 1893 from Faculty of Kharkov University with a diploma of 1st degree P. Mihulin was left at the university to prepare for a professorship in the Department of Finance. Professor M. Aleksyeyenko who supported him in his scientific growth was appointed as his supervisor².

In Kharkov University, Faculty of Physics and Mathematics, studied scientist of world renown M.I. Tugan-Baranowski, who also graduated as an external student from Faculty of Law. This scholar, who was one of the first Ukrainian scientists who achieved worldwide recognition; in Soviet economic literature before perestroika he was one of the most maligned authors. He sharply criticized by V. Lenin, blackened by M. Bukharin, who in his «Political economy of rentier» (1925, reprinted in 1989) wrote about Tugan-Baranowski: «... in addition to ethical chatter, which cannot be taken seriously, we do not know exactly anything»³. There was no single good word about him, except empty carping, in Soviet times. Today Tugan-Baranovsky is considered to be a prominent representative of national economic science⁴, although his disciple M. Kondratiev (1892–1938) said in 1923: «We can safely say that Tugan-Baranowski in economic theory was the first who forced European thought seriously listen to its movements in

¹ Kharkivsky natsionalnyy universitet im. V.N. Karazina 200 rokiv (Kharkiv National University named by V.N. Karazin for 200 years) [V. V. Kravchenko, S. I. Staves, V. I. Kadeev that in.]. — H.: Folio, 2004. — P. 185.

² Dmitriev A.L. P.P. Migulin — famous economist and politician / AL Dmitriev // History of national economy and economic thought in Ukraine. — 2003 — Vyp. 35-36. — P. 243.

³ Bukharin N.I. Political Economy rentier / N. Bukharin L.-M., 1989. — P. 182.

⁴ Gorkina L.P. Mykhaylo Tugan-Baranovsky Ivanovych — a thinker, scholar, citizen: introduction/ Gorkina L.P. // Tugan-Baranovskyy M. I. Political Economy: The popular course. — K.:Nauk. Dumka, 1994. — P. 3-35.

eastern Europe ... and it makes his national importance»¹. In his latest work «Paper money and metal» (1917, reprinted in 2004), he showed the full force of what he was capable in economic theory. In 1893 on the initiative of Kharkiv Merchant Society there was founded Kharkiv Commercial College of Emperor Alexander III (now — Kharkiv National Economic University) for professional training of the personnel for senior and middle level trade and entrepreneurship establishments. Well-known scientists and economists O. Antsiferov, M. Sobolev, P. Fomin (1873 — not earlier 1930), V. Levitsky (1854–1939) and others studied in the college. M. Sobolev worked as the dean of a faculty of Kharkiv Commercial College. A. Anciferov taught a course in statistics, history and theory of cooperation, cooperative credit; I. Trachtenberg held a special course of political economy and stock exchange transactions. I. Trachtenberg paid special attention to issues of currency and money market. The first edition of his famous work «Paper money. Outline of theory of money and circulation of money» was published in 1914.

A rather powerful scientific school represented by P. Fomin, N. Sobolev, J. Dimanstein et al. was formed in Kharkiv Commercial College. The focus of this school is the issue of state financial regulation of the economy as a means of improving its efficiency and the toolkit needed for this, the role of large financial-industrial groups and the importance of application of mathematical analysis in economic researches².

One of the largest centers in the southern region of financial thought in the early twentieth century was Odessa. Odessa National University named after I. Mechnikov (Imperial Novorossiysk University) from its founding on the 1st (13th) of May in 1865 took a leading position in shaping the education system and development of research and culture in Ukraine, including financial science. Such prominent scientists and financiers as S. Ilvayskij (1861–1907), V. Tverdokhlebov, G. Tiktin (1880–1945), I. Patlayevsky (1839–1883), L. Fedorovych (1854 — the year of death is unknown), P. Tsytyovych et al. worked at the university.

Thus, S. Ilvaysky was appointed assistant professor at Novorossiysk University in 1886, later scientist received the title of extraordinary professor and headed the Department of Finance. G. Tiktin, a graduate of the Law Faculty of University of Novorossiysk, paid special attention to the political economy and finance; in 1906 he left the university for further study. Further his scientific fate was linked with universities in Odessa.

¹ Kondratiev N.D. Mykhaïlo Tugan-Ivanovych / N.D Kondratiev — Pg., 1923. — P. 112.

² Essays on the History of Kharkiv National Economic University: [monograph] / Mikhaïlychenko D.Y., Yemachenko V. Je, Sahno O. A. Ed. V.S Ponomarenko. — H. Kind. Dim «INZHEK», 2005. — P. 40.

I. Patlayevsky graduated from Kyiv University, where he was a student of M. Bunge. He lectured at faculty of Novorossiysk University and also worked as director of Commercial College of Odessa.

L. Fedorovich was elected assistant professor of political economy and statistics at Novorossiysk University in 1884. After his postdoctoral «Theory of monetary and credit circulation» the scientist was at first appointed extraordinary, and in 1890 — an ordinary professor of Political Economy and Statistics Department of Novorossiysk University. P. Tsytovykh and Novorossiysk University are connected with his work as extraordinary professor in 1873. V. Tverdokhlebov was also a graduate of the Law Faculty of Novorossiysk University. The scientist known as a researcher of state and local finance of Russia continued his research and teaching activities in Petrograd (St. Petersburg) University.

There is little information about the period in the life of the famous statesman S. Witte (1849–1915), which was associated with Novorossiysk University and Ukraine in general. In 1866 he entered the Physics and Mathematics Faculty of the University and successfully graduated in 1870. During 1869–1889 S. Witte worked in public and private railway companies occupying different positions: in the office of Novorossiysk and Bessarabian Governor-General, in the management of state Odessa railway. Quickly climbing the career ladder (from 1877 he was chief of Odessa railway operating, manager of South-West Railway), S. Witte moved to Kyiv and engaged in practical activities on the organization of railway transportation in 1880. At the same time he continued scientific activities and in 1883 published the book «Principles of railway tariffs for cargo transportation» where he explored the financial condition of railways¹. In early 1892 S.I. Witte was appointed Minister of Communications and in August of the same year — Minister of Finance of Russia.

The vast majority of Economy professors were Poles, the Germans — in Chernivtsi. The languages of teaching at Lviv University were Polish and German, in Chernivtsi — German. According to I.S. Koropetsky, «This circumstance, as well as the possibility of free political and cultural communication with foreign countries, unlike the isolation of imperial Russia, made these institutions be a part of western intellectual world, at least until the Second World War»².

The first professional economist at Lviv University is believed to be Leon Bilinsky, who was born in the Temopil region. He received a doctorate

¹ Lortikyan E.L. Economy and history of economic thought in Ukraine. The evolution of the market economy / Lortikyan E.L. — H.: Konsum, 2004. — P. 31.

² Koropetskiy I.S. Ukrainian economists of the XIX century and the western science / Koropetskiy I.S. — Kyiv: Lybid, 1993. — P. 23

in law at Lviv University. L. Bilinsky taught here from 1868 to 1892 and there was published his most important work. He worked as a rector and the dean of the Faculty of Law. Lviv native S. Hlombinski taught various economic sciences at Lviv University from 1883 to the First World War. Here he also defended his doctoral thesis in law. As a scientist he was interested in the problems of taxation and monetary economics.

Since the founding of Chernivtsi University (1875) Friedrich Kleinwaechter (1838–1925) from the University of Paris, who worked here until his death, had been a Professor of Political Economy. Joseph Schumpeter, a graduate of Vilnius University also worked here from 1909 to 1911. After him, A. Amonn (1883–1962), a graduate of the University of Freiburg, worked from 1912 to 1919.

Characterizing financial condition and development of thought in Ukraine in the nineteenth — early twentieth century we consider it necessary to draw attention to such an important fact. During this period, many academic economists, who came from Ukraine, where their opinions actually formed under various circumstances, worked at universities and research institutions of St. Petersburg, Moscow and other Russian cities. I. Yanzhul (1846–1914), R. Myklashevsky, M. Tugan-Baranowski, E. Slutsky, M. Ptukh, P. Mihulin, V. Tverdokhlebov and others were among them. Some of them even got there the highest degrees, were elected academicians of the Imperial Academy, and became honorary university professors (eg, I. Yanzhul). But the authors turned primarily to general (which was characteristic of the majority of representatives of the Ukrainian financial thought) and to special (typical of specific individuals as creators and transmitters of Kyiv scientific school ideology) vision of national identity, political and ideological choice, methods and opportunities for realization of personal potential, political motivation, cultural, scientific and educational activities in Ukraine and abroad.

Despite these difficulties in differentiating the Ukrainian financial thought, the disclosure of the contribution of domestic scientists to development of the world science and finance, the authors come from the fact that such a distinction is a matter of honor and conscience of every nation. The history disposed that at times Ukraine was part of Russia, Austria-Hungary, Poland, Romania and other countries and consequently the fates of scientists were closely associated with the relevant areas, their works are published in the languages of these countries. The authors mostly included the famous explorer Ukrainian economic and financial I. Koropetsky's opinions on who should be considered Ukrainian economists (financiers): «To the Ukrainian economists we include these two groups of scientists: those who recognize themselves as Ukrainian (despite of the

country in which they lived or worked) and representatives of other nationalities who lived most of their life in Ukraine. However, this approach puts beyond our focus of outstanding Ukrainian economists who were born in Ukraine but lived abroad (eg, Carl Menger, Ludwig von Mises, Arthur F. Burns)»¹.

Economic literature knows the practice of accounting of the country where a scholar was born (or where he created his major works) to determine his belonging to this or that country. For example, it is widely used on such scholars as V. Leontiev (1906–1999), Friedrich von Hayek (1899–1992), Josef Schumpeter and others. The same I. Koropetsky offers to divide the professionals, who were associated with the Ukraine, into four groups: 1) the economists working in Ukrainian universities; 2) ethnic Ukrainians associated with the universities situated outside Ukraine; 3) individuals in Ukraine, which did not occupy university or government jobs, but showed interest in political economy; 4) government economists-statisticians in Ukraine, which were influenced by the German historical school².

The disadvantage of this scheme, in our opinion, is that it does not fully cover the Kyiv school of economists-scientists: 1) it takes into account only the economists associated with Ukraine; 2) it does not include cases where the person worked for some time in Ukraine, and abroad, and vice versa (T. Stepanov (1795–1847), I. Myklashevsky etc.); 3) it does not account for those circumstances where the scientist worked for some time at the university, and public service, or combined jobs (D. Pihno (1853–1913), O. Bilimovych, M. Bunge, M. Tugan-Baranowsky and others), 4) it leaves aside some economists-financiers who can simultaneously belong to several groups (R. Orzhentsky (1863–1923), who was born in Zhitomir, was conferred upon master's degree in Odessa and doctorate in St. Petersburg; also worked in various institutions of Petrograd and Moscow before the First World War. In 1919 he returned to Ukraine, where he was engaged in scientific work). That is why, according to the authors, it is important to supplement this scheme with scientist's belonging to the Kyiv scientific school, which accumulated Ukrainian financial and economic thought in the late nineteenth — early twentieth century.

Ukraine should be proud of its sons, who retained their identity during the statelessness. Each of them, even working outside Ukraine, tried to conduct research on world level increasing achievements of their teachers. This relationship can be demonstrated by scientific activities of world-famous Ukrainian economist E. Slutsky, who made a great contribution to

¹ Koropetskiy I.S. Ukrainian economists XIX century and Western science. — P. 8.

² For details see: Ibid. — P. 22–67.

the development of economic and mathematical methods. He was Kyiv school graduate and a Professor of the Kyiv Commercial Institute from 1911 to 1920 and then a researcher at the Institute of Conjuncture in Moscow, which was led by Tugan-Baranovsky's student world-renowned economist M. Kondratiev.

M. Tugan-Baranovsky graduated from the Physics and Mathematics Faculty and Faculty of Law of Kharkiv University; master's degree (1894) and doctoral (1898) theses were defended in Moscow University. He became assistant professor in 1895. He had been a professor of the St. Petersburg Polytechnic Institute since 1913. But this did not affect his relation to Ukraine. In 1917 with the move to Ukraine Mikhail Tugan-Baranovsky held the position of Minister of Finance at the Central Council. In 1918 he published in Ukrainian language popular course «Political Economy,» a book about cooperation, as well as several articles on the cooperative movement in Ukraine. He was a professor at Kyiv University and an active member of the Ukrainian Academy of Sciences.

This example is a proof that no matter where you are in the empire Ukrainian economists and financiers retained identity and enriched traditions of Ukrainian financial science, the center of which was Kyiv scientific school. They made a significant contribution to the global financial opinion working in various research centers in the early twentieth century (in Kharkiv — M. Alekseenko, P. Migulin et al., in Kyiv — A. Antonovych, V. Zheleznov, D. Pihno, A. Bilimovych, father and son Yasnopolsky, K. Vobly et al., in Odessa — L. Fedorovych, R. Orzhentsky etc.), These results our countrymen reached working outside Ukraine. That was the cause that the Russians consider them to belong to «galaxy of Russian economists of last third XIXth — early XXth century, which formed a national economic science in Russia and taken its rightful place in the global economic thought»¹.

In the chapter «Contribution of Russian financial thought to the development of the science of finance» of the manual quoted here and written by V. Pushkareva there can be found names of I. Yanzhul, P. Mihulin, M. Yasnopolsky, L. Yasnopolsky, V. Tverdokhlebov, M. Bunge, M. Aleksyeyenko et al.². Although being fair it should be noted that V. Pushkareva indicates that they belong to Ukraine: professor from Kyiv M. Yasnopolsky, Kyiv University professor M. Bunge and other³. «Modern

¹ Essays on the History of Fiscal Science: St. Petersburg State University / [O. N. Ansberg, Yu. V. Bazulin, S. A. Belozherov et al.]; ed. V. V. Kovalev. — M: Prospect, 2009. — P. 423.

² Pushkarev V. M. History of financial thought and policy of taxes [Proc. benefits for students. econ. specialist. universities] / Pushkareva V. M. — Moscow: Finance and Statistics, 2003. — P. 22-27.

³ Ibid. — P. 22-23.

representatives of Russian financial literature» include L. Yasnopolsky¹, who was a graduate of the Kyiv University, worked as a professor in Kyiv Commercial Institute and most of his life spent in Ukraine. One can cite many such statements made by modern Russian researchers about Ukrainian scientists, but there is no their guilt in it. It is obvious that in absence of Ukrainian statehood our domestic financial idea was seen as Russian and this is passed to new generation.

Moreover, such an attitude to Ukrainian scientists in some cases is transferred to modern foreign financial science. For example, a famous contemporary German researcher of financial science Joachim Zweynert in his book «History of Economic Thought in Russia. 1805–1905» (German edition of 2002) calls the first Russian student of Karl Marx the person whose life was never associated with Russia and who wrote in Ukrainian, however, experiencing harassment from autocracy, migrated to Switzerland. This was G. Tsehanovetsky's student (Kyiv University) Mykola Ziber (1844–1888), which, according to Marx, was «a scholar of European scale»². That was him, one of the few in the history of economic thought of Ukraine the Germans would assign to pure scientists³. The same Joachim Zweynert as well as Russian researchers would call M. Tugan-Baranovsky «the first of Russian economists, who achieved global recognition»⁴. Even foreign researchers, who came from ethnic Ukrainian lands and found themselves in the New World and became successful Europeans, consider the same Tugan-Baranovsky to belong to Russia, «Economist, historian, politician (Russia), which had a significant impact on development economics in the twentieth century»⁵.

Let's note that specific trends of financial science development in Ukraine were also determined by features of the situation and development of Ukrainian society and the economy, especially by the lack of statehood for centuries. Because of this, firstly, the Ukrainian science for a long time was perceived as a captive, non-original and «dissolved» in economic thought of the metropolis; secondly, the regional differences persisted in the formation and development of financial science; thirdly, the applied, historical and other aspects of the study of finance were closely connected with the

¹ Pushkarev V.M. History of financial thought and policy of taxes [Proc. benefits for students. econ.specialist. universities] / Pushkareva V.M. — Moscow: Finance and Statistics, 2003. — P. 23.

² Zweynert J. History of economic thought in Russia. 1805-1905 / Zweynert J. ;trans. From German. L.I. Tsedilin; scientific. Ed. V.S. Avtonomov. — M.: Publishing house. Home Higher School of Economics, 2008. — P. 266-278..

³ Kleinbort L.M. Nikolai Ziber / Kleinbort LM — Pg. : Book, 1923. — P. 20.

⁴ Zweynert J. History of economic thought in Russia. 1805-1905. — P. 322.

⁵ Albitsov V.G. Galaxy «Ukraine». Ukrainian diaspora, prominent figures / Albitsov V.G.— K. : KIT, 2007. — P. 122.

problems of national self-determination, strengthening national elements in leading sectors of the economy, the rise of welfare; fourthly, metropolitan centers and other cities outside Ukraine became the important centers of our national thought and publishing (St. Petersburg, Moscow, Budapest, Vienna, Warsaw, Krakow, Prague, Paris, Geneva, Berlin, etc.).

It is important to pay attention to this important fact: the lack of adequate state support for work to restore the theoretical heritage in Ukraine, limited access to primary sources Ukrainian financial thought. You can work with them mostly in national libraries (Vernadsky National Library of Ukraine, the National Parliamentary Library of Ukraine) and libraries of leading universities of Kyiv, Kharkiv, Lviv, Chernivtsi, Odessa and some others. Hence there is limited access to the works of scientists and financiers of the XIXth — early XXth centuries. As a result, lecturers, students, and especially scientists, do not have sufficient opportunities to constantly work with primary sources.

However, we must clearly understand that the dominant social customs and traditions of thinking affect not only the intellectual approach to financial issues, but to a great extent the financial and economic organization of that society. Moreover, as noted by Karl Pribram, «a prerequisite for any transformation of social or economic institutions or organizations is a change in canons of thought, underlying social and economic life that dominated before»¹. Isn't it the answer to the question why the establishment of a market economy and statehood in Ukraine is encountering some resistance of individual sectors of Ukrainian society even today?

The importance of history of «pure» financial science was emphasized in 1910 by Russian professor M. Friedman: «Essay dedicated to the presentation of those ideas (financial — Ed.), which had a significant impact on the development of science, echoes of what we hear even now in discussions of representatives of different scientific fields, political parties and economic groups, will help to display a more objective view of the financial activity and critical attitude to the doctrines»².

In recent years Ukraine has reissued works by M. Tugan-Baranowski «Fundamentals of political economy»³, «Paper money and metal»⁴, by M. Baludyansky «National wealth. Image of various economic systems»,

¹ Pribram K. A History of Economic Reasoning / Pribram K. A // Baltimore : The Johns Hopkins University Press, 1983. — P. 587.

² Friedman M.I. Lectures on the science of finance. Tax / Friedman MI — St. Petersburg., 1910. — Vol. 2 — P. 12

³ Tugan-Baranovsky M. I. Fundamentals of political economy / Tugan-Baranovsky M. I.; Science. ed., Introduction S.M. Zlupko. — L., ed. Lviv center. nat. Univ by Ivan Franko, 2003. — 627 p.

⁴ Tugan-Baranovsky M. I. Paper money and metal / Tugan-Baranovsky, MI; Per. with n., Science. Ed. Per., preface. M.I. Savluk. — Kyiv: Kyiv National Economic University, 2004. — 198 p.

«On national wealth. System of economists or physiocrats», «On the national wealth. The theory of Adam Smith», «Article theoretical. On the distribution and circulation of wealth»¹, by M. Bunge «Theory of Credit», «Principles of political economy», «On the place that takes the political economy in public education and its relation to practice»² and others.

The positive thing in the study of evolution of political economy thought in Ukraine was printing out the book «Ukrainian economic thought: A Reader» (1998, 2007), the compiler of which is famous Ukrainian scientist S. Zlupko. Along with the works of political economy character there are partly presented works dealing with finance functioning: «The theory of paper money circulation and state credit notes» (A. Antonovych.), «On geographical distribution of government revenues and expenditures in Russia» (M. Yasnopolsky), «The general theory of taxes shifting», «Organization of state-run enterprises» (M. Alekseyenko), «Talking about money and treasures» (I. Franko), «Money» (O. Myklashevsky), «Fundamentals of insurance economy» (K. Vobly), «The financial exploitation of Ukraine» (E. Hlovinsky). Part of them in a wider variant is provided in the third volume of this edition.

As it was previously noted, the vast majority of Ukrainian financial science today (as before) is concentrated in the universities. It should be remembered that a significant part of the Ukrainian financial thought of the nineteenth and twentieth centuries was represented not only by academic scientists, specialists of the industry, but also by publicists and practitioners. Many of them being engaged in scientific activities participated by their journalistic writings in social and political debate of their time. Due to continuous mutual influence of beyond academic and academic economic trends the line between social philosophy and «pure» economic thought is blurred in Ukraine. This includes the development of financial thought.

These presented biographies and works of Ukrainian financial scientists of late XIXth — early XXth century, in our opinion, reveal the evolution of views on the financial management of the state, its tasks and functions in conjunction with the evolution of views on the role of the state in the economy, with the general theory of state.

The authors of the book tried to capture in the whole all formed centers of financial thought in Ukraine. A more detailed summary of their achievements requires special studies, which are already being carried by leading domestic universities and research institutions. As for Kyiv National

¹ Holubka S. M. «economic system» of M.A. Baludyanskyi/ Holubka S. M. — L: Svit, 1998. — 228 p.

² Bunge M. — modern discourse: [monograf]/ for Ed. VD Bazilevich. — K: Knowledge, 2005. — 697 p.

Economic University named after Vadym Hetman and Taras Shevchenko National University of Kyiv, their scientists conducted appropriate studies, as noted in particular theses: I. Mordas «The contribution of scientists from Kyiv National Economic University in the development of economic science in Ukraine (the first third of the twentieth century.)»¹ and L. Vernygora «Development of economic science at the University of Kyiv (the XIXth — the beginning of the XXth century.)»². This work continues today. The research on the subject by young scientists and graduate students of universities has been intensified, but even now there is no comprehensive fundamental research; the authors of this publication have tried partly to compensate it.

The beginning of the XXIth century and establishing of Ukrainian statehood put new priorities in the development of financial science in Ukraine. As the result of the evolution of financial sector and the development of the theory of finance there expands categorical-conceptual apparatus of financial science, appear new financial categories and definitions and expands the boundaries and possibilities of cognition of the financial world. Attention of the researchers moves from some phenomena and processes of the financial sector on the other. However, without the synthesis and study of the experience gained in the past modern problems cannot be successfully solved. No one can understand the economic and financial effects of any age, and therefore of modern «without proper knowledge of historical facts, good historical sense and what might be called historical experience», — J. Schumpeter said³. Cognition of the genesis of finances, understanding of the objective conditions of its occurrence is a necessary basis for the disclosure of the nature and the internal structure of complex financial processes. Therefore no segment of financial science can do without the historical and financial analysis of its research object. That is why it is important to generalize and playback scientific achievements of our predecessors, which have been embodied in the Ukrainian financial thought.

The importance of this publication is also in that it helps to get to know the essence of finance and their internal components in the past, to identify trends of their further development taking into account national circumstances. Any prediction in science is always based on the analysis of

¹ Mordas I.V. Contribution of scientists of Kyiv National Economic University in the development of economic science in Ukraine (the first third of the twentieth century): Abstract. Thesis. for obtaining sciences. degree candidate. Econ. Sciences specials. 08.00.01 «Economic theory and history of economic thought» / I.V. Mordas. — K., 2008. — 19 p.

² Vernygora L.V. Development of economics at the University of Kyiv (XIX — XX centuries): Dis. ... Candidate. Econ. Sciences: 08.01.04 / Vernygora Lyudmila. — K., 2002. — 225 p.

³ Schumpeter J. A. History of the Economic analysis: in 3 vol. / Schumpeter J. A. ed. VS Avtonomov. — SPb.: Ekon. shk., 2001. — T. I. — P. 15.

the main stages of development of the processes under study and reasons that led to qualitative changes in them. The history of financial thought creates for financial science a rich foundation, which gives an opportunity to look into the future as much as we will be able to see (and understand) the past. On this occasion, the famous western economist A. Marshall wrote: «... the explanation of the past and the prediction of the future are not different operations, but the same worked in opposite directions, the one from effect to cause, the other from cause to effect»¹.

The history of financial thought is a treasury of accumulated knowledge, which is an important source of successful practical activity. It embodies the historical experience of mankind about the most viable and effective form of government the finance, implementation of financial policies and creation of favorable economic conditions for economic activities et cetera. Knowledge of historical experience is an important factor to adapt to constant changes in the environment and mastering it is a prerequisite of conscious choices of decisions and actions in organizing efficient financial system that will contribute to economic growth. «The history of finance, as its famous researcher I. Bliokh said, is not only of interest to science, but also gives direct practical guidance on the future of Russian (Ukrainian — Ed.) financial management»².

The preparation of this publication was carried out over two years, but the authors understand that the work will come with certain drawbacks, partly because of the complexity of the case and the lack of a large part of the materials for completeness of disclosure the life and work of some unjustly forgotten names in financial science, especially those which in Soviet the period were called «bourgeois nationalists». But this is only the first step in the revival of the financial thought of the past. Choosing one or other work for critical analysis or for the reader the authors were guided first of all with the degree of its theoretical and practical orientation. They also tried to refute the idea of the inferiority of the existing financial science in Ukraine. We have people of whom we can be proud and some scientific achievements of our predecessors have pioneering nature in the financial science and supplement general scientific world treasury. The reader having acquainted with this edition taken as a whole will be convinced in it.

The study of the history of the financial thought imposes a special responsibility on the researchers with the fact of complexity of its coverage. The first step is to show not just the chronology of the study, which is

¹ Marshall A. Principles of Economics: 3 m. / Marshall A. — Moscow: Progress, 1993. — T. 3. — P. 213.

² Bliokh I.S. Finance Russian nineteenth century. History — statistics: in 3 m. / Bliokh I.S. — St. Petersburg: typ. M Stasyulevich., 1882. — T. 1. — P. 3-4.

important, for example, for historical sciences, but largely to be guided by its modern, purely scientific value. That is why the authors attempted to separate those first works that allow better understanding the current state of finances, are theoretical in nature and have some pragmatic value and reveal the evolution of Ukrainian financial thought in all its aspects system-based.

In their approach to the formation of each of the two volumes the authors of this edition considered the practical side of their work to be preferable. They sought to ensure that this work has brought at least undoubted benefits that may give the combination and system matching of large amount of factual and critical material from scientific heritage of Ukrainian economists-financiers, the analysis of their original works, which will enable scientists themselves to check made generalizations or reach independent conclusions. One must understand that this is only the beginning of great work, which should be made by modern scholars of Ukrainian financial thought in reflection of the half-forgotten, and sometimes humiliated and depressed, but glorious past.

The division of the book into its parts corresponds to its name — a Ukrainian financial thought. The first volume is of monographic nature, it contains a statement of historical formation and development of the global and domestic financial ideas. It reveals various factors that influence the formation and evolution of financial thought in Ukraine, its identity and originality as the basis for its recognition in the world. Originality of this fact is that authors for the first time in the special financial literature attempted to apply the theoretical and methodological foundations of such a specific component of financial science as a financial thought and to determine its methods, object and subject of research, to organize scientific achievements in the development of modern institutional theory of finance. The section reflecting financial thought in the independent Ukrainian state and which addresses its revival, current status, trends and prospects is very important.

The second volume of the publication is encyclopedic in its nature; it contains biographies of leading scientists, financiers and critical analysis of their scientific heritage. Particular attention is paid to pilot ideas and works in individual structural components of financial science. This volume has a big importance in terms of both information and purely science as a holistic review of the scientific achievements of many Ukrainian scientists and financiers. Based on the established approach to the formation of encyclopedic edition, it ends in the present. The authors understand its incompleteness, debatable character of its forming personalities, especially of the modern period. In this regard, it is necessary to cite the words uttered

more than a hundred years ago by one of the investigators of financial thought, I.S. Blioh. Noting that to talk about events, which are close enough, is quite complicated, the scholar says: «This complexity is seen everywhere for the historian of the present, no matter what the conditions of the life are. He could try to be completely objective ... regardless of his will there can sometimes emerge at least some partiality (bias) in his work»¹. The authors understand that in today's revival of Ukrainian financial thought the time has not come when you can fully reflect scientific achievements of our time just as easily as in times distant and we recognize to some extent subjective approach to the selection, but we wanted to be maximum objective.

Hence, the important idea that intervenes the work of almost all researchers of financial thought — the economic order in the country can only be when finances are healthy and there are reasonable conditions for the financial management; it is impossible without effective impact of civil society forces which would constrain government spending, debt and budget deficits. And this really is possible only in a developed democratic civil society.

Finance history shows that using only bureaucratic power and means it is impossible to establish true order. Return back to previous principles turns into a barren ghost. «Only a peaceful, legitimate, but a bold step forward on the European way, on the way of transformations, the call of society to cooperate with the authorities for the benefit of whole people, appeal to social control, which in the case of finance alone can become an anchor against vibration and become a correct compass to choose the movement direction — that's our law for the future, the law common to us and all the nations,» — emphasizes I. Blioh². The history of financial thought of Ukraine, which we tried to explore and represent with monographic and encyclopedic-textbook supplement, contains the same lessons as the financial history of other countries, which went through the crisis and the same difficulties. But they created their financial well-being by means of transparency (openness) and public active participation. We hope that the proposed publication, which has concentrated on original ideas and position of Ukrainian financial ideas of the past, will stimulate systemic research on financial issues of the present viewing them from new theoretical and methodological positions and for practitioners' it will be a rich treasury, by referring to which, they can avoid the mistakes of their predecessors. Finally, the authors express their sincere appreciation for the advice to Doctor of Economics, Professor P. Leonenko, and everyone who helped in finding

¹ Bliokh I.S. Finance Russian nineteenth century. History — Statistics. — P. 9.

² Ibid. — P. 29.

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With respect,

Honored Scholar of Ukraine,
Head of Finance Department of
Kyiv National Economic University
named after Vadym Hetman,
Doctor of Economic Sciences, Professor

V. Fedosov

Section 1



THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF THE FINANCIAL THOUGHT

1.1. Conceptual approach

With the development of scientific thought and its gradual differentiation of scientific concepts between objects and subjects were substantiated, in order to determine the direction of cognition of nature and society as early as the Middle Ages. Financial scientific thought began to develop much later, but a clear definition of these concepts allowed obtaining a variety of scientific knowledge: empirical and intrinsic — theoretical. Empirical knowledge is derived directly from observation and reflects the external characteristics relating to the object of financial science. Theoretical knowledge relates to the scientific subject. Scientific research into the development of finance can only be complete in the unity of both the scientific object and subject. This applies both to financial science in general, and its important component — financial thought.

The scientific object of financial thought lies in the phenomena and processes of the financial world as well as historical facts and events that reveal the process of formation and development of finances. They are displayed in the works of previous and contemporary financial science researchers.

Due to the specific approach of a researcher to defining the object, scientific cognition of any process or phenomenon related to finances is often subjective. However, every researcher must remember that a systematic approach to the definition of the scientific object of both financial thought and science generally involves adherence to certain principles. They are:

1. Integrity, meaning only processes, financial facts, the reality of events and their reflection in the scientific literature that are interconnected can be attributed to the object of scientific research.

2. Taking into account the dependence of facts and events of functioning finances from the systematic (emergent) properties (e.g. public finance targets) of the object, when these properties affect the composition of the object.

Defining the object of research, one should remember that in the overall context of scientific financial thought finance should be considered as a subsystem of a broader economic system within which it operates and develops relatively independently. Therefore, when determining the object of any direction of financial science it is important to establish not only its limits, but connection to other subsystems, such as the actual economy, that affect it. These provisions have methodological significance to substantiate the scientific object of research of any component of the financial science. In particular, financial thought cannot be seen separately from the development of general economic theories that directly influence it. However, their impact on the financial thought has its own specific characteristics. In the study of finance, describing the object of financial science (or any part of it), it is necessary to analyze the connection between finance and other systems and subsystems of society (e.g. economic, political, social, etc.), their importance to economic and financial activity. Only through the establishment of internal connections between financial processes, facts and events of economic life, their direct and inverse interconnections with finance can we talk about the object of financial science.

Such a method of research, as emphasized by K. Vobliy, helps clarify the characteristics of the teachings of economists who are often spokesmen and interpreters of their time¹. This Ukrainian scientist expressed his wish to further spread the use of this method in the national economic and financial literature. Moreover, K. Vobliy was convinced that the theory of finance can be properly understood only through deep study of social relations among which it has developed².

The facts and events displayed by our predecessors in scientific financial literature reveal the functioning of financial institutions, taking into consideration their level of development and maturity. Understanding the internal structure of finance, allocation of a wide range of financial categories, each of which expresses specific area (subsystem) of monetary relations, becomes the objective basis for the appropriate allotting of financial science to its individual segments (public finance, corporate finance, financial market, international finance, etc).

In general financial thought primarily focuses on the processes and financial phenomena that reflect the formation, evolution and development of finance as an undivided entity, as a complex and multifaceted economic category. At the same time it reveals the formation and historical

¹ Vobliy K. G. M.I. Tugan-Baranovsky's Book Review «Sketches from the recent history of political economy» / K.G. Vobliy // Narodnoe Khozyaistvo. — 1904. — № 1. — P. 194.

² Vobliy K. G. Review. Prof. dr. J. Corad. Grundriss zum Studium der politischen Ökonomie / K.G. Vobliy // Zhurnal Ministerstva narodnogo prosveshchenia. — 1905. — № 9. — P. 215.

development of financial structures, the process of cognition of their nature, their correlation and the specifics of their functionality. Financial thought reflects major changes in these structures through the evolution of society. Theoretical understanding and generalization of these changes is at the same time a development of knowledge about finance and its structural components that pertain to the object of financial science.

Theoretical and methodological approaches to the object of financial thought are related to the peculiarities of the development of finance itself: firstly, its genesis and manifestation in a particular society as an undivided entity; secondly, its historical development through the evolution of society.

Historically finances appear during the formation of the state and commodity-money economy. Their formation began with establishing the state of social life, which lasted almost to the end of the seventeenth century. As noted by the well-known American philosopher, R. Heilbroner (1919–2005), by the mid-seventeenth century the world of economic and financial processes «has not yet escaped from the social context of its time. The world of practical operations is still inextricably linked to the world our political, social and religious life.»¹

The references to social changes in earlier philosophical and economic thought shows that in the above-mentioned period the financial system was only being established. With the emergence of the first scientific studies it has become clear that the processes that led to the separation of finance from other spheres of social life were the focus of financial thought. An active development of financial thought began and it would eventually take an important place in financial science. It should be noted that some prominent economists and financiers, mostly German (particularly E. Dühring, 1833–1921, and others), ignored any study of economic thought before the emergence of financial science. The reason for this approach was the fact that systemic financial knowledge didn't appear until the seventeenth and eighteenth centuries. However, most researchers of finance of the nineteenth and early twentieth century across Europe and Ukraine showed the irrelevance convincingly and inexpediency of such neglect. After all, much important scientific financial knowledge was gleaned from the writings of the household economy, applied philosophy, law and theology, which constitute the most important part of mental legacy provided to us by our Ancient and Middle Ages predecessors.

Some views expressed by them on the development of financial sector are relevant even today.

¹ Heilbroner R. *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers* / R. Heilbroner.; translated from English by I. Faibisovich. — M.: Ko Libri, 2008. — P. 27.

Let us turn to the theoretical views of the first creator of fiscal sociology, the Arab thinker Ibn Khaldun of the Middle Ages. Incidentally, this is an enlightening example of how Western science, not lapsing into ideological dogmatism, recognizing only authority and not mandatory «leaders» pragmatically perceives useful ideas from any source. Almost 500 years ago Ibn Khaldun, rediscovered in Europe in the early XIX century, expressed ideas that are surprisingly modern and suitable for analysis of financial and socio-economic processes in general. In the interpretation of Ibn Khaldun rural type of social organization and production is gradually replaced by the urban one. The city becomes the center of political power, the center of civilization and culture. The growing manufacturing and wealth increase state power, but also generate the power of self-destruction, changing social behavior. People get used to comfort and extravagance. Debts appear. Living in debt, individuals and entire societies consider themselves richer than they really are. These flaws transfer onto the state created by people, the budget deficits become a regular occurrence.

The state is not just the highest political power and authority; it also performs numerous functions: encouraging the economy and trade, promoting the development of science and art, forming the commodity and services market. According to Ibn Khaldun, the state bears civilization, «civilization blooms along with the state and dies along with it.»¹ Hence a comprehensive theoretical conclusion: the institute of public finance and its elements — the budget with its impact on economic life, the taxes that can be perceived as revenue of the treasury and a loss for the taxpayer — are a part of civilization, of its rise and fall.

Collecting taxes needs corresponding laws and regulations of civil behavior, or they are perceived as arbitrary confiscation of private property. Bourgeois civilization has developed known criteria for taxation: justice, fairness, equality, inclusiveness and solvency. Compliance with these rules is a necessary condition for healthy social economic development and a violation of them inevitably leads to a decline within states.

The expansion of state activity requires more tax revenue, which is painless to the public only given a constant increase of economic welfare. In determining tax rates the main point is encouraging business activity as the complete destruction of economic incentives means the destruction of civilized society. It is clear that in the field of taxation low tax rates would make for good management and high ones for a bad. In an attempt to

¹ Sutormina V.M. State — taxes — business (international experience with fiscal regulation market economy): monograph / Sutormina V.M., Fedosov V.M., Andrushchenko V. L. — K.: Lybid, 1992. — P. 28.

overcome deficits the government increases taxes, which undermines the economic base of most government revenues. It seems that the theory of Ibn Khaldun was the first Pythia. It presaged migration from a country where the economy is in decline, leading to the inevitable consequences: increase labor shortages, recession and, eventually, lower tax revenues.

Is the state itself able to compensate for the decline in business activity and monopolize the economic activity? After all the state is richer than any of its citizens and, in addition, has powerful instruments of political power. But we must heed the warning from the depths of the middle ages: extraction of production and commerce from the private sector amounts to the destruction of the economic foundations of society. At the same time, the process of taxation is distorted, gets abnormal, because taxes are levied by the state depending on the results of economic operation of most state agencies.

Evaluating the teachings of Ibn Khaldun as a whole, we see that there are many allegations close to dialectical ideas about the interrelation between the state of the economy, the development of the government and the progress of civilization. Undoubtedly, the more powerful the state, the more powerful the management, the more government encourages the production — the more successful economic growth and the higher social welfare becomes. And vice versa, economic prosperity generates state power. However, that is a downward spiral: the increase of state power is provided by an increase in the budget. This requires new and higher taxes, which in turn inhibits economic life. The attempts to intensify it through direct state intervention in economic activity and revenue mobilization would result in negative consequences in the future. In economics and finance there are no simple answers to the challenges of reality.

Turning to the question of the identity of national financial science, it should be noted that Ukrainian and Russian economists and financiers did not support the approach of German researchers to the genesis and evolution of the economic and financial sciences.

Already in the first half of the nineteenth century thorough studies of the history of finance appeared: Julius Hagemeister's «Research of Finance of ancient Russia» (1833); D. Tolstoy's «History of financial institutions since the founding of the state till the death of Empress Catherine II» (1848); E. Oskin's «Internal customs duties in Russia» (1850); B. Nezabytovskiy's «On the tax system in the Russian state from the time of foundation ...» (1852); G. Sydorenko's «Episode of financial history of Austria» (1859); I. Patlayevskiy's «Course finance. Introduction» (1885); later — M. Dovnar-Zapolskiy's «Public sector of Grand Duchy of Lithuania...» (1902) and others.

The appearance of these works was the result of the development of the financial science in Ukraine and Russia, but this development was not adequately reflected in the history of national and world economic and financial thought. Examples include the works by a prominent Ukrainian scientist of late 19th and early 20th century, M. Tsytovich, who developed the theory of business profits dozens of years before J. Schumpeter. The latter is known throughout the whole world, yet even some modern Ukrainian financial science researchers don't know M. Tsytovich. In the financial science he is one of the founders of the local finance theory and the theory of local government, but this is not even mentioned in Ukrainian financial literature.

The accumulated knowledge increasingly gained first from theoretical systematic form with the achievement of higher levels of financial integrity, and the development of financial science and increase of its role in economic life. At the same time the object and subject of financial thought became more clearly outlined.

The object of financial thought, as noted, is also empirical and statistical data, facts and events that characterize finances and financial activities of people. They always have a concrete historical content. Their use helps to reveal the evolutionary development of finance, financial management history. In connection to this, a famous Ukrainian scientist and financier M. I. Mitilino emphasized: «...To understand the present, we must know the past. To understand the current organization of public sector unions we need to know the path of historical development that they have passed. Therefore there also must be a special branch of financial science — history of the financial industry.»¹

Of course, the issue is not about what happened in the past. One can find direct answers to today's practical and theoretical questions in the financial scientific heritage, as in an open book. We are talking about the theoretical legacy of our predecessors.

In this regard, the famous Ukrainian scientist D. Pikhno said: «The people living historical life not only accumulate material capital, but also create cultural wealth that passes from generation to generation... These forces surround a person from birth to the grave; they constitute the historical basis of the economy, support it or hinder it.»²

Achievements of scientific heritage should be known, since the past creates the preconditions for the future, lays its inherent and theoretical basis.

¹ Finance Theory. a textbook / [P. I. Yukhimenko, V. M. Fedosov, L. L. Lazebnyk et al.], ed. by V. M. Fedosov, S.I. Yuriy. — K : Tsentri uchbov. literatury, 2010. — P. 187.

² Pikhno D.I. Principles of Political Economy / Pikhno D.I. — K., 1890. — Volume 1. — P. 68

This is when problems appear. They not only re-emerge in the present, but can also explain some aspects of it. After all, as in the past, now a researcher of finance compares and analyzes facts through cognition of reality, creates conceptual approaches, forms and methods of its study. Facts in financial science are in the form of documented information on the functioning of finance, implementation of financial policies in a specific period of time. Financial scientific thought is the most complete array of historical financial facts, which are of great scientific value for financial science. In the vast flow of historical events and facts the most valuable are those that: firstly, are directly related to financial activities and economic practices of people; secondly, attest to the qualitative and quantitative changes in finances, their adjustment capabilities; thirdly, indicate the affiliation of finance to a particular society, revealing its specificity at this stage of civilization development; fourthly, relate to the facts of the past, but the financial science considers them in the context of the future. Works of our predecessors often contain the subjective assessment based on the authors' views, especially depending on the applied theoretical and methodological approach. The latter explains the fact that many Ukrainian scientists (Kyiv school) opposed the Moscow school to some extent not only in theoretical, but also in economic and political aspects. For example, D. Pikhno in his review of known by research A. Postnikov «Communal land tenure»¹ encourages the economists-narodniks to stop the ideologically colored debates about Russia's development path and turn to the specific question of what form of management is the most appropriate to raise the productivity of Russian (Ukrainian) agriculture.

According to D. Pikhno, private property is a priority while addressing this issue². In his «Principles of Political Economy», he criticizes the romanticism of Moscow economists about the idealization of household industry, calling it «primitive», while on the contrary he considers factory and machine production «the best form of industry»³. He defended especially vigorously the positive role of processes of concentration. This point of view was shared by all of his contemporaries in Ukraine, including D. Pikhno's teacher N. Bunge. However, despite the different methodological approaches to research by our predecessors-representatives of financial thought, all facts of financial activity of individuals, companies and states covered by them have scientific and historical characteristics.

¹ Postnikov A. S. Communal Land Ownership: in 2 vol. / A. Postnikov — Yaroslavl, 1875. — Volume 1; Odessa, 1877. — Volume 2.

² Днев.: Pikhno D.I. Review on Alexander Postnikov's Book «Communal Land Ownership» / D.I. Pikhno // Yniversitetskie izvestiya. — 1875. — № 9. — P. 252-257.

³ Pikhno D.I. Principles of Political Economy / Pikhno D.I. — P. 102

These historical facts present certain information for reconsideration by modern financial science, a chance to interpret anew for current finance researchers. Review of past events from the height of the accumulated experience nowadays, according to B. Seligman, reveals the values of the real facts in the development of the financial management and the evaluation of the scientific representation in the works of financial thinkers¹. Therefore it is indisputable that we should attribute the analysis of various facts about the functioning of finance to the object of an independent branch of financial research. It involves rethinking the documented information that characterizes the economic nature of finances and their unity with the actual economy at a certain stage of socio-economic development.

An important concept, when determining the scientific object of financial thought, is that of a historical event, which gives an opportunity to reveal the contents of various aspects of financial life and financial policies. The state is the creator of financial policy. State conducts it through its legislative and executive institutions according to strategic and tactical goals of economic policy². Financial policy influences the qualitative changes in the finance itself and financial thought reflects them in historical facts. That is historical facts relating to certain aspects of financial management, and historical events differ as static and dynamic characteristics of significant changes in finance.

Both scientific facts and historic events are relevant to financial thought. They illustrate the gradual changes in the development of financial systems through their evolution.

Works of both foreign and Ukrainian economists and financiers of the past reflect the practice of the people, governments, states in general that led to the emergence of new elements of financial relations. Consequently, they also show new components of the internal structure of finance, new forms of interconnection between financial and actual economy and so on. The importance of understanding them for the modern financial science is clear. Today's scientists must realize their importance and influence on the gradual and dynamic development of financial systems. Knowledge of the past is the foundation that makes it possible to develop new financial concepts on the basis of historical experience and academic achievements, and make effective recommendations for improving financial policies. The accumulated compilation of ideas and experience helps to avoid errors and facilitates laying stronger foundations for success.

¹ Seligman B. *Basic Flows of Modern Economic Thought* / B. Seligman. — M.: Progress, 1968. — P.25.

² Yukhimenko P.I. *Current Trends and Strategies of Financial Policy of Ukraine* / P.I. Yukhimenko. // *Finansy Ukrainy*. — 2005. — № 10. — P. 101.

As one of the most important segments of the science of finance, financial thought promotes the reception of essential, sometimes seemingly invisible and inaccessible concepts for direct inspection of the development of financial institutions in a historical perspective. The works of predecessors of our financial science are an attempt to conceptualize knowledge of financial management gained in the scientific analysis of empirical data recorded in historical facts and events. A key feature of theoretical knowledge of finance is its internal relationship with the logic of its construction: primarily through the use of the basic principles as the basis of generalization of empirical knowledge, its unification into a system.

In any scientific study of financial science, regardless of its direction, origin is a fundamentally important principle that lies in the center of a set of financial management facts. In the perception of financial processes, an objective fundamental principle would be the core idea that combines the accumulated knowledge of finance into a single system. A certain set of fundamental principles, on which a logically consistent system of financial knowledge of the intrinsic properties of a particular object is built, creates the framework of a scientific subject. The object and subject of scientific study of finance are inseparable.

The subject of financial thought is a system of knowledge, concepts and theories of financial processes and phenomena in their formation, development and evolution and interaction mechanisms (processes) with the main components of the internal structure of finance.

The subject of financial thought is aimed at the disclosure of internal (intrinsic) characteristics of the object. Therefore, the system of knowledge about individual components of the internal structure of finance is an important aspect of the subject of financial thought. At the same time the complexity of the financial research requires studying forms of social dependence of people in the financial sector both at the stage of its formation and development, when it becomes solid, relatively separate subsystem of society. Due to its complexity the financial thought provides an opportunity to understand entire process associated with the historical development of finance in general. It displays information about finance in space and time, in the unity of history and logic.

The spatial aspect involves an analysis of the evolution of financial science on various levels: global, regional and individual countries. It gives grounds to single out the financial thought in Ukraine. A related issue is the distinction between international (global) and national (Ukrainian) finance in the development of financial science and therefore its worth in financial thought. The time aspect of complex research covers all stages (periods): origin, formation and development of financial thought. The process of

mapping the evolution of the global and national financial science acquires systemic nature through synthesis of scientific achievements in historical context.

Objective scientific reproduction of Ukrainian financial thought, of the real picture of the development of national financial science with its peculiarity and originality implies the consideration of its progress compared to that of the global financial science. The national financial thought is a part of an integrated global financial science. Some of its achievements are of world importance, which are pioneering in the financial science in general. First of all, these are the works of Tugan-Baranovskiy, M. Tsytovich, N. Ziber and K. Vobliy and many others. In financial theory, these were the scientists who forced European thought to seriously listen to the movement in Eastern Europe, Ukraine and Russia, and that proves it's more than national significance. Ukrainian and Russian scientists have not only risen to the level of scientific and financial thought of other advanced countries, but also contributed to its progress. According the student of Tugan-Baranovskiy, a famous scientist with a worldwide reputation, M. Kondratiev has made sure that the Ukrainian financial and economic science was in line with its European counterpart¹. Today this is facilitated by scientific works of V. Andrushchenko, V. Sutormina, A. Sokolowska, V. Fedosov, S. Yuriy and many others.

During the process of change and development for finance, its social dependence is manifested in many areas of human activities. It is partly realized through the formation of financial institutions in the functioning of individuals, whose activities are combined with the movement of financial resources. Therefore, the organization and structure of financial institutions are components of the scientific subject of financial thought and financial science in general. Financial science studies and reflects the impact of various forms of social conditions on the functioning of the financial institutions (financial activities of the economic environment at both the national and global level). Their operation is in close relation with other institutions and is provided by an institutional environment. All this expands the framework of financial science subject. Financial institutions of a country are closely linked to the economic activity of individuals and to some extent co-ordinate their actions. This is reflected in particular in close cooperation of all financial institutions with the society (represented by the state) as a whole and within themselves. The interaction between world powers and financial institutions as entities is easily observed. Consequently, the

¹ Kondratiev M.D. Mikhail Ivanovich Tugan-Baranovsky / Kondratiev M.D. — Pg., 1923. — P. 112.

interaction of national and international financial institutions is also the subject of financial science, which is reflected by the financial thought.

Thus, in their unity all components of the scientific subject of financial thought form the basis for the formation of logical and coherent system of knowledge about the state and development of finance at each stage of their evolution. Remember that in the early twentieth century Ukrainian scientist and financier K. Voblyi defined the subject of financial science as «the doctrine of state revenues and expenditures, state credit, financial management and control»¹. Even now the opinions of our famous compatriot on various «narrowed» and «expanded» interpretations of the subject and confusion in its definition generate great interest².

In the scientific study of finance it is important to disclose the implementation of their social dependence — of financial policy: how and on what levels it is carried out (objectives, methods, and forms) and the forms it acquires. System-making capabilities of finance are shown and can be traced in the process of implementing large-scale measures of state organization and use of funds for the economic and social development. They can achieve an important goal — preservation of the integrity of the financial system.

Emphasizing the social dependence of finance (as a subsystem of monetary relations) and of financial policy (as a combination of events), one should pay attention to the remarks of the Russian economist and financier Ivan Ozerov. He talked about a clear separation of core financial science that raises and solves theoretical problems, and of financial policy, which gives instructions on how to carry out some practical tasks at the given moment in time³.

In the financial system (as a set of individual units of financial relations) social dependence takes the form of relying on the always scarce financial resources necessary for individual, collective and public (state) needs. This dependence is realized in the creation of public money fund of financial resources, which includes their formation, distribution and use. Mutual correspondence of the phases of financial relations reflects the level of integrity of the financial system (satisfaction of social interests and needs).

People play the key role with the emergence of civilized society in any socio-economic formation. They generate the financial resources through their economic activity, creating certain individual and social wheel that

¹ Voblyi K.G. Basic economics (History, Theory and Finance) / Voblyi K.G.—K., 1918. — P. 6.

² Voblyi K.G. Review. Prof. dr. J. Corad. Grundriss zum Studium der politischen Ökonomie / Voblyi K.G. // Zhurnal Ministerstva narodnogo prosveshcheniia. — 1905. — № 9. — P. 215.

³ Ozerov I.H. Finance / I.H. Ozerov // The Brockhaus and Efron Encyclopedic Dictionary. — SPg., 1902. — Volume 70. — P. 868–869.

meets individual and social needs. Meeting these needs occurs during the process of productive activity of economic entities, which are creators of their own and social wealth. In this regard even Adam Smith noted that the person often serves the public interest more, taking care of his own interests, than when deliberately trying to do so. One should perceive the manifestation of humanocentrism features in the fundamental role of individual economic entities in the implementation of financial policy.

However, in addition to basic economic entities social wealth in the form of money, credit, assets and the financial resources and socio-legal conditions (institutions) are needed to organize the financial management of any society. The dependence of economic entities from them is a form of manifestation of social dependence as the main connection of finance with other economic subsystems. The effective use of different forms, methods and tools of formation and use of monetary funds of financial resources at various levels of the internal structure of finance is achieved through the implementation of these forms of people-dependence.

The interrelation of actual and financial economy appears as a prerequisite to create human wealth. It is realized through open access to financial resources for the economic entity (individual). At any level of civilization development, economic unit is the basic part of economic body, which with its activities combines manufacturing and finances.

Each structural component of finance efficiency for the manifestation of this unity depends on the specific social conditions created for business people — certain set of rules and regulations that make it possible to coordinate the objectives and interests of the people, opening the way for their interaction. In practice, this form of dependence is realized through the formation of financial and economic institutions that form the social environment of human activity. Examples include the institution of property for financial resources, financial institutions (banks, currency exchanges) and others. During the historical development of each social formation financial as well as economic institutes improve. The effectiveness of this improvement is determined by the level of sophistication of institutional foundations of development.

Various forms of coordination of interaction between business units (command or market economy) are provided by means of finance, which are organically linked to the type of organization the economic system of the country depends on it. In some cases, cooperation is based on public finance (financial policy is based on Keynesian ideas), and in others it requires the active involvement of the private financial resources (financial policy is based on monetarist ideas).

Identifying and outlining the scientific object and subject of any science is the very essence of research. One can only show their framework, the economic nature of financial science, through the unity of all the constituents of finance in the disclosure of implementation of public dependence of individual economic entities by the state, through the formation of business entities, through the creation and operation of financial institutions and through the interaction of actual and financial economy. The analysis of the causes of social dependence of individuals and forms and mechanisms of its implementation makes it possible to construct a system of knowledge about of finance development based on scientific object and subject. Knowledge of finance from the historical perspective is an important component of this knowledge, which is financial thought. It reflects the development of financial science in different historical stages of formation and evolution of finance, especially the understanding and interpretation of some financial problems by various authors, the formation of scientific trends and schools.

Thus, one could argue that the financial thought deserves a separate branch of knowledge (scientific object and subject) and analysis, search and interpretation of the facts of objective reality tools. This «toolkit» came about through the evolution of the financial structure and development of concepts related to specific issues of the subject and method of financial thought. The latter is not a «frozen», let alone «dead» science as its subject covers all new areas of financial activity, reaching a new level, and the method is not limited to purely causal consideration of economic and financial factors.

Besides the general directions of cognitive action methods that are generally inherent to financial science, financial thought still has its means of cognition, commonly called methods of scientific research. It is through compliance with relevant rules and logic of cognition that the scientific cognitive truthfulness of knowledge increases and the access to new financial knowledge opens. Compliance with them in the scientific study of any structural direction of financial science enables examining reality to the maximum based on facts, separating everything that distorts it.

The outcome of any scientific research depends on the direction of modern scientific thought, the quality of the method, which has established itself in scientific research, whatever the industry. Financial thought basically reflects the change that society has undergone under the influence of the financial sector changes. Methodology plays a major role in understanding these social processes.

Methodology of financial science is a set of forms and methods of cognition for the financial world with special economic instruments. In a broader sense it is the study of methods and means of achieving truth

(displayed in scientific theories, ideas, etc.) with special tools, based on a system of general and specific principles and ways of comprehending the financial world, events and processes (e.g. dialectics and logic). The methodology allows organizing existing knowledge of finance, revealing its inner essence and structure, establishing logical connections between its separate components and thus ensuring their understanding and cognition.

In modern conditions of scientific and technological progress, the growth of information flow and knowledge, scientific systematization, scientific selection and ordering play an important role. It is of particular importance in the case of financial science, which always differentiates, integrates, and especially in case of one of its components — the financial thought.

The specificity of the place of economic methodology in the financial opinion is: firstly, methodology as a set of financial science methods is used to study the positive and normative components of financial science, including financial thought; secondly, the methodology itself is the subject of scientific research and teaching in books and training courses.

So in terms of modern scientific literature methodology is understood as a system of principles and methods of the learning process, with which we acquire new and arrange (reinterpret) previously acquired knowledge. Kyiv professor O. Reient (born 1949) compares the lack of theoretical and methodological principles in specific science with the «methodology vacuum» and defines it as «methodological uncertainty of most authors», «lack of clear scientific principles, proven methodological tools» and so on. He emphasizes, «The result is the emergence of works that, at best, drag their feet down the path laid by Soviet-era ideologists of the party apparatus, and at worst — tumble into the free fall, shoved by the conjuncture.»¹

Historically the peculiarity of methods of Ukrainian financial thought is to some extent determined by the connection between social philosophy, politology and financial science in Ukraine which has always been much more closely linked than in Western Europe or the United States. Most of the prominent representatives of Ukrainian financial thought were not just academics, but publicists and propagandists who advocated social ideals. First of all these were employees of higher education establishments. Notably, this specificity is preserved to this day.

The development of financial thought in late 19th and early 20th century reflected global methodological traditions. Firstly, both the scientific and academic literature was enriched with new financial concepts of prominent national scholars (works of K. Vobliy, S. Ilovaikiy, M. Mitilino,

¹ Reient O.P. Ukraine in the Imperial Day (XIX — early XX century.) / Reient O.P.— K., 2003. — P. 3–4.

I. Patlayevskiy, G. Sidorenko et al.) regarding the subject and method of financial science. Secondly, in Ukrainian financial literature of this period critical analysis of views on the subject and method of the representatives of global and national financial science first started (V. Nezabytovskiy, P. Haensel, M. Dovnar-Zapolskiy, P. Kovanko, M. Tsytovich and others).

As a result the horizon expanded, the perception of financial science problems deepened, new trends in development finance were detected, fundamental and initial theoretical and methodological positions deepened.

There were common elements in the approaches of domestic and foreign economists in the study of object and subject of financial science:

1. They based it upon economic relations that arose in the process of formation and use of monetary funds of financial resources of the state (financial) economy (though the subject of financial science was defined differently).

2. A close connection to the political economy, which reveals the objective economic laws that control the financial sector.

3. Historicity in the study of finance, meaning taking into account the changes in the financial structures and the impact of these changes on financial policy.

4. The effectiveness of financial management was associated with the impact (and coordination) of various factors with the influence of financial policy on these factors; the connection between material production and the finance as well as acts of the state was investigated.

5. Study of the subject of financial science was associated not only with the financial sphere (financial management), but also with the economic activities of individuals (households).

6. They emphasized the connection of finance and morality, and ethics.

Financial thought in general reflects the development of finance in the historical context. Both in the past and today economists and financiers use very different methods and techniques in their research. They are designed to: acquire methodological knowledge, empirical knowledge that characterizes the scientific object; master the system of theoretical knowledge generated by studying the subject of financial science. The essential difference between the methods used by researchers in the financial science is the result of specific features and different directions of the components of the financial sector.

The methodological foundations of cognition of any component of financial science are general scientific approaches, key axioms, initial theoretical propositions, patterns (principles) of explanations used in research. Fundamental changes in the methodological basis of modern

financial science relate to the transition to the use of the principles of system analysis, which is the basis for civilized paradigm.

Methodological principles are important for financial thought, giving the key to understanding the formation and evolution of finance as an integral sphere of monetary relations, which operates relatively separately in a particular society and specific institutional conditions.

Foreign and Ukrainian financial thought makes it possible to trace the evolution of theoretical concepts in the financial science, that characterize the mechanism of functioning and development of finance, the nature of the appearance of qualitatively new changes in it, factors that led to a new stage of development. The analysis of scientific works of our predecessors shows that a high level of scientism, comprehensiveness and the consistency in the coverage of this or that financial problem of the country is achieved using principles of system analysis such as integrity, complexity, organization, purposefulness, cohesion, integration and differentiation and so on. Consistent, logical and creative application of these principles by researchers in the financial science allows them to consider each element as procedures for obtaining methodological knowledge.

During the evolution of finance the components of its internal structure gradually became the object of scientific study and developed and perfected more and more. Studying them, one must follow the principle of integrity, realizing that all the components are internally interconnected, interdependent on each other. Each of them has its own specific features that are vital for the financial sector in general. Properties of finance as an integrated economic formation are the result of the unity of its constituents. Moreover, like the complex sphere of financial relations in general, they are a result of functioning of an integrated economic system of a particular civilization formation (country, the whole world).

In this regard, K. Voblyi stressed the need to consider different economic processes in the context of economic development as early as the beginning of the twentieth century¹. We are talking primarily about the close correlation of two sectors — financial and actual economy. For example, both money and finances in general make the most sense at the economic system level and are the result of the interaction of all its components. Actually, they formed simultaneously with the functioning of state and commercial activity. This emergent characteristic (a property) significantly affects the development of the internal components of finance in general and reflects their unity with the economic system. This is one of the foundations

¹ Voblyi K.G. Review. Prof. dr. J. Corad. *Grundriss zum Studium der politischen Ökonomie*. — P. 217.

of methodological mutual influence of economic and financial thoughts. New processes in economics, in turn, lead to reconsideration at the level financial thought.

It should be noted that the establishment of financial science as an independent branch of economic knowledge encompasses the second half of the eighteenth and the first half of the nineteenth century. It was then that there was a noticeable separation of financial science from the sphere of political economy, consolidation of this fact in classification (systematization) of economics, formation of methodology and categorical and conceptual apparatus of science, change of its role regarding the practical implementation and others¹. However, the effective use of methodological tools for many researchers is problematic even today, although the experience shows that it significantly affects the outcome of scientific research. For example, using a holistic (systemic) analysis of the economy contributed to significant scientific achievements of Tugan-Baranovskiy. For a long period of time economics could not solve the problem of crises. According to Tugan-Baranovskiy, this was due to the fact that economists were looking for causes of the crisis «in this or that separate sphere of the economy...In fact, the crisis arises on the basis of the totality of the phenomena of the economy.»² He examined this set of phenomena and as a result found that the main cause of cyclical fluctuations is the imbalance between savings and investment flow. Thus, the Ukrainian economist-financier Tugan-Baranovskiy was a decade ahead of the main idea of the Keynesian theory of cycles.

Ukrainian financial thought is a reflection of the processes of genesis, formation and development of finance as an undivided entity that goes through various stages of acquiring integrity, coexistence, symbiosis and synthesis. In the early stage of emergence and establishment of finance there has been a coexistence of special commodity (exchange equivalent) and traditional economy. Intensification of economic (trade) relations between countries and within countries and the formation of the economic system of commodity production led to the development of the monetary system as a kind of symbiosis of interests, which became the basis for the development of finance and all its components. The formation of systemic (holistic) properties of the economic system and the development of the state led to the formation of some specific forms of financial relations, e.g. the government, corporate and local finance, financial markets, international finance and so

¹ For details see: Leonenko P. M. *Methodological Aspects of Ukrainian History of Economic Thought (XIX-XX centuries.)*: [monograph] / P. M. Leonenko. — K.: IAE YAAH, 2004. — p. 354-392.

² Tugan-Baranovsky M.I. *Fundamentals of Political Economy* / Tugan-Baranovsky, M.I. — M.: ROSSPEN, 1998. — P. 279.

on. As a result the economic system has taken the form of a developed commodity-money economy which is in line with the synthesis stage.

Financial structure in general is a complex organism that is inseparable from economic activity and provides general functioning of the economic system. Therefore the principle of complexity is no less important in the scientific study of financial science. It requires considering finance an internal discrete entity that consists of qualitatively different financial units located on different levels (public finance, local finance, household finance, etc.) and functionally connected. During the evolution of finances their integral and organic components are formed at each level to perform certain functions and with the system of interconnections to make up their (financial) structure.

The state ensures the functioning of finance as an undivided entity. It generates the appropriate economic and institutional conditions for the development of new areas and sectors of the financial industry. The efficiency of finance at a certain stage of development in economic system in each country is substantiated by the level of excellence the main economic center (state) achieves while fulfilling its basic functions.

The variety of forms and the peculiarities of financial institutions is the basis of the pluralism of theories reflected by the financial thought. The pluralism of theories, according to O. Bilimovych is caused by the principle of complexity of particular phenomena and processes cognition, the need to consider all the circumstances that cause them. As an example, O. Bilimovych cites differing theories of rent by Englishman David Ricardo, American T. Malthus and Russians M. Chernyshevsky and D. Pisarev. He explained these differences through the variance in socio-economic and demographic development of the countries in which the scientists worked; even their varying geographical location or the size of their countries' territories was considered relevant. Comparing these theories, A. Bilimovych concluded that the authors did not completely understand spatial and temporal limitations of observed facts and the relativity of made inferences. Had they realized all this, then, in his opinion, «theories constructed by them would cease to compete with each other, and perhaps even would be summarized in some wider unified formula.»¹

However the pluralism in the financial science never had and still has no clear evaluation. At the same time, most foreign and Ukrainian economists and financiers of different directions tend to believe the pluralism to be an inevitable and positive development.

¹ Bilimovych A.D. A Few Pages for Those Who Want to Study Political Economy / Bilimovych A.D. — K. :Tipogr.yn-ta St.Vladimira, 1918. — P. 20.

Firstly, each new and existing theory reflects a significant side slice of reality and thus contributes to the whole of financial science. Secondly, the nature and peculiarities of financial institutions can be properly understood only from the standpoint of pluralism of different theories. Thirdly, wide possibilities of practical choice of theories are created through pluralism; they are used to substantiate specific financial policies.

In any civilized society financial processes are carried out as a result of conscious activity. The importance of using the organization principle in scientific research is caused by this fact. Use of this principle to study the functioning of specific financial structure involves the establishing the level of (extent of) its orderliness in terms of economic life within society. The level of organization of a particular country's financial system depends on its structural perfection and creation of the institutional conditions for effective interaction between its components, which significantly affects the financial results of the policy. Knowledge about the goals society is trying to achieve in the financial sector and those manifested in the financial policy of the state have important methodological significance for financial science. This knowledge, which financial thought accumulates, plays an important role in analyzing the state and the prospects for development and practice of finance and Ukrainian financial thought.

Scientific development of the financial science is substantiated by the researcher's intended purpose. The principle of purposefulness requires that in the process of cognition of finance or its components we determine the mechanism of their preservation from disintegration, conditions of existence and ability to adapt to changes of the environment. A key role is played by the preservation and development of the main connection that unites all the elements of financial relations into one — finance. In the finances of any country the connection in a system is performed by financial dependence that is displayed in the forms of ownership of financial resources and is the basis of every financial structure.

Holistic evolutionary paradigm, founded by Schumpeter, gives great importance to the principle of development. It means that each system object of financial science is constantly changing in a certain direction, and remains in motion.

In this regard, in his work «Theory of Economic Development» (1912) J. Schumpeter noted that «within the economic system is a source of energy that causes imbalance. If it isn't so, then there must be an economic theory of economic development that relies not only on external factors that cause the movement the economic (financial — ed.) system from one equilibrium to another.»¹ That theory

¹ Schumpeter J. The Theory of Economic Development / J. Schumpeter — M.: Progress, 1982. — P. 53.

is the theory of evolution with its fundamental theoretical ideas and methodological approaches. Therefore, a systematic approach essentially complements the traditional understanding of development of finance and its components, contributes to the disclosure of them in unity of differentiation and integration processes.

According to D. Pikhno, all social, and therefore financial, life elements are influenced by many complex factors in the overall historical development of national life. Finance is a historical category, a product of the evolutionary development of society. It has changed in the past and will change in the future; the laws of financial phenomena are historical in nature¹. Therefore, a finance researcher should strive to learn both constant and variable law abundance of financial phenomena, i.e. their dependence on the main factors of economic life and permanent influence of these factors.

During the evolution of civilized society the development of finance as an integral object according to the laws of dialectics occurs through the strengthening of their disorganization — aggravation of internal contradictions — and further organization process. The latter in finance includes the creation of necessary conditions for the establishment of new connections that provide movement towards the integrity of the system object (integration of internal components of finance). At the same time this movement is inextricably linked with (accompanied by) further differentiation. In every country the development of finance as an integral entity is provided by different driving forces — internal (related to the resolution of internal contradictions) and external (coming from a broader (economic) system), which the object is a part of. The direction of appliance of these forces creates energy development, mutual synergistic effect or cancellation of applied forces occurs.

The evolution of the entire economic system, an important component of which is made up by finance, is the basis of historical continuity and of financial science. J. Schumpeter emphasizes, «In fact, our main goal lies precisely in the description of the process of filiation of scientific ideas — a process in which the efforts of people to understand economic (financial — ed.) phenomena in the infinite succession generate, improve and eliminate analytical structures.»²

Then Schumpeter developed this very idea applying it both to disclose the formation, and to analyze the development of the theory of finance. He stressed: «As sciences develop, so they arise: of everyday experience or from

¹ Pikhno D.I. Foundations of Political Economy. — P. 8.

² Schumpeter J.A. History of Economic Analysis: in 3 v. / J.A. Schumpeter; ed. by V.S. Avtonomov. — SPb.: Ekon. shk., 2001. — Volume 1. — P. 7.

other sciences, by further increment of knowledge, gradual differentiation, under the favorable or unfavorable influence of environment and individuals.»¹

The manifestation of the laws of dialectics can be observed in the development of financial thought. Here's how J. Schumpeter described the transition in the development of classical economic theory (from 1790 to the end of 1860) to marginal science (from 1870 to 1914). First, fresh, full of hopes forces fought the routine, and then the situation stabilized, resulting in the idea of John S. Mill, who believed that he was acting from a position of established truth and naively believed in the strength of it. Then stagnation occurred that most considered the state of maturity of science, and some — the state of decay. It was a situation where «many people thought that with the exception of minor points all that was left to do was to improve and apply the already attained [knowledge].»² In the national aspect it was a specifically British financial period in the history of science³.

From about 1870, a new interest in social reforms has begun; a new spirit of «historicism» and new achievements in economic theory has started to actively assert itself. At this time the differences from the tradition were as expressive, as it generally could be expected in what fundamentally has always been an ongoing process⁴. It was a shift to marginalism in financial science. These two periods had the greatest impact on the development of Ukrainian financial thought.

Since establishment period of marginalism, a wide use of empirical methods of observation, comparison and measurement were acquired in financial science. Along with methodological principles they help at various levels to outline the boundaries of each system of research in the financial science to prove its scientific object. Taken together financial thought reproduces empirical knowledge, the invaluable significance of which is that they were formed under the immediate impressions of the participants or by transferring these experiences to future generations. The works of our predecessors-financiers reflect sensory (direct) perception of facts and events, and they must be evaluated based on life experience gained by financial science at the time.

Their value is that from the height of modernity we have the opportunity to implement some of the positive knowledge of the functioning of financial institutions.

¹ Schumpeter J.A. History of Economic Analysis. — P. 11.

² Ibid. — P. 498–499.

³ Ibid. — P. 502.

⁴ Ibid. — Volume 2. — P. 991.

A considerable part of the works of our predecessors was written, as they say, while the trail was still hot; they themselves were participants and interpreted their time and the development of finance, of financial science in line with the processes that have shaped changes in the financial sector, the evolution of different schools and directions of the theory of finance. However, as Schumpeter pointed out, «the closer the era to us, the harder it is for us to understand; we know our own era the worst.»¹ Moreover, they were representatives of certain actually existing schools and trends, which of course had to be reflected in their interpretations of the development of financial science, especially in its critical stages. Therefore not surprising are the attempts of modern researchers to more deeply and critically analyze certain periods of the development of financial structures. As the well-known specialist in the field of modern economic theories V. M. Usoskin notes «typology of macroeconomic doctrines is complex and poorly developed. It reflects the blurred boundaries between different trends, their confrontation in some issues and blocking of others, the desire to find common ground on the basis of consensus within the general guidelines and objectives of the political economy and bourgeois thinking.»²

In modern times of active development in financial science of new methodological principles, the simulation method, which is an important component of the system analysis, is gaining great importance. Its use in scientific research allows you not only to display, but also to predict the functioning and development of finance and its main components, to better take into account the effect of multi-level and countervailing factors influencing their development and state, to show the place and importance of forward and backward linkages between the levels of financial economy and so on. Relatively recent use of simulation in Ukrainian financial science needs clarification.

In research, a financial model is a description of the structural elements of finance and their functions and interconnections. When using this method, a scientist delivers a simplified and symbolic scheme (design) that replaces the real object, reflecting the nature and characteristics of it. In modern financial science there are such types as verbal (verbal description), graphic, mathematical and other models.

Together comprehensive application of methods and principles of financial science ensures implementation of its main tasks at the highest level. Ukrainian scientist and financier K. Voblii laconically expressed this

¹ Schumpeter J.A. *History of Economic Analysis*. — Volume 2. — P. 999.

² Usoskin V.M. «Money World» by Milton Friedman / Usoskin V.M. — M.: Mysl, 1989. — P. 6.

in these words: «what is, how and why it so happened (concluded) and how will it develop further?»¹

The issue of methods of financial science is reflected in Ukrainian financial thought as well. In particular, the scientists and financiers of nineteenth and early twentieth century like M. Tugan-Baranovsky, K. Vobliy, A. Myklashevsky, R. Orzhenytsky and others have participated in the famous «economic dispute about methods». It was, in fact, completion of the scientific controversy over the recognition of the need for deductive and inductive methods in their entirety in research of financial management. For example, K. Vobliy believed that in financial science over time the descriptive element will give way to systematic one and in parallel with this the use of deductive research method will expand at the expense of induction. In financial science due to the pragmatic nature of its objectives induction (historically comparative and statistical) and analogy are rather actively used. On the basis of inductive conclusions deduction is applied to determine the effects that can cause these or those measures of financial policy². Regarding the use of other methods in the study of Ukrainian finance scientists wrote sufficiently in books and textbooks on financial science.

Most Ukrainian economists and financiers of nineteenth and early twentieth century were behind the use of pluralism; although they acknowledged that in some cases the results were not as valuable as when using only one method. They believed that without analyzing the properties of the object and without its abstract study, it's impossible to understand the real financial reality. Ukrainian economist and financier A. Myklashevsky wrote that this study gives us important insight into the research object in its «abstract average schematics.» Without analytical observation and comparison of economic and financial facts of life, without constant checking of real trends with totality of historical experience and with study of human aspirations in historical circumstances, our abstract construction will obviously be a «dead» scheme, not representing reality³.

Let's note that Ukrainian financial thought does not share Western European severity of discussions on methods. In their research Ukrainian researchers sought to use all the best theoretical and methodological

¹ Vobliy K. The Item about the Method in the History of Political Economy (Historical and Methodological Essay) / K. Voblyi // Zhurnal Ministerstva narodnogo prosveshcheniia. Novaya seriya. — SPb., 1907. — P. 256.

² Ibid. — P. 257.

³ Ukrainian Economic Thought: [reader] / scien. ed.trans, author. introduction. sec. and biohr.dovid. S.M. Zlupko Українська економічна думка: [хрестоматія] / упоряд., наук. ред. пер., авт. вступ. розд. і біогр. довід. С. М. Злупко. — К.: Znannya, 1998. — P. 216.

achievements of the existing Western schools. As pointed out by Ukrainian scientist, researcher financial thought, P. Leonenko «Ukrainian supporters of marginalism and neo-classics never denied the importance of historical observations, and some of them widely used both methods accepted in economics and borrowed from other branches of science — physiology, psychology and even aesthetics.»¹ The efforts to examine so-called basic law of psychophysics (Weber-Fechner law) in the economic sense by M. Tugan-Baranovsky, R. Orzhenytsky and others is an example of these attempts to improve methods of economic and financial sciences.

Since the second half 90s for the majority of Ukrainian scholars it has become typical to attempt analyzing the development of Ukrainian financial thought in the overall context of world economic thought in their scientific studies, textbooks and manuals on finance and financial theory. The positivity of this phenomenon in the financial science (especially compared to the not so distant past) should be emphasized; however, we should make a number of significant reservations. Firstly, the sequence of presentation, the breadth of analytical coverage of this field by various authors is different and essentially arbitrary. Secondly, the analysis effectively encompasses only a few segments and issues of the financial science (theory) components, which distorts the integrity of its development in the works of Ukrainian economists and financiers of the previous period (especially the second half of nineteenth — early twentieth centuries). Thirdly, with very few exceptions, the level of consideration and analysis of the process and problems of international finance and western financial thought by Ukrainian researchers can hardly be considered high and complete. Fourthly, several issues of history and evaluation of the Ukrainian Soviet financial science with its specific methodology categorical apparatus, functions and so on remain controversial.

Without denying the necessity of knowledge of Western European and US financial thoughts, the authors believe that the knowledge and understanding of the history of finance of Ukraine, evolution of its financial thought is equally important. You cannot educate nationally conscious professionals patriotic about the fate of Ukraine, only on the examples of foreign researchers, who have never studied the real processes of Ukrainian reality and their reflection in the theory of finance.

¹ Leonenko P. M. *Methodological Aspects of Ukrainian History of Economic Thought*. — P. 84.

1.2 Methodological paradigm

Modern financial theory is based on a fully developed methodology. At least four major schools of general scientific paradigm of 18th and 19th centuries had a significant impact on the financial thought of Ukraine:

- 1) English and French Classical Political Economic Theory
- 2) Marxist Political Economic Theory
- 3) Marginalism
- 4) Historical School

However, it is necessary to note the development of economic methodology in the 20th century which is the result of the formation of new schools' methodological analysis.

Among them such schools are recognized:

- 1) Austrian Methodological School [L. von Mises (1881–1973), Friedrich von Hayek, Karl Popper (1902–1994)];
- 2) Keynesianism in its different variants [J. M. Keynes (1893–1946), J. Hicks (1904–1989), J. Robinson (1903–1983)];
- 3) the Neoclassical school [M. Friedman (1912–2006), R. Lucas (born 1937), M. Blaug (born 1927)];
- 4) Institutionalism and Neoinstitutionalism [J. Galbraith (1908–2006), D. North (born 1920) O. Williamson (born 1932), R. Coase (1910–2009), J. Buchanan (born 1919)].

Examining the entire development of financial thought suggests that the methodology of financial science, despite the repeated attempts to improve and expand the methods of analysis, does not guarantee the progress to rational development nor provide a sure set path to the truth. T. Nehishi, a well-known researcher of economic and financial thought, stresses that an influential theory does not necessarily «surpass previous theory» in all aspects, «so that the possibility of the return of old ideas can't be understood only by studying new ones.»¹

The pre-revolutionary period of Ukrainian financial thought has been developed in the so-called classical theory of finance. This term is used as code for administrative and economic knowledge, driving cameral, court housekeeping, and in the broadest sense — the public sector (the science of finances for the state and public unions). The methodological disadvantage of the classical approach to the study of the subject of financial science is the tendentious underestimation of the reverse influence of money on the sphere of production. However, despite some narrow limits to the studying subject,

¹ Nehishi T. History of economic theory/Nehishi T. — M.: Aspect-Press, 1995. — P. 17-18.

the classics utilized the latest achievements of scientific methodology of that era. They include deduction, induction, logical abstractions, etc. However, causal analysis techniques dominated.

The advantage of latter classical studies led to many simplifications and omissions in the field of theoretical research, particularly in the developed value theory.

In the twentieth century, the neoclassical theory of finance centered on the organization of the financial triad (resources, relationships, markets) and their management came to replace the previous theory. A. Marshall (1842–1924) combined the theoretical principles of English classical economics of Adam Smith, David Ricardo, and J. S. Mill (1806–1873) with the ideas of marginalism. During this period the process of «reconciliation» of opposing theories was being analyzed. Neoclassicists expanded the subject of financial science greatly, with a focus on identifying and understanding the «laws» and problems of production and consumption. This intensified the examination of public (financial) economies on the whole. But with the expansion «limits» on financial science subject, they were also able to upgrade its methodological foundations significantly. This was achieved by the fact that examinations gave preference not to causal but to functional analysis method, the full use of mathematical analysis, including mathematical modeling on the micro and macro levels.

An outstanding representative of neoclassicism was Arthur Cecil Pigou (1877–1959), Marshall's student, and one of the founders of wealth theory. He made a significant contribution to the development of financial science using Neoclassicists' thoughts. In his book «Economics of welfare» (translated into Russian in 1985) A. Pigou explores a wide range of economic and financial problems in order to find ways to improve human lives. He examines the economic, social and fiscal policies in the terms of national income distribution both in the short and long terms, emphasizing the importance of public finances in social development¹. This approach became dominant in the development of financial thought up to now. In his book «The study of public finance» (1928) A. Pigou continues the analysis of taxes — the main components of the formation of public finance started by classicists. He pioneered the principle of the least total sacrifice which means the equality for marginal victims of all members of society. Pigou's principle used in tax research became a methodological foundation for all tax research.

His ideas of balance between state revenues and expenditures, determining the optimum public spending has a great methodological

¹See det.: Pigou A. Economic theory of welfare : in 2 t. / Pigou A. — M. : Economics, 1985.

significance for the development of financial thought. As A. Pigou noted, the balance between «least total sacrifice» payments and the satisfaction of social needs can be broken, and this leads to some state intervention. Another of his ideas for tax for personal benefit is important for financial policies. The so-called original benefit (initial exemption), which is close to zero (vanishing exemption), fixed in respect of any income level (continuing exemption) will remain in the spotlight of financial science researchers for a long time. A. Pigou introduced the concept of the tax credit. In his opinion, the accumulated tax amount for the third benefit is a tax credit, which has been established in financial science as an important economic and financial tool which provides incentives for business development.

Since then, the methodological principle of polyfunctionalism actively permeates scientific research. It stresses on the necessity of individual's study in a variety of forms to prevent the construction of the multiplicity of individual's social functions to the determination of only one, according to which a person is characterized mainly as a maximizer of function utility.

After the global economic crisis of 1929, research issues on subject and method of financial science, have become more and more diversified, promoting a qualitative change in the theoretical and methodological search for scientists and financiers. Since the 1970s the renaissance in economic market theories started, according to their supporters, to have internal capacity to address macroeconomic stabilization. It is emphasized that «a visible hand of government» as opposed to the «invisible hand» of Adam Smith holds a well-managed fiscal and monetary policy without disrupting internal potential of market agents. According to these ideas, the priority was to investigate the characteristics of new classical macroeconomics, in particular problems of macro-financial stability and economic growth and related economic and financial policies.

«The Great Inflation» of the 1970s sharpened the economic instability, impeached the triumph of Keynesian ideas and policies of state regulation, which lasted for many decades. Monetarists were the first to attack Keynesianism. The main critical argument against Keynesianism is that the motivation of economic agents was not taken into account. During these discussions a new direction of neoclassical theory called Neo-conservatism was formed. Its representatives widely used analytical methods of marginalism research, including mathematical analysis. Since then an active financial mathematization of science began. That made it possible to include public finance in economic forecasting models.

Neoconservatives raised main areas of general neoclassical theory to a new level, expanding the subject of financial analysis. The formation of rational economic and financial policies based on the concept of «supply-

side economics»; directions of public finance strengthening in providing long-term economic growth; financial problems of state regulation, programming, supervision were put in the center of financial science research. Others important issues were: the exact and clear separation of public and private sector; public spending being discussed in terms of balance of production factors; neoconservative theory of public finance reinforced the priority of tax research as a means of influencing savings formation, which determines the size of investment.

During this period, the subject of monetarists's study was primarily money and financial policies with the use of positive economic theory, which also affects the formation of the research priorities of financial science. Friedman's ideas which were expressed in his thought-provoking book «The program of money stabilization» (1960) were at the center of financial thought. In particular, it was about the harm of financial and monetary policies of governments which finance public expenditure, and eventually led to inflation. This gave impetus to the debate about the possibility of the market mechanism of financial regulation, the ratio of monetary and fiscal policy, which continues to today.

In this context we need to mention the neo-liberal direction of financial thought. Neoliberalism is notably different from the Keynesian and neoclassical theories. Unlike the old liberalism, neoliberalism does not give up entirely the government influence on the economy. It recognizes the importance of its place and role in economic life, but if it does not break, but strengthens the foundations of the market economy. Thus, on the one hand, neoliberals recognize the awkwardness of self-regulation, the ability (and in some cases need) of government intervention, primarily using basic tools and instruments of public finances. On the other hand they believe that government intervention should be limited both in scope, and in its form. Depending on the content and direction of the principal economic doctrines, economic and political situation, the role of a certain trends of economic thought can be intensified or weakened. In terms of robust upturn, when there is motivation to soften state care, the positions of neo-liberalism are strengthening, in difficult circumstances, in the period of financial and economic crisis and recession — Keynesian and neoclassical are supported.

Supporters of neoliberal trend believe that public finances are the financial foundation of the «social market economy» that creates equal opportunities for a diverse population in terms of free enterprise and their interests. Public finances are the dominant institutional component of the economic infrastructure of social market economy. This helped to look at budgets, taxes, the system of public expenditures and public credit as important factors to ensure the well-being of society as a whole and each of

its citizens, and thus the balance of interests in society. In this thesis the quality of the increased role of the state is pointed out. This is not about a «heavy hand» of the administrative state custody, strict government regulation of financial relations, or excessive restrictions on the rights of employers and individuals, but about the reasonable fiscal policy through the use of effective financial instruments and levers that do not undermine the motivation and incentives for productive activities.

The theoretical basis of the concept of social market economy put the analysis of the impact of institutions, rules on the behavior of economic agents, the issue of an organic combination of economic competition, and the freedom of the market with social guarantees at the center of the financial thought. This refers to the protection of competition and freedom of the economy, the combination of the basis of free initiative with guaranteed recognition of economic growth with social progress. The subject of financial analysis was the totality of social relations, which have been considered in a historical context. So the idea of financial and economic policies with regard to social order means active and intelligent economic policies to achieve social objectives in a free society. In terms of methodology, the representatives of neo-liberal theory put to the forefront the feasibility of anti-monopoly measures and related quantitative research methods.

Information asymmetry has a significant impact on the development of modern financial theory of thought. In particular, the idea of a functioning market economy under conditions of asymmetric information with the lack of a single equilibrium price. It contains all the information that the market mechanism does not provide, a general equilibrium in the economy in each of the sectors formed its own specific balance, an increase regulatory role of the state in terms of asymmetric information. John Stiglitz calls the theory of the corporation, based on the theory of asymmetric information the core macroeconomic model. The financial science develops in three areas: corporate finance, corporate governance and organizational charts.

Regarding financial corporations mentioned above, the three components are as follows: Resources — which turn the financial market; Relations — which draw, legitimize, and make resources flow when making or intending to perform operation investment; Market — a place (Economic Area) and the mechanisms by which organized, systematized, simplified and unified procedures of frameworks for cash resources are carried out. Financial science expanded the subject of study, putting stress on financial markets and the assets around which they revolve: the key elements of the mechanism by which the basic component of the market economy — the

company — is the main funding source and option for the application of capital.

In a market economy the financial process associated with government revenues and expenditures, budget deficits and state debt, can not be understood outside the context of fiscal sociology. The objective relationship between the social order, socio-economic development and political environment on the one hand, and the budget — on the other, as in the period of market relations, now requires a systematic consideration and analysis of changes in social settings. The state greatly enhances the function of major investors and is a financial activator in the real economy. State budget planning and its components — income and expenses with their influence on the economic life — are an integral part of the development of civilization, its rise and fall. In this regard, the progress made by American scholars Joseph E. Stiglitz (born 1943), George Akerlof (born 1940), Michael Spence (born 1943) and others are important works.

In neoclassical theory the subject of financial science spread to the circulation of financial resources in the business environment as one of its key provisions. The theory and practice of financial management of the corporations as a major system-element of a modern market economy is generally accepted. In Ukrainian financial opinion the basis for the formation of the neoclassical theory of finance and its major components, are: utility theory, Arbitrage Pricing Theory, the theory of capital structure and portfolio pricing models in financial asset pricing of market options and benefits management. Neoclassical theory as an independent scientific field emerged thanks to the members of the Anglo-American financial school: H. Markowitz (born 1927) and F. Modigliani (1918–2003), M. Miller (1923–2000), Paul Samuelson (1915–2009), J. Tobin (1938–1995), William Sharpe (born 1934) and Robert Merton (1944–2003) F. Blake (1938–1995) and others.¹

It should be noted that the structure of new financial understanding, which combines neoclassical theory, is a very specific segment of science. It mostly focuses on explaining the patterns that arise in the interaction of various financial market participants. It is mainly about disclosure of logic operations and formation of the categorical tools and instruments concerning two typical financial processes. The first is funding (in the context of the question «where to get financing, which cost sources are involved?») and the second is investment (in the context of the question «where best to invest

¹ See det. : Kovaliov V.V. Financial management course : text. / Kovaliov V.V. — M. : Prospect, 2008. — Chap. 18.

available financial resources?»)». The entities (subjects) that participate in these processes are also firms.

Unfortunately, the Ukrainian financial idea started more or less deeply exploring this methodological paradigm only in the late 1980's and early 1990^s, while global financial thinking has gained considerable popularity institutionally. Today it's one of the priorities of the current economic and financial sciences, which noted the benefits of theory and methodology, especially the originality of object of knowledge, i.e. institutions. Institutional theory has a place in the economy and in the social sphere as well as areas of law, morality, religion, and so on. Institutional theory, based on its methodological predecessors, enriched and developed theoretical aspects of classical and neoclassical schools, and opened a new phase in the development of economic and financial theory. In financial science, institutionalism set as an object of research, studies the nature of financial institutions, the causes and conditions of their formation, development, operation, influence the allocation of scarce financial resources and revenues, the disclosure of human behavior in a certain institutional environment in relation to its changes.

H. Markowitz, a founder of portfolio theory (1952), F. Modigliani, and M. Miller, who developed the basic theory of the structure and cost of capital (1958), made an important contribution to this new understanding. The theoretical development of scientists made it possible to justify the behavior of financial market participants in the context set out above. By the time of the emergence of H. Markowitz's portfolio theory the basic strategy of behavior in financial assets amounted to this: among the assets traded, it is necessary to identify a small number of the most profitable in terms of prospects and invest in these funds (which was the strategy followed by the famous British economist John M. Keynes, who maintained the portfolio of major UK insurance companies). As shown in H. Markowitz's studies, it was policy to try to «keep all your eggs in one basket.» In investment policy, according to his theory, it is necessary to pay attention not only to the yield and to the risk of an individual asset, but to the yield and the risk of an investment portfolio. However, as demonstrated by H. Markowitz, portfolio risk does not depend on the average riskiness of individual assets included in the portfolio (tools), or from the covariance between them.¹

It was a great scientific discovery, which significantly increased the efficiency of the management of financial assets. It was widely used by portfolio managers of financial companies, investment banks and others. As

¹ See det. : Markowitz H. M. Portfolio Selection / H. M. Markowitz // Journal of Finance. — 1952. — Vol. 7th — 12th (March). — P. 77-91.

for the typical large firm (especially public firms), it was much more important to make the policy choices for financing their activities. A neoclassical direction (F. Modigliani and M. Miller) changed the current approach to managing the financial structure of a company and found that the ease of controlling the structure of financing is illusory. It's essential to recognize the importance of solving financial problems of the company capital market which is virtually bottomless. F. Modigliani and M. Miller have proved one of the important provisions of the neoclassical theory of finance — the value of the firm is independent of capital structure. In other words, independent of large or relatively small amounts of borrowed resources, which the firm manages in the financial market, the weighted average cost of capital (core interest rate) remains unchanged.

Therefore, the perpetual annuity value of a firm composed of operational revenues, varying capital structure does not change. The reason for this is that the attraction of cheaper (compared to the equity holder) debt ratio leads to an increase in the financial risk of the firm, and consequently to an increase in the demand of the holders of the firm in the direction of maximizing the required return. Modigliani-Miller's theorem was the starting point to develop further financial science, other theories of the structure, and cost of capital and technology management long-term sources of funding.

With the release of the works of H. Markowitz, F. Modigliani, and M. Miller there was a theoretical justification of the investment policy (where to invest?) and policy funding (where to get the necessary funds?), and financial science has the answer for two key questions concerning the typical financial processes. As it happens, the year of the publication of works by Modigliani and Miller was the year of registration for the neoclassical theory of finance in its own direction¹.

The ideas put forward by the mentioned founders financial science began to be developed by known scientists' in general theoretical terms. In particular, the works of Francis Blake (1916–1983), J. Moss (1936–1987) and M. Scholes (born 1941), J. Tobin (1918–2002), J. Trainor (born 1930), J. Famy (born 1939), J. Hirshleyfera (1925–2005), William Sharpe and other scientists had developed the theory of pricing on the options market, arbitrage pricing, and portfolio. Better justified by the concept of efficiency of the capital market, the proposed evaluation model of risk and return, the methodology of empirical evidence developed new financial instruments etc. Modern economic and financial theory pays significant attention to understanding the financial and distribution functions of the state in terms of

¹ See det. : Kovaliov V. V. Financial management course. — Chap. 18.

post-industrial (information) period of its development. Providing financial resources for the organization and operation of government remains an urgent problem. Unfortunately, it should again be emphasized that modern Ukrainian financial opinion favors methodological principles of neoclassical theory and has only started to develop during the so-called revival of financial science.

The famous American methodologist of science T. Kuhn (1922–1995) introduced a highlighted school of methodological analysis, *The Structure of Scientific Revolutions*, which takes the concept of scientific revolutions as a paradigm. Key provisions of the paradigm of cognitive and normative functions are before the development of a scientific paradigm, or «normal science» anomaly of paradigm crisis, there is a scientific revolution. It is under this paradigm of scientific understanding that «recognized scientific achievements for a time give the scientific community model of production problems and their solutions.»¹ In other words, certain scientific stereotypes, patterns of thinking, in which scientists of a certain period use to solve research problems.

According to T. Kuhn, the scientific research paradigm has two functions: cognitive and normative.² The essence of the first is to obtain new knowledge. The second is setting new norms for the scientific community. By norms, we mean the methods of scientific research — approaches, techniques and tools of research financial phenomena and processes at all levels of financial structure (system, modeling, structural index, cost etc.). Each period highlights the ideals estimated guidelines that affect the choice of cognitive activity, and the scheme of solving the «standard puzzles» in science. «Paradigms give scientists not only a plan of activities but also indicate some directions relevant to the implementation of the plan, T. Kuhn emphasized. Developing the paradigm, scientists immediately seize the theory, methods and standards (ideals and schemes of solution) which are usually closely intertwined. Therefore, when a paradigm changes, usually significant changes in the criteria follow which determine the accuracy of a selection problems and proposed solutions «.³

By the establishment of a new paradigm scientist have identified pervious paradigms of scientific development. There is competition between different theories, schools and trends in science, methodological discussions on the choice of which paradigm are proposed in which research programs. Upon acceptance by the scientific community of one of the programs as a

¹ Kuhn T. *Structure of science revolution* / Kuhn T. ; compos. V. Y. Kuznetsov. — M. : AST, 2002. — P. 17.

² *Ibid* — P. 147-148.

³ *Ibid*— P. 148.

paradigm development of science, there comes the period of «normal science.» T. Kuhn points to the crucial decision paradigm: «As soon as the original paradigm, which served as a mean of dealing with the nature is found, no study has occurred in the absence of a paradigm, and the rejection of any paradigm without replacing it by another means no science at all.»¹ This indicates the onset of «normal science» — a period in the development of science, where the paradigm dominates a research program for the entire scientific community.

The period of «normal science» may last from a few dozen years to hundreds and even thousands of years. In financial science, dominance of a paradigm is less durable. In addition, over time, this period is compressed. Just compare, for example, the period of dominance of the paradigm of classical economics (1730s–1760s), neoclassical (1870s–1920s) and keynesian (1930–1960s) and others. The majority of theoretical and practical problems are solved as a part of normal science, «As long as the facilities provided by the paradigm, enable the successful solution to the challenges posed by it, science is progressing well and penetrates to the deepest level of phenomena confidently using these tools,» says T. Kuhn. The reason for this is clear. As in industry, science change instruments in an extreme measure, this is resorted to only when it is necessary. The value of crises is that they indicate a need for a change of tools.²

However «anomalies» inevitably arise in paradigm, i.e., the accumulated scientific evidence that cannot be explained in terms of the dominant theories, methods and standards. Scientists try to resolve «anomalies» within the existing paradigm and crisis emerge persistently. It covers the positive and normative components of the theory of finance consistently. All crises end in one of three possible outcomes. Sometimes a normal science ultimately proves its ability to solve a problem generating the crisis, despite the frustration of those who see it as the end of the current paradigm. Even radical approaches do not correct the situation clearly. Scientists can conclude that under the current research paradigm the solution of the problem is not expected. The problem is left as a legacy for future generations to solve by using more sophisticated methods. Finally, the last possible case, which we will be particularly interested in, is when the crisis is solved with the emergence of a new paradigm in place of the applicant and the subsequent struggle for acceptance.³

¹ Kuhn T. Structure of science revolution. — P. 111.

² Ibid — P. 114.

³ Ibid — P. 121.

The last case — that is, in the terminology of the scientist, is «a scientific revolution.» It usually begins with the rejection by a group of scientists inside scientific community of the old paradigm and taking as a basis the set of other theories, and a hypothesis. Subsequently, a new paradigm is accepted by other representatives of science. Thus, the achievements of the scientific revolution mean a revolution in the minds of members of the scientific community and the beginning of a new scientific tradition. «The tradition of normal science that occurs after a scientific revolution is not only incompatible but often actually incommensurable with the previous tradition.»¹

A model of scientific paradigms and research programs of famous Hungarian scientist I. Lakatos (1922–1974) are widely used along with T. Kuhn's model of scientific paradigms and scientific revolutions. The central concept of the model is «scientific-research program» (or simply «research program») as a set of theories that are developed on some methodological and research principles. The program includes:

1) «hard core» — the fundamental principles of all theories of the program, through which retained its integrity;

2) «security zone» — auxiliary hypotheses programs for the conservation of «hard core» program.

I. Lakatos formulated functions and specificity of these components as follows: «The security zone must withstand a main blow from the audits; thus protecting ossified nucleus, it must adapt, proceed or even be completely replaced, if the interests of defense requires it. If it gives a progressive modification of problems, the research program is considered to be successful. It is successful if it leads to a regressive shift problems»²;

3) Methodological principles governing the prospects of this program: «positive or negative heuristics». I. Lakatos refers to the first a set of rules that makes it possible to modify the program in order to maintain or improve it. The second means that there are some constraints in the form of certain methodological rules, which make it possible to avoid the false path of knowledge.

«If the negative heuristic identifies a «hard core» of the program, which by decision of its supporters, is considered «insolvent,» the positive heuristic consists of a series of evidence (more or less clear) and assumptions (more or less probable) aimed at ensuring that change and develop options refute «research, modify, specify» the refuted «security zone»³. Unlike the model of T. Kuhn, the model I. Lakatos provides periods of «normal science» as the

¹ Kuhn T. Structure of science revolution. — P. 143.

² Ibid. — P. 323.

³ Ibid. — P. 326.

domination of one research program (paradigms) which are extremely rare in the history of science. A typical phenomenon is the existence many research programs that compete with each other. Financial opinion «was and is a history of rivalry research programs (or if you prefer, «paradigms») — says I. Lakatos. However, he emphasizes «...it was not and should not be the alternation of periods of normal science: the sooner competition starts, the better for progress.»¹ For a proper understanding of the development of financial science, especially financial opinion, it is very important for a scientist to select one of two main types of science: «mature science» and «immature science». They can relate with two periods in the development of science. According I. Lakatos, «mature science» — this is the type of science where there is competition, rivalry among different research programs, he contrasts this with «immature science 'where research is carried out' and a model worn down by trial and error.» A mature science, according to I. Lakatos, consists of research programs, which provided not only previously unknown facts, but new research theories; mature science as opposed to a boring sequence of trial and error has «heuristic power». The positive heuristic powerful program initially sets the general scheme of protective zone. This heuristic generates the power autonomy of theoretical science.»²

If we analyze the current state of revival and development of Ukrainian financial science, it can be argued that the rate of learning and conscious assimilation of the latest achievements of Western scientists in the field of methodology on the scientific space Ukraine was low. In addition, after more or less rapid opening up of new (for the domestic scientific community) ideas and approaches of the general financial theory, the evolution of financial thought has a new contradiction. The gist of it is as follows. During the revival of scientific opinion, the financial gap that separated the domestic scientific community of the world in relation to the assimilation of the standard of knowledge of finance is gradually reduced. However, as emphasized by researchers in the field of methodology, «the gap in the methodology of reflection methods associated with analyzing the nature of knowledge, their functions and scope, not only survived, but has been steadily increasing against the background of rapidly growing field of research,»³ which has become in the last 20 years the global financial economic science methodology.

¹ Kuhn T. Structure of science revolution. — P. 348.

² Ibid. — P. 370.

³ Leonenko P. M. Methodological aspects of history of Ukrainian economic thought (19th — 20th). — P. 11-12; Ananiev O. I. Methodology of economic science. Modern tendencies and problems / O. I. Ananiev, M. I. Odintsova // Istoki, — Issue 4. — M.: GUVSHE, 2000. — P. 93.

The methodological approaches of knowledge of economic (financial) world mentioned above developed due to the research of T. Kuhn and Lakatos I. can be summarized as follows:

— Use of research for general approaches to the analysis of finance that govern humanity at a stage of its historical development which is displayed in the dominant scientific paradigm;

— Reject the fundamental theoretical positions of economic and financial science used in the process of learning (such as starting position) and accepted as an axiom;

— Comply with the basic directions of scientific analysis, especially singling out the scientific object and subject of financial thought;

— The use of specific methods of learning that correspond to features of a scientific object.

— Use of the scientific substantiation of established criteria for determining the level of scientific knowledge acquired.¹

Modern foreign and domestic financial opinion considers funds from the epistemological positions. They are analyzed in terms of their real meaning, essential features and mapping of socio-economic process. Theoretical approaches and models developed by the financial science is the real pragmatic basis of state monetary, fiscal currency and credit policy. A pragmatic approach is demonstrated in the development of the overall financial doctrine of stabilization programs to strengthen public finances, formation tactics and strategies of financial policy in the medium and long term. The circle and the spectrum of research related with the development of various forms and methods of financial policy, way of effective influence of money on the real economy, savings and investment, improve competitiveness in global markets, macro-financial stabilization and economic growth in general.

Civilization development, characterized by deepening and accelerating processes of globalization and integration objective requires the increased attention of financial science in developing specific policies and recommendations for enhancing the role of finance in the structural alteration of the economy, accelerating economic growth in the short and long-term development in view of global economic relations and ties.

The modern Ukrainian financial opinion is marked by a convergence and combination of theoretical and empirical knowledge. Finances appear as a combination of a factual reality and their scientific and theoretical approximation. In this approach, financial knowledge develops and enriches

¹See Det. About particular matrix of historic-financial science: Kuhn T. Structure of scientific revolutions. — P. 3-268, P. 269-454, P. 455-524.

itself according to the changes of the material, which it acquires and is accompanied by a theoretical understanding of the realities of scientific analysis. The direct theoretical, methodological, ideological, conceptual, institutional and scientific framework of financial doctrine, which is embodied in a modern outpouring of foreign financial opinion, is the philosophical idealism and the subjective theory of value, which is ideal for a democratic and legal state. Taking into account state functioning, one can say that the economic sphere and sphere of commodity markets, politics and law, vital functions of society, financial opinion in its methodological aspect is based on scientific statements of philosophy, political economy, sociology and political science, the principles of public and constitutional law.

The famous French scientist and financier, Paul Marie Hodme noted, that in financial science the method of cognition is characterized «on the one hand, by the study of financial phenomena, and on the other one — by a wide appeal to other sciences»¹. This is obvious: financial science is an economic, social science, and the finance itself emerged with the development of the state, law and commodity-money economy. The finance functioning—from its genesis to mature development — is connected with the state existence. That is why, when describing the structure of finance, the starting point of global and national financial opinion is its permanent connection with the state and its activity. During this activity the funds of financial resources, which are used for implementation of various costs, are being generated.²

The movement of finances is mediated (regulated) by the legal procedure, and the specialty of methods utilizing them quite gravely influence on social and economic progress of the country. From a methodological point of view this understanding of finance is observed by the definitions that immediately approximate to the gist. The economic phenomena and processes, that characterize the nature and the content of finance, are quantitatively and qualitatively objectified but at the same time, of course, they subjectively depend on a public choice and policy decisions. A similar approach to understanding finances primarily reflects its empirical reality. Well adapted for systematization and investigation of financial and economic phenomena, the financial concepts that are derived on this basis are quite convenient for its comparison with reality. The similar approaches to studying Finance are not only persuasive as logical but also are effective in a practical understanding when demonstrating the unity of theory and practice. They demonstrate how economics, politics and the law are merged,

¹ Hodme PM *Financial Law* / Hodme PM — Moscow: Progress, 1978. — P. 45-75.

² *Macmillan Dictionary of Modern Economics*. — K: Artek, 2000. — P. 566-567.

where economic considerations are made, policy decisions and interests equally dominate the content of financial transactions. This field should be employed with the excellence of a theory that is proposed by financial science and by the art of a fiscal policy of the government. Functioning under a state with a commodity-market on the border of the Economy, Law and Politics, the financial implementation of a non-national, abstract and universal truth of micro and macro-economics, with the use its methodology of research. However, they reflect the interwoven socio-economic, legal and political realities that are inseparable from each other. In the unity of economics, law and politics the important mission of private and public merger is implemented by means of finance. The methodology of cognition of the financial phenomena is largely based on a philosophical school of subjective analysis. The anthropic principle of reality illumination is inherent to this direction of the philosophical thought. It involves the dependence of a social phenomena that people observe, on the individual — a thinking creature, participant of the events and their interpreter. «People's thoughts cause their actions»¹ — argued George Stuart Mill (1806–1873), one of the most influential economists of that time. According to this methodological approach the subjective factor that is in the spotlight is the behavior of «economic man», the motivation for his actions in the certain general economic, financial and social conditions.

The behavior of «economic man» and his motivation are based on an analysis of the efficiency of markets and macro- and microeconomic indicators of the national product's movement, finances, savings and investments, capital, profits, rents and wages, etc. The economic subjectivism of the financial policy is confirmed by the importance of implementation the decisions of public authorities. According to aphoristic expression of a famous British statesman Benjamin Disraeli (1804–1881) a country is governed not by logics, but by the Parliament. Voters and legislators are guided first of all by the individual ideas, passions, material and political interests. Scientific, administrative and professional elite sometimes should only evaluate the decisions in terms of specific scientific and theoretical principles and pragmatic expediency and the public should evaluate the decisions according to the principles of morality. Modern economists see the essence of institutional researching program in the analysis of the market economy considering the historical progress, in the research of the features of existing social and economic institutions explanation due to the analysis of close interaction between these institutions, in revealing its impact on the socio-economic reality. The basic

¹ J. Mill. C. Considerations on Representative Government / Mill J. S. — SPb., 1863. — P. 79.

characteristic of the «old» (English and American) institutionalism is expressive pragmatism. He was in opposition to the abstract scientific systems and at the same time tried to find a way to expand the meaningful opportunities for financial theory in area of practice. Due to this, the financier, says German Professor H. Liapold, becomes competent in a number of the most necessary issues that gives him the opportunity to cooperate with politicians and administrative authorities, to intervene in this or that issues in order to interrupt the trends of the development the results of which are at a certain times adverse from the political and social point of view.¹

Neo-institutional theory, undoubtedly, increased the range of awareness about the choice and the impact of institutions on economic development and its results, functioning and development in socio-economic systems. According to H. Liapold's point of view, the progress of the learning process was expressed in the growing formalization of theorems, which people often wanted to present as maturity of science and more in the dissemination of institutional and research programs in higher education. At the same time a German scientist underlined that the development of positive institutional economics is still scantily used in the regulatory (practical) realization of proposals for policy formation of economic order. According to H. Liapold it is evidently explained by one-sidedness of the previous theoretical approaches, the desire of entities to be effective and connected with the minimal costs of forms of the institutions that reduce a need in corrective actions of the state.²

There are two admitted methodological approaches for a financial science to analyze financial phenomena and processes in today's global financial opinion: positive and normative. The correlation between positive and normative approaches of financial science changes itself because the basis for formulation of regulations, so-called positive conclusions, in turn, by itself are frequently caused by normative provisions. In fact, the positive and normative judgments are intertwined in the financial opinion of thinkers of the ancient world and the middle Ages. Cambridge University Professor John H. Keynes (1852–1949) — the author of «General Theory of Employment, interest and Money» J. Maynard Keynes — clearly presented this division and revealed the contents of each other. «Positive science can be defined as a set of systematic knowledge attributed to the fact that there is regulatory or normative science as a set of a systematic knowledge attributed

¹ Liapold H. Institutes: concept and types / Liapold H. // analysis of economic systems: basic concepts of the theory of economic order and political economy / under ed. A. Schuller, and H.-G. Kryusselberg. — M., 2006. — 160.

² H. Lyaypold Institutes: concept and types. — P. 160.

to that what should be, and therefore this subject is ideal as something other than real.»¹ According to John N. Keynes's opinion, the main goal of positive financial science is to know the nature of financial processes, the main task of the normative theory of finance is developing the economically necessary principles and methods that are able to regulate perfectly the functioning of financial processes in the economy.

To verify the view of the adoption of a modern theory of finance, it is appropriate to compare it with the typical formulations of components of economic science from the textbook «Economics». The authors, well-known American scientists, K. McConnell and Brue S., write:

«Positive economics deals with the facts (which has already selected and moved to the level of theory) and is free from the subjective evaluation of judgments. Positive economics tries to formulate the scientific understanding of the economic behavior. In contrast, the normative economics represents the evaluative judgments about what should be the economy or what specific political action is necessary to recommend, according to some economic theory or certain economic relationships.

So, the positive economy studies those facts that are present, whereas a normative economics expresses (through simulation. — Auto) the subjective understanding of what it should be. Positive economics examines the factual state of the economy; normative economics has to determine which certain conditions or aspects of the economy are wanted or unwanted.»²

These provisions expand also on financial opinion. But there are a certain specifics. First of all, a researcher who studies the financial thought should distinguish the difference between the positive and normative approaches to analysis of the financial phenomena and processes in the study of those representatives of the financial science, which views he analyzes. Each period of the development is characterized by its own positive component. In fact in this case it means the studying the object of this science. Scientists investigate financial opinion, as well as other components of financial science from the evaluative and regulatory position in the unity of the positive and normative approaches. The interpretation of the normative manifestation of a certain financial structure of any of the theoretical and methodological positions of an explorer — is a normative approach.

Secondly, in the theory of finance the positive and normative approaches to the analysis of a financial science of a financial phenomena and processes are stable in every certain period of development within that or other schools

¹ Keynes. J. N. Subject and method of political economy / Keynes J. N. — M., 1899. — P. 27.

² McConnell K. Economics: Principles, Problems and Policies: in 2 v. / K. McConnell, S. Brue. — T. I. — M.: Republic, 1992. — 23.

or areas of theories, regardless of their subsequent interpretations. In financial thought the positive approach remains also unchanged in any certain period of study, but the regulatory approach is inevitably numerous and different. This is due to the different ideological positions of different researchers. To be persuaded, one can compare the interpretation of the formation, development and content of theories, schools, fields of financial science from the standpoint of Marxism, Neoclassic, institutionalism, etc.

The positive approach of a financial science is focused on the study of the interdependence of the financial and economic phenomena as variables, as well as the direct and opposite connections between them. Positive thinking corresponds to a logical formula, «if ... then». For a positive understanding of the questions «what» and «how» are more important than a question «why». According to the positive methodology the scientific analysis pretends to hold objectivity. Descriptive by his own nature, it does not provide the valuable assumptions or ethical assessments of the phenomena in the criteria of good or evil. Nor does it purpose a particular purpose for the study. A positive approach to the financial mind does not influence the phenomenon as, for example, the process of physical processes is independent on the efforts of the researcher. Positivism in science do does not condemn and glorify anything. It observes and studies without dwelling on desires it indicates.

Take for example, a positive analysis of the budgetary program for funding the poor in a scope of residential and communal households. First of all, it finds the impact of subsidies on tariffs for gas, water, shelter, etc. Quantitative parameters provide the poor utilities and primarily explain the impact of subsidies on tariffs for gas, water, shelter, etc. The actual state of poor people after the introduction of subsidies is compared with the previous calculations, and the analysis is terminated. Is the subsidy equivalent to social dependency, whether it is humane feature for social solidarity with the outcasts? These questions are not of interest for representatives of positive direction.

In contrast a normative study finds what should be or could be. This regulatory approach is similar to the doctrine of pragmatism, according to which the most significant feature of science is not the accumulation of knowledge about past facts, but in the anticipation of the future. Normative science focuses on the recommendations that are proposed for the purpose of improvements, or the desired direction of the existing state of affairs. Regulatory science in its semblance is often closely linked with policy. The motto of the normative science may be «Know to predict and improve.» Typically, the regulatory changes are achieved through a choice of alternative methods of realizing a public purpose, considering certain ethical

criteria. In fact, the representatives of the legislative direction of a financial science put in their research a dependence on predefined ideals. According to the fight of various political forces and social and economic interests around budgetary priorities, normative problems lead to structural changes, reorientation of policies, modification of laws, codes and regulations, as well as methods of budgetary, fiscal and debt management.

Researchers observe positive or normative method in their studies. Thus, the German theorist of the financial science Adolf Wagner (1835–1917) was a supporter of the positive approach. Among the number of contemporary economists, an outstanding representative of economic liberalism, Milton Friedman, is a staunch supporter of a positive approach. According to Friedman, the essence of science is to test theoretical hypotheses that collide with practice and are then confirmed or refuted. American economist James Buchanan follows this same approach. However, existing separately in the typology of thematic approaches, it is difficult to separate positive and normative methodology in actual research practice. During the process of learning and analyzing the effects of a public finance with its interdependence and causal relations, positive and a normative approach are equally useful. The only distinction is that normative theory can't offer effective recommendations to achieve certain results, if it does not have a basic information and facts that are extracted by a positive knowledge.

Imagine for example that there is a proposal to change the tax to the Value Added Tax payment of rather complex construction for elementary sales tax. Note that the solution of such change is not of academic considerations, but of political character, although initiated by academics and practitioners. Despite the legislative trends of economists, politicians and parliamentarians, only a positive test that is performed by experts can detect a real budget and socio-economic implications of such a reform. If it gives the adverse fiscal and economic results, policy makers should reconsider their support of regulatory decision.

The positive study itself involves the application of theoretical methods of the financial and economic analysis of those programs, especially social, which are encouraged by normative ideals. So, different scientific approaches don't interfere with each other. Regulatory approach helps to select the object of study and to assess the impact of proposed changes in the light of certain ethical criteria. One of them is a normative ideal of an effective resource using. It was theorized by Italian economist and sociologist Vilfredo Pareto (1848–1923), who conceived the principal of Pareto's optimality. With Pareto's method the optimal parameters of the budget are theoretically expressed, which is achieved by the best state of

well-being and the budget allocation between the social layers of the population and between present and future generations.

In the modern socio-economic theory Pareto's criteria replaced the understanding of social welfare (according to I. Bentam (1748–1832) the sum of individual tools (possessions) without interpersonal comparisons of mutual losses and winnings.

Therefore, Pareto optimality focuses on such financial-economic policy, where social benefits of some people were not contrary to the interests of others. This means that the true improvement of the social condition of the society, the harmony of mutual interests is achieved only when there is a growing welfare (level of consumption, income, quality of life) for at least one person, and the other position will not be degraded. This differs to Bantama, who describes the public interest as an abstract concept under which there is a hidden set of private interests.

C. Pareto focused on the social dynamics of interpersonal distribution of wealth, not on static amount of wealth taken as the sum of individual means. He argued that welfare cannot be achieved by redistribution of existing sources without creating new ones. This especially applies to the situation where the wealthy get richer and the poor more impoverished. According to Pareto, social revolution and transformation, without increasing the total material wealth of society, only redistributes existing national wealth which has no meaning, and therefore is inappropriate. It seems that Pareto discovered a way to combine the power of private interest and attractive social ideals.

As the taxes and government spending equally are factors of personal welfare, Pareto's optimality criterion can be applied to finance. In this case, optimality is achieved by a balance between budgetary revenues and expenditures when each individual, after taxes, is not in worse condition than before. This is explained by taxpayers (citizens) are able to receive public goods financed from the budget, and the value (cost) balances the cost of taxation. In another example, the optimal efficiency by Pareto is possible if some improvement of socio-economic indicators does not cause deterioration of others. So, if within a budget there are allocated funds to education, high efficiency is achieved, due to the high level of education and training which is provided due to this money. In this case, the improvement of one state (good quality security) is achieved without degrading other social parameters, for example, the country's defense or the level of economic development. An important caveat: the Pareto criterion of efficiency is realized only under ideal conditions, when all subjects of financial relations have the opportunity to receive personal benefits (in their own sense) without any extraneous interference. Of course, in real life there

is an acute struggle over the access to budget allocations. In such circumstances, the Pareto optimality can only be achieved as a result of mutual consent between actors in the budget process, in the interest of not harming each other. It is clear that in the pursuit of selfish benefits, such behavior is very conjectural. In any case it is not acceptable for everyone. It is far more likely in normal circumstances that activity which brings benefits to some causes harm to others and the Pareto criterion is actually the ideal; a speculative judgment in the system humanistic social-philosophical for financial reasons, a kind of moral guidance. However there is no guarantee that fiscal policy planners will follow the Pareto optimum even in the best circumstances.

Differences between positive and normative approaches in financial thoughts open up additional opportunities for the better, wider, and deeper disclosure of financial science. Researcher evaluation of financial thought cannot be completely free from subjective judgments. However, it should strive for maximum objectivity and acquire the ability to distinguish between scientific analyses of evaluative ideological judgments. The task of the researcher of economic and financial thought, highlights what the famous American scientist M. Blauh said, «show how certain beliefs lead to different types of analysis, and then ask, does this analysis retain its value if it is free from the ideological substrate».¹

Scientific and academic literature on finance usually pay attention on the relative unity of views of scientists who use a positive approach in financial science and the diversity and divergence of views of financiers who are prone to the normative approach. However, there is less diversity and divergence of views on these issues observed in financial thinking. This situation is objectively caused by the fact that the positive direction of financial thought — a collection of theories, schools, concepts of the theory of finance, requires critical examination. That is why an important place in the structure of financial thought is occupied by theories that have arisen as a result of the financial art which is based on the so-called substantive hypotheses. In other words, the last theory is not seen as confirmed by its statements and conclusions (as it follows from the definition of the «hypothesis»), but rather — as those that require evidence and accordingly fit into «the system of rules to achieve this goal.»

Normative approach (normative analysis) is aimed at studying the subjective judgments of scientists (representatives of different financial schools and areas) regarding the content, roles, and so on, financial theories,

¹ Blauh M. Economic thought in retrospective review / Blauh M. — 4th issue. — M.: Delo LTD, 1994. — P. 5.

schools, directions in their chronological and spatial development. Also in the normative approach of financial thought dominates normative judgments in the analysis of economic and financial theory and its impact on finance, financial behavior people. This contributes to the diversity and divergence of views of different researchers.

Financial research has invested significant attention in finding out the processes that took place in financial science in the regions of post-socialist countries late 20th to early 21st century. There are different views of scientists on this issue. In the general, they can be summarized as this:

— The importance of «outside scientific» factors was confirmed: a radical change of paradigms was held under the direct influence of political circumstances that influenced the scientific community and contributed to its rejection of the old paradigm. Similarly, a process of restructuring national financial science in 1920 took place;

— The process of rejection of the old paradigm and adoption of the new was sufficient. The participants first tried to improve the old paradigm, addressing the educational activities and more. However, as the previously dominant scientific establishment had lost its influence and its inability to solve inherent «puzzles» began to be perceived as failure of the whole old system of knowledge, it was decided to transition to a new paradigm. The conditions for the perception of new ideas were created in society;

— Since the Marxist approach in financial science was not only the paradigm in scientific understanding, but also a worldview, the rejection of them meant destroying the old scientific community and general space of scientific activities;

— Contradictory financial thoughts moved in two different directions and arose as a result of the rejection of Marxism. One part of the scientific community was focused on the search for «new world view» (new picture of world, a new paradigm in the specific sense of this term), quick assimilation of a new paradigm for this community was paramount;

— Education had particular importance in the struggle of these two areas, because through education the problem of demarcation from scientific and non-scientific knowledge institutionally is solved and the conception of a «normal» member of the scientific community is formed.

Financial thought is the confirmation that finance, financial processes and financial system of this society, is one of the most difficult forms of examination of objective reality. Different approaches to solving various problems of the financial sector follow from here. Rapid change of conditions and factors that affected social life, when specific historical environments become an arena for their deployment and passing, complicate the understanding of these problems for researchers. Such specifics and

peculiarities of the financial sector need a clear delineation for scientific principles of cognition. A list of different theoretical propositions identified by the scientific community as an axiom, and using scientific models to explain the functioning of the financial sector and development finance in general.

These requirements for scientific knowledge of all components of finance can be named as a scientific paradigm (Imre Lakatos calls it «scientific-research paradigm»). The level mastery affects the performance of scientific research. The level of excellence and scientific validity depends on the perfection of scientific method as well as determines the authenticity of the conclusions and reliability of the forecast of further development of financial science. In this process, an important role is assigned to a financial opinion, which reflects the evolution of knowledge, and level of financial thought at each stage of its historical development.

Two paradigms are used in financial science: formation and civilization. As a generalization of the achievements of Ukrainian financial thought is evident, positivist approaches gained widespread support in research in financial processes and their analysis. According to which preference is given to research practice that of people or of the state, is based on scientific rationalism, which combines empiricism and logic. In scientific researches of Ukrainian economists of late 19th and early 20th centuries the priority was given to the analysis of practical interests of the state as a fundamental condition of survival. In its unity such approaches of our predecessors were manifested in the approval of the principle of methodological «dirigisme»). According to this principle, all financial phenomena and processes considered from the position of behavior the state, which should act rationally to realize their interests and the interests of economic subjects. However as economic practice proves the effectiveness of the impact of financial structure on real production reached only in case of providing of economically justified optimality between the state and market, between public and corporate finance.

The paradigm of formational analysis of financial sector evolution has been and still continues to be defined in the works of native and foreign financial economists. The positive in this is that it obtained a holistic view of the development of the financial sector in a historical context, to reveal functional consistencies of its major segments, as well as reasons and tendencies for changes observed in the process of civilization's progress. However, formational paradigm has become insufficient under the conditions of increasing globalization and internationalization of the global economy and finance; which has increased the level of complexity and structure interdependence in financial sectors, growing the need for more

precise knowledge and significance of prognostic ability for financial policy. Currently, more researchers are becoming proponents of the civilizational paradigm, which uses the potential of its predecessors and develop its own approaches, and is able to become a reliable basis for looking for the answers to the challenges of our time.

1.3. Methods of analysis

During the development of trends and schools of thought in financial in the nineteenth and twentieth centuries a great number of theoretical models appeared, which are the starting points for explanation of real historical processes of financial science. In the nineteenth century P. Duhem (1861–1916), a famous French scientist, developed the ideas of cumulative modeling in his writings. Basic concepts of this model are «accumulation of knowledge», «continuity», «and individual contribution to science», «discoverers» etc¹. According to this model, financial opinion is considered to be as a set of facts, theories and methods written in scientific papers and books, and its development is an efficient sequential process of accumulation of scientific achievements. Many Ukrainian scientists and financiers of the second half of 19th and early 20th century interpreted the development of financial theory from this point of view. To name just a few, they are M. Aleksyeyenko, P. Hansel, M. Dovnar-Zapolzkiy, P. Kovanko, V. Nezabytovskyy, I. Patlayevskyy and others.

Deep study of the Ukrainian financial thought of the past (especially the end of 19th and the beginning of 20th centuries) indicates that the current Ukrainian financial science largely continues to explore the ideas expressed by our predecessors, developing, complementing them in areas which they did not pay proper attention or just outlined these areas. In addition, it is noted by coincidence of the methods and analysis. The development of modern financial thought in general is characterized not only by a gradual accumulation of knowledge, but also accompanied by a critical stage that lead to qualitative changes in theory, a radical revision of previous ideas about finance in general.

Analysis of scientific papers from the Ukrainian Financial Economist suggests widespread use of the cumulative model in the development of financial thought that was prominent until the twentieth century. It had its advantages and disadvantages. Ukrainian scholars of the period embraced

¹ Leonenko P. Metodologichni aspect of history of Ukrainian economic thought (XIX–XX century.). — P. 13-14.

the trend of global financial experience and shared models of the main provisions of the cumulative scientific knowledge and their continuous refinement. However, in their research they enriched the original provisions of this model, especially for the analysis of financial thought. A striking example is the labor of the world renowned Ukrainian scientist M. Bunge (1823–1895). In particular, he pointed to the volatility of real mobility phenomena and processes of economic and financial life and mobility of our respective economic and financial information about them. Financial view shows the change in financial theories that have been deeply studied, but it should be understood that, «in the knowledge of the person in each moment, having that accumulated science, never comes to resolving all issues arising in the head»¹. M. Bunge has repeatedly drawn attention to an important place in financial methodology, the belief in the overall system of financial science.

The financial ideas create for modern scientist the opportunity to review the past of financial science especially its genesis and evolution. Developing the idea of the importance of studying the scientific achievements of their predecessors, Ukrainian Financial Economist M. Bunge drew attention to the relativity of knowledge in specific financial terms of social and economic development. Therefore, any financial theory is not a dogma. However, each of them deserves attention, as even the false theory of finance may have some positive value, «they always are, if not of truth, something worth investigating», and as a reflection of reality «they contribute to the understanding of this era»².

Every scientific work of our predecessors of financial science, reflecting reality, however, is directed by the researchers to the future. Therefore M. Bunge paid great importance to studying of financial thought in the development of the study of economics. «True knowledge, illuminating the traversed path, opens continuously new prospects to the eyes of thinker» emphasized M. Bunge «And that what seemed to be the last word appeared to be no more than a transitional stage in the development of our creative ideas»³.

An interesting piece of work, in terms of methodology, is the paper of M. Bunge «Theory of Credit» (1852), dedicated to two sets of problems: the relationship between inductive and deductive methods, and the relationship between theory and practice. He notes that deductively derived abstract patterns without reinforcement of the facts can only serve to create «abstract

¹ Bunge N.H. Essays on the political-economic literature / Bunge N.H. — St. Petersburg., 1895. — P. III.

² Bunge N. H. Essays on the political-economic literature. — P. II.

³ Ibid.

formulas» that have little to do with real life. One should, in his opinion, create the «visual» and «acceptable» financial science. Financiers, says M. Bunge, in his analysis should take into account the past and the future, try to deduce from the laws of reality and never lose sight of the relationship between theory and practice.¹

However, the method of logical (scientific) abstraction is still the important technique in the development of financial thought. The method involves researcher's abstraction of partial (minor) points and sides of any phenomenon detection for what is essential, recurrent and enables you to reveal the essence of financial phenomena in the most general terms (categories), such as public finance, local finance, corporate finance and others.

Ukrainian financiers of late 19th and early 20th century wrote most of their fundamental works abroad while training in foreign countries. They mastered methodological foundations of European researchers. But the hallmarks of financial science concepts developed by the Ukrainian scientists were the fundamental study of fertile relationship and interaction between financial theory and practice, and their organic combination. This was original methodological thinking by the Ukrainian scientific school. This approach can be traced in the works of Aleksyeyenko M., L. Fedorovych, A. Myklashevsky, P. Kovanka, V. Tverdokhlebov, I. Yanzhula and others. Their initial position was the equality and equivalence of financial theories that they explored and analyzed in the real context of financial management. This system of financial literacy and critical assessment of financial schools are seen as two sides of the same process.

It is from this methodological point of view that Ukrainian financial thought developed. This was a great merit for one of the founders of Kiev School of Economists, financier Vernadsky. According to J. Tsvaynerta, we can say that «he stands for Manchester liberalism»². Vernadsky attached great importance to the study of financial thought. He wrote, «Described in a proper way, it must be the correct picture of the main ideas and the formation of a regular one, indicating the merits of those who contributed in this area individuals and nations»³.

Each work of our predecessors can be considered a treasury of thoughts and ideas. The approach to the development of science of A. Bilimovych, a well-known Ukrainian financial economist and financier, is methodologically original. In his view, any scientific achievements promote

¹ Bunge N.H. Theory of credit / Bunge N.H. — K., 1852. — C. VII-VIII.

² Tsvaynert J. history of economic thought in Russia. — P. 150.

³ Vernadsky I.V. Studies in the History of Political Economy / Vernadsky I.V. — St. Petersburg., 1858. — P. 1-11.

the activity of the human mind, by which daily financial concepts can be absorbed, correcting those who worked for narrow pragmatic purposes and are not suitable for building scientific schemes. Then they contribute to the construction of financial phenomena which simplify and generalize as closely as possible real events to take into account the effect of certain causal factors. He was a realist and recognized that a full scheme, which would have abided changing, full of various manifestations of economic life is only an unattainable ideal. Recognizing the existence of alternative theories as «circuit-effects, built by man»¹, he emphasized that any scheme will only indicate the direction for the continuous progress of scientific knowledge of finance. Numerous theoretical schemes reflect unfinished knowledge and cover only part of the financial world.

However, pointing out the originality of approaches to the research of Ukrainian economists and financiers of the past, it is worth noting that most of them worked within the established methodological models of the leading Western scholars. In the second half of the nineteenth century some of them supported to some extent the idea of the historical school. For example, M. Bunge under the influence of the «older» historical school, especially W. Roscher, in the introduction of his doctoral thesis criticizes the deductive method of classical theory and emphasizes the need for greater consideration of the factors of time and place. However, in his further research he managed to combine inductive method and the social economic development with a vigorous defense of liberal concept of economic policy.

The approach of the historical school in the economic literature is primarily known as a cyclic model of development (founded by Charles Zhd, 1847–1932, and Charles Rhist, 187–1955). The gist is that a certain theory is always put forward in a specific historical condition, and then it retreats under pressure to reappear in a new form and at a new stage of development. «How many doctrines that were considered to be completely forgotten disappear as well as others who were considered dead come to life» Zhd S. and C. Rhist stress, «But those who die never die completely, and those who are alive never come to life in its previous form»². Among the supporters of this approach P. Mihulin, N. Sobolev and others should be mentioned. Representatives of this school came from the fact that some factors of economic life are not enough to explain the doctrine and the cyclical nature of development.

¹ Bilimovich A.D. A few pages embarking on the study of political economy / Bilimovich A.D. — K.: Tipogr. St Vladimir Univ., 1918. — P. 9.

² Zhd Sh. History of Economic Thought / Zhd Sh., S. Rist — M.: Economics, 1995. — P. 489.

The development of financial thought is of great importance in deepening the methodological principles of financial science. One can note the undulating development of the Ukrainian financial science. At various times both attenuation and recovery of interest of economists to their science occur in nineteenth and twentieth centuries. In both cases it was found tied to a particular state of financial science, it estimates and specific social and economic development of society. «Surge» was at the end of 19th and early 20th century (Aleksyeyenko M., P. Hansel, P. Kovanko, V. Nezabytovskyy, I. Patlayevskyy, etc.); «attenuation» was in 1920s (P. Hansel, Mytilini M. etc.), «ruin» is observed during 1930–50s. «Stagnation» is found in 1960, «thaw» was in the 1970–80s (C. Ogorodnyk, V. Sutormina, Fedosov, MA Aleksyeyenko, V. Stepanenko), «renaissance» was in 1990 (Polozenko D., A. Danilenko, Fedosov, V. Stepanenko, S. Yuriy, A. Vasylyk) at the beginning of the 21st century (Andruschenko V., V. Vishnevsky, Fedosov, Krysovaty A., A. Sokolovskaya, V. Bazylevych, I. Lyuty, V. Oparin, M. Krupka, Ts. Ogon, Yukhimenko P. etc.). The main reason for the decline of Ukrainian financial thought during Soviet times was the policies of the Communist Party and government.

The development of financial science can be influenced by objective circumstances as well. For example, some weakening of financial interest in science occurs in times of favorable economic development. In particular, in the 1960s in western countries, the amount of financial research was reduced sharply. At the leading American and British universities, which were considered to be legislators of «fashion», even the history of economic thought as a subject disappeared. Concerns about this situation among scientists in the 1970s contributed to the revival of scientific products and courses on the history of economic thought in economic departments worldwide¹. In Ukraine it happened in the 1990s. However, if the political economy made this important step, in financial science there is still no fundamental research in Ukrainian financial thought.

The consequence of this situation is the belief of some researchers that the right financial opinion is a «cemetery of dead ideas». In contrast to this judgment Schumpeter, a famous explorer of global financial thought, compares it to the closet, which is always useful to be looked into. «As a result of studying the history of science we understand the reasons why we are just at our stage of development and further progressed» Schumpeter said «And we know which ideas in science are successful and why»². Speaking of

¹ Din F. Panorama of economic thought in the late twentieth century: in 2 vol. / F. Din. — SPb.: Econ. School, 2002. — Vol. I. — P. 30-52

² Schumpeter J. A., History of Economic Analysis. — Vol. I. — P. 5.

Ukrainian financial opinion, it reflects both a process of development of finance in our country and the level of financial science from different eras. Based on financial thought we can trace the historical continuity of financial science. Every work in financial opinion seeks to reveal the nature and development of certain scientific ideas, the process in which there is effort by researchers to understand the financial effects of infinite sequences which generate new opportunities and prospects for the state and people.

It is clear that each of the previous scientific papers has subjective part. Therefore Schumpeter warns about imperfection of methods of collecting and analyzing events, facts and figures that economists consider to be unsuitable part (or wrong in principle). However, they were widely used by other scientists, economists, and financiers. Nevertheless, as Ukrainian financial thought shows, in every era there was a steady professional point of view of scientific issues that often withstand the test of serious political events. However, taking into consideration the dynamism and evolution of economic systems and financial institutions, financiers have no ability to talk about their field with the same confidence as physics or mathematics. This has led to a fragmentation of financial literacy in the face of the diversity of schools and areas of financial theory and the extraordinary specialization of some areas of financial analysis.

In the opinion of the finance (and the economy in general) there are problems of absolutism and relativism [the terminology M. Blaug]. The essence of these opposing approaches M. Blaug defined as «relativists consider every single theory put forward in the previous era, as more or less an accurate reflection of the previous conditions — each theory in principle equally justified in its own context; absolutist, analyze only on the strictly intellectual development of the subject, which he sees as a steady progress from error to truth»¹. Accordingly, he says relativists can't classify different theories into «better» or «worse»; the absolutists, on the contrary, can not resist doing this. As to financial opinion of the late 19th and early 20th centuries, it clearly tended towards relativism in its interpretation of concepts and schools of the past. This is especially true for the works of M. Bunge, K. Voblyy and others².

The works of I. Yanzhul are an example of a relativistic approach. As the epigraph to his work «English free trade» (1876) he took a phrase from John Locke: «Indifference to which of the two views is just, is the right state of mind, protecting it from imposing views and enables it to analyze. This is the

¹ Blaug M. Economic thought in retrospect. — P.1.

² Bunge N. H. Essays on the political-economic literature; Voblyi K. Basics of political economy (history, theory and finance) and so on.

only correct and safe way to truth»¹. As you can see, I. Yanzhul openly admits to adherence of the relativistic position in economic and financial policies. Although in some discussions he departs from this rule. In particular, leading a debate with Fossett Henry (1833–1884), the famous English supporter of free trade doctrine, I. Yanzhul restricts his thoughts with the remark that «free trade, as protectionism, is the only historical form of the existing economic system, which has its strengths and weaknesses, and it would be extremely frivolous and unjust to attribute it the results and anomalies of the entire economy as well as to object to the good sides in each.»²

Relativistic views impacted Yanzhul's perception of economic theory. He considered it to be of little use and even counterproductive for practice. Early mercantilist economic policy he considered to be ideal, because at that time the government «without prejudice appeared to help everywhere and wherever it was necessary»³. Despite the relativistic approach, I. Yanzhul didn't doubt that «the reduction of private initiative, expanding the efficiency of the state, giving the state greater and greater number of functions, its intervention in economic life of the people are the dominant trend of the century».

He interpreted entrepreneurial alliances from the position of the historical school. They were not only «the product of the need of the time and conditions of the current production»⁴ but also as «the key for overcoming the difficulties created by public helplessness of entire production.»⁵ «The works of I. Yanzhul economic and political interest dominates. In his master work (which was dedicated to the English tax system) he examined the idea of Ferdinand Lassalle (1825–1864) that the replacement of taxes explains the attempt of the higher circles to shift the tax burden on the poorer classes. He concluded that the ruling class in England failed to affect the tax system in a way that always satisfied their interests»⁶. In his textbook he makes a long historical overview concerning almost all matters of financial policy.

However, the Ukrainian financial opinion of 19th and early 20th centuries knew the absolutist approaches in research as well because the degree of precursors' perception of ideas affects the theoretical views of a scientist.

¹ Yanzhul I. I. English free trade. Historical Sketch of the ideas of free competitiveness and start of the state intervention: in 2 vol. / Yanzhul I. I. — M., 1876. — Vol. 1. — P. V.

² Ibid. — P. 468.

³ Ibid.

⁴ Yanzhul I. I. Industrial syndicates and business associations to regulate production, mainly in the United States of North America / Yanzhul I. I. — St. Petersburg., 1884. — 374 pp.

⁵ Ibid. — P. 16.

⁶ Янжул И. И. Опыт исследования английских косвенных налогов. Акциз / Янжул И. И. — М., 1874. — С. 295-302.

Thus, the postulate of Immanuel Kant (1724–1804), founder of German classical philosophy, about the absolute value of the human person became the guiding idea for Tugan-Baranovsky, the famous Ukrainian economist, in his «Political economy: Popular course» (1917), famous for being translated into Russian by Mikhail Kondratyev as «Foundations of Political Economy» (1909). Kant's idea of «absolute value» of a human being, according to which a person should always be perceived as an objective and «never as a means» was the core of Tugan-Baranovsky's philosophy. He himself emphasizes this point of view in his famous essay «Kant and Marx». According to Kant's distinction between practical and clear mind the scientist affirms that economics owes to the practical cognitive interest for its existence¹. However, cognitive interest in the social sciences is complicated by the existence of the problem of multiplicity of interests of different social groups.

According to M. Tugan-Baranovsky, integrated social science requires a moral ideal obligatory to all individuals. The postulate of the absolute value of a human being meets this condition because it is based on the idea of human equality. Scientist's belief that this idea is the «only possible» basis of economics has caused the situation that, with few exceptions, his work after 1905 aimed at finding the concept of socialism that would meet this ideal². In addition, at this point Tugan-Baranovsky's argument comes to a standstill of «morals»: instrumentalization of work in capitalistic countries contradicts to imperative of Kant, according to which a man should never be perceived «as a means». According to the basic ideas of Kant and M. Tugan-Baranovsky one should be on the point of view of «working person»³. In this regard, Tugan-Baranovsky encourages academic economists to use simple language to «influence the masses»⁴. Because of this he was sometimes called «economist and educator»⁵ but it should be stressed that he was a real «scientist-educator in the most natural and true sense of the word».

The extreme absolutism and relativism in the science is unacceptable. From the height of today we can assume that gravity of Ukrainian financial

¹ Tugan-Baranovskyy M.I. Fundamentals of political economy / Tugan-Baranovskyy. — SPb., 1909. — P. 34.

² Tugan-Baranovskyy M.I. Essays on the modern history of political economy and socialism / Tugan-Baranovskyy, MI — SPb., 1905; Tugan-Baranovskyy M.I. Theoretical Foundations of Marxism / Tugan-Baranovskyy, MI — St. Petersburg., 1905; Tugan-Baranovskyy M.I. Modern socialism in its historical development / Tugan-Baranovskyy M.I. — St. Petersburg., 1906.

³ Туган-Барановский М. И. Основы политической экономии / М. И. Туган-Барановский. — СПб., 1909. — С. 38.

⁴ Ibid. — P. 39.

⁵ Sorvina G.N. Economist Silver Age / Sorvino G.N. // Tugan-Baranovskyy M.I. Favorites. The periodic industrial crises. History of the English crises. The general theory of crises (1914). — M., 1997. — P. 4-48.

thought to relativism was caused by peculiarities of social and economic situation of Ukraine in the Russian Empire, the specifics of the mentality of the nation, long degradation of financial science, the influence of Western financial literature [B. Roscher (1817–1894), K. Rau (1792–1870) and others], which was written from relativistic positions and translated into Russian. Obviously it was the dominant tradition throughout the economic literature of the nineteenth century. In the Soviet period it remained dominant, although officially it served as a unity of «logical and historical» research methods in the spirit of Karl Marx (1818–1883) and as a distinct advantage over the «bourgeois» approaches etc.

In modern conditions of financial thought there has been a strengthening of the civilization paradigm that is based on the fundamental change of methodology in the application of new approaches and general principles of research. Its main postulates were not sudden. It embodies a general scientific approaches and principles developed by René Descartes (1596–1650), Isaac Newton (1642–1727) and other prominent scientists who were concerned with the search for root causes of all the changes occurring in the studied sites, sources of external forces that caused these changes as well as the consequences of these changes. But social science, influenced by the methodology of the historical school, was more inclined to science.

You cannot say that it is a completely new paradigm in the methodology and financial science. Some of these methodological approaches and other important principles have already been typical for the research of Ukrainian financiers in nineteenth and twentieth centuries. In their research they tried to identify causal relationships that are not mediated by conscious human activity and occur outside their will, invariance conditions in which these connections are made, and objective mechanism of their deployment. Some of them have not yet been realized, but analyzed. For example, in the preface to the unfinished essay about the book «Anti-Duhring» by Engels (1820–1895) M. Sieber describes the method of historical materialism as «a simple modification of the method prototype or even the theory of evolution or common development» and obviously he wants to keep from considerations (judgments) about the «suitability of this method for use in various fields of knowledge»¹. The peculiarity of Sieber's interpretation of Marxist doctrine consists in the fact (as researchers highlight) that he was «in complete obscurity of Hegel's knowledge in the development of the new economy»². Therefore for M. Sieber as an economist, who was educated in the spirit of

¹ Ziber N. I. Collected Works: in 2 vol. / N.I. Sieber — St. Petersburg., 1900. — Vol. 2. — P. 1

² Tsvaynert J. History of economic thought in Russia. 1805-1905. — P. 269.

the English classics, method of historical materialism used during his short life remained to be «a book with seven seals».

However, in general, works of Ukrainian economists and financiers reflected the formational paradigm, which included consideration for financial management of each society as an objective process of consistent flow to individual stages of development. They tried to examine the evolution of the financial structure, its relationship to the real economy, the impact on the development of productive forces and economic relations in a dialectical unity form a common mode of production in which the development of an increasingly important role is played by finance. In unity, it is a holistic economic organism. An important part of its operation is legal and political superstructure, together with existing forms of consciousness it is a reflection of the underlying (basic) economic relations.

In the evolution of sharpening contradictions between the internal components of the social and economic structure (mode of production and social relations) are the main driving force for the formation change, the transition to a higher level of civilization and economic relations that objectively leads to corresponding changes in the economic structure and nature of financial management. With the development of the economic complex there was a need for new theoretical synthesis of its components, including financial. Details of the main representatives of financial science of Ukraine (late 19th and early 20th century) are shown in Fig. 1.1.

New economic and financial social processes can be more deeply understood only in new methodological basis. The principles of modern new general scientific methodology formed on the basis of scientific achievements by Leibniz (1646–1716), JW Goethe (1749–1832), Charles Darwin (1809–1882), D. Mendeleev (1834–1907), Einstein (1879–1955), M. Bunge and other prominent scientists. Modern research methodology involves systematic and synergetic approach to the analysis of any process. If at the end of 19th and early 20th century the process of understanding the major components of new methodological principles was established, then at the second half of the 20th century they began to reach actively all social sciences. Based on this civilization paradigm, what emerged became the foundation of modern financial thought. It implemented approaches grounded not only in system analysis, but also ontology, and based on scientific arsenal categories, concepts and laws developed dialectics.

**Fig. 1.1. (the end of 19th — the first third of 20th century)¹
The cells of the financial science in Ukraine**

St. Volodymyr Imperator university (today — Taras Shevchenko Kyiv National University)	Bilimovych O., Bunge M., Vernadskyy I., Voblyy K., Zheleznov V., Symonenko G., Tsehanovetsky G., Tsytovych M., Yasnopolsky M., Yasnopolsky L. and others
Kyiv commercial institute (today — Vadym Hetman Kyiv National Economic University)	Voblyy K., Dovnar-Zapolsky M., Kovanko P., Mitilino M., Yasnopolsky L. and others
Kharkiv university (today — V.N.Karazin Kharkiv National University)	Alekseyenko M., Antsyferov O., Migylin P., Myklashevskiy I., Sobolev M., Stepanov T., Tugan-Baranovsky M., Tsehanovetsky G., Yasnopolsky L. and others
Novorossiysk university (today — I.I.Mechnikov Odessa National University)	Vyters G., Ilovaikyy S., Knash G., Patlayevskyy I., Tverdokhlyebov V., Tiktin G., Fedorovych G. and others
Francis Joseph university (today — Ivan Franko Kyiv National University)	Dunayevskiy Yu, Belinski L., Hlombinski S., Navrotskiy V. and others
Tavrian university (today — V.I.Vernadskyy Tavrian National University)	Voblyy K., Genzel P., Dovnar-Zapolsky M. and others
The diaspora	Glovinsky Ye, Dobrylovsky M., Kovanko P., Lebid-Yurchyk Kh. and others

In the financial science the new paradigm involves the study of finance based on such principles as consistency, integrity, structuring, and organization. Contrary to the popular belief in the last epistemological approach (man's knowledge of the objective world) the ontological approach provides coverage of both cognitive and subject-transforming activities. Active use of the achievements in systems analysis, ontology and dialectics in financial science lets modern scholars create a new methodological basis of knowledge for the economic nature, essence and anatomy of Finance as base of a new civilization paradigm.

¹ Theory of finances: manual. / [Yukhimenko P. I., Fedosov V., Lazebnyk L.L. et al]; ed. Fedosov V. M., Yuriya S. I. — K: The Center of Study Literature, 2010. — P. 181.

Its major constituents are:

- Consideration of a society as a whole system, in which each of its organic components (such as finance) impact the social and economic situation and historical development;

- Interdependence and interrelation (dialectical unity) of two sides of a society: social individuals and a society as a whole entity. According to Arnold Toynbee (1889–1975), the interdependence of a man and a society «is a system of interrelations between human beings who are not only individuals, but also public entities in the sense that they could not exist if they did not depend on each other. A society is a product of interdependence between individuals».¹ In this context modern scholars can not consider finance separately from public processes. It should be considered as a structural component of the whole social organism. In a whole entity the link that makes system causes functional use of each structural component of the formation and use of funds of funds;

- In the evolution of civilization systems, historical change of society depends on how it's implemented significant impact on key characteristics of financial institutions. Therefore, their analysis must take into account the so-called systemic or emergent properties (characteristics). They are special in that they are caused not by the individual components of society (not reduced to the sum of their properties), and the system as a whole. This scientific approach in reporting financial science, especially the theory makes it possible to summarize the historical perspective heritage of many generations, combine them in space and time. This, in our view, is the historic mission of world and national financial opinion.

- At the same time the integrity of a society's system formation has its own structure and its specific subsystem. Being a set of separate but interrelated areas of relationship they were gradually formed as relatively independent spheres of the internal structure of finance. Therefore, the financial scientific analysis of subsystems has to take into account their specific features².

- In general modern financial science investigates both the components of the internal structure of Finance and them as a unity, which is to mobilize and use financial resources for the economic and social needs. Finances should be considered as a holistic formation, the functioning and development of which the surrounding institutional environment affects;

¹Toynbee A. *Study of History* / A. Toynbee — K: Fundamentals, 1995. — P. 215.

²Parsons T. *The system of modern societies* / Parsons T.; transl from English. L. A. Sedov, A.D.Kovalev. — M.: Aspect Press, 1997.

• The development of finance of any civilized formation the modern financial thought should consider through the deployment of two interrelated social processes, they are differentiation and integration. The basis of the differentiation is their division into components of their internal structure. Each of them is the object of study of financial science. Integration of finance involves combining new elements connected by direct and indirect feedbacks into a single financial structure, and the formation of new structural levels on the basis of objective social needs; in a comprehensive study of finance (regardless of their development) cognition of their organization is achieved. Pryhozhin emphasizes, «To link the different levels of description and consider the relationship between the behavior of the whole and the individual parts needed concept of organization.»¹ Any modern finance organization has two interrelated sides, they are organization of structure and the organization of interaction between constituents and the public in general. The first involves the formation of financial entities (financial and economic institutions), establishing bonds between them and the other involves creating the social conditions necessary for the interaction of financial subjects (institutions). The environment of interaction of financial entities is a collection of financial institutions that are designed to guide and coordinate their interaction (institutional environment). The organizational center of this process in a modern civilized society is the state, which aims are to provide its vital functions which are modified in the evolution of a society. The state creates through supreme authority its agencies and field of institutional functioning, creates financial institutions, adopts regulations for government decisions obligatory to all members of society.

In contrast to the organizational structure, the process of interaction consists of establishing forward and backward linkages between financial the center (the state) and business financing activities (municipality, businesses, companies, etc.). Civilization development forms ways of implementation for forward and backward linkages, which are fundamentally influenced by peculiarities of efficiency in the organization of financial institutions. One of the important factors for successful functioning and organization is the level of public consciousness (human capital society);

• An important role in this process should be taken by a person who is «a minimal carrier of social quality».² Man is endowed with consciousness; he has his own selfish and economic goals, carries different social qualities, and

¹ Prigogin I. *The Order from the Chaos: New Dialog with Human Nature. History and Synergetics: Methodology of research* / I. Prigogine, I. Stengers. — Moscow: Komknyha, 2005. — P. 153.

² Afanasyev V.P. *The system and society* / Afanasyev V.P. — Moscow: Politizdat, 1980. — P. 74.

has a source of internal driving forces for social development. To achieve social goals individuals join together to form collective entities of different sizes and orientations (financial institutions). They are also objects of study of financial science.

An important methodological principle is organisms, which allows only a holistic (systemic) approach to the study of objects and their corresponding elements and relations between them are characterized as internal, that is only the components (particles) object that is studied.

It is also important to emphasize that a mandatory condition of application in the study of financial processes of methodological principles of civilization paradigm is their complexity. You can not achieve good results in scientific research using only its individual components. For each of the above-mentioned provisions reflects only one aspect of civilizational paradigm. Its use in isolation from the other provisions contradicts the nature of scientific analysis of finance. It has become an axiom for the inductees to financial science.

The evolution of civilization's systems and reform based on a new economic order is reflected in the structuring of a society and in the development of new institutions that embody the organic unity of the economic, legal, social and political. In his book «Against the current: Critical Essays on Economics» (1973) well-known economist and Nobel laureate G. Myrdal (1898–1987), holds the view that in dealing with almost any economic problem the object of scientific research must be the whole social system that can influence future developments in the economic sphere. This is particularly important for the study of modern financial systems and their interaction with the real economy.

Usage of the methodology of institutionalism is one of the most important and promising areas of research of Finance in close relationship with other spheres of human activity. It allows you to investigate better and understand the economic nature, the deep essence of Finance, the complexity of their internal structure, to identify and to reveal interdependence between their individual components. The method of the old institutionalism differs from methods of mainstream institutionalism by being less dependent on economic output of hypothetical deductive verification generalizations. Institutionalism relies more on comparative methods developed in anthropology, to gather information and research summaries on the financial activity of social groups.

Like other financial neo-orthodox (non-orthodox) schools of thought, new institutionalists pay close attention to research methodology, namely:

- Provide greater understanding of the value of real phenomena than their prediction;

- Take into account the inevitable uncertainties which therefore limit the possible prediction of actual future events unlike the predictions in the context of a model;
- institutionalists accept financial theory as an inevitable combination of induction and deduction; approach to Finance as a evolving organic whole, and not as a static mechanism;
- Emphasize the importance of instrumentalism and pragmatism as a basis for solving problems as opposed to «science fiction» and unleashing «puzzles»;
- Emphasize the inevitability of regulatory elements in financial science, especially in terms of applying the theory to the problems of financial policy and the economic role of the state, especially in regard to the status quo. They emphasize the role of selective, often implied, statutory prerequisites in determining whose interests must be taken into account;
- Openly express value judgments, discuss them in public debate and criticize them, rather than use values implicitly;
- Calling for modeling patterns, rather than the limited and often questionable causal explanation, which criticize the use of Newtonian physics as the archetype for financial science;
- Defend methodological collectivism alone or in combination with enriched and non-dogmatic methodological individualism, but not the latter alone.

As it has been already mentioned, the new institutional economics exists within modified neoclassical paradigm. Therefore, the main methodological tools are also neoclassical and exist within neo-institutionalism, although most of its representatives often have no clear opinion on the matter. There are several research approaches in the new institutional economics, transaction cost theory [O. Williamson, H. Demsetz (b. 1930), R. Coase] historical neoinstitutionalism (kliometryka) [D. North (b. 1920), A. Hreyf (b. 1955)], the economy organizations (C. Menard).

The methodology of neo-institutional microeconomic analysis, unlike the neoclassical approach, is based on the fact that the formation of «correct financial institutions» is a more significant scientific and applied problem than «forming the right price». This was a manifestation of the influence of ideas G. Simon (b. 1916) (on conditionality financial behavior and the principle of «bounded rationality»), R. Coase, and other scientists. So the first step was to study scientific problems of vertical integration through the conceptual apparatus in terms of the theory of transaction costs, then this approach has been applied more broadly while studying the diverse economic and financial phenomena, such as corporations, unions, ways of

organizing, state regulation through finance, corporate financial management, which have a similar contractual nature.

According to O. Williamson, the general theory of contracts can be applied to transactions of any type. In his book «The economic institutions of capitalism: firms, marketing, contracting» (1985, Ukr. Transl. 2001) he conducted a benchmark analysis of alternative mechanisms for management and coordination (large hierarchical organization of the market and their mixed forms) in the implementation of economic and financial transactions. The book features active usage of theoretical advances of contract legal theories in financial analysis, explaining the impact of «specific assets» organizational solutions company, consideration of alternative mechanisms for contract management including the long-term contracts, franchising agreements and so on¹. O. Williamson's views were supported by other members of neoinstitutionalism. In particular John Buchanan, who believed that modern economic theory has increasingly become a «science of contracts» rather than «science of choice»².

Defining the concept of «institutions» as «rules» (D. North) that provide informal constraints on human interaction (taboos, habits, traditions) and formal rules (constitutions, laws, property rights), O. Williamson modifies this concept by considering the level of institutional environment, and institutions as a mechanism for managing contractual relationships. Traditional macroeconomic production of function theory, in which the distribution of economic activity between firms and the market is given and constant, and dependent on the technological level and rarity of resources, is opposed to study of financial organizations. The difference in methodological approach between supporters of the theory of transaction costs is to use a basic unit of analysis of economic intercourse «transition» (transaction) on the final stage of a process to the initial stage of another, adjacent to the former.

According to O. Williamson, a clear distinction between administrative and command (typical for large firms), market and mixed coordination and control mechanism does not exist, and the choice between them depends on the efficiency of the implementation of comparison of transactions («transfer»), which take the form of internal and inter-company agreements (contracts). One can distinguish the following methodological principles in research transactions:

- The effectiveness of transactions is determined by the structure of the degree of specificity for management of financial assets for financial

¹ Williamson O.E. Economic Institutions of Capitalism: Firms, marketing, contracting / O.E. Williamson — K., 2001. — Sec. 3.

² Buchanan J. M. Boundaries of Freedom. Between the Anarchy and Levyanom / J. Buchanan. M. — M., 1997. — P. 269.

transactions, the duration of the agreement, the uncertainty of the conditions for their implementation;

- Limited rationality does not allow people to provide all the conditions for their implementation and impact in developing contract. Therefore, all complex contracts are classified as «relative», which need constant interaction among participants about the agreement;

- Process of contracting should be studied comprehensively, focusing on ex post stage due to the mobility of the balance of interests of the parties that was laid in the original contract (for ex ante stage)¹.

A clearly defined institutional nature of transaction cost theory does not deny it's disciplinary, but it takes into account the factor of deliberate rationality (although limited) of economic behavior and suggests increasing formalization of financial analysis.

Comparing to other approaches to the economic organization, O. Williamson's theory of transaction costs has the following peculiarities: 1) it is more micro-analytical; 2) behavioral (motives) of financial behavior are the basic components to analyze; 3) it uses comparative institutional analysis; 4) it reviews the financial structure of the firm as managing transactions rather than a functional unit of production; 5) it provides specific assets of economic value (e.g. financial resources); 6) it pays extraordinary attention to ex post costs; 7) it explores inter-agential procedure rather than judicial procedure for resolving conflicts. The peculiarities of O. Williamson's methodology show that his transaction cost theory lays the foundation for comparative analysis of finance, allows studying complex financial, legal and organizational aspects of the institutional framework of a market economy.

The methodology of historical comparative institutional analysis is important for the development of the Ukrainian financial thought. The following questions are considered to be fundamental for institutional economics within which there exists a historical comparative institutional analysis: Why does society and its structure (including financial) develop under unique institutional path? Why are separate societies often unable to adapt to the institutional structures of the more successful ones? How can the relationship between existing and informal aspects of social institutions on the one hand, and their explicit and formal aspects, on the other be explored? Financiers, researchers who belong to the new institutional economics answer these questions using different theoretical constructs and certain

¹ Malyy I.Y. The state and the market: the philosophy of interaction: [monograph] / I. J. Malyy, Dyba I.M., Halaburda M.K.; ed. by I. J. Malyy. — K., 2005. — P. 32.

arguments. Thus, the following basic methods and key analytical tools are used:

- 1) Empirical methods (description and identification of relevant institutions);
- 2) Methods of classical and evolutionary game theory;
- 3) Microeconomic modeling in the spirit of neoclassical economics (equilibrium methods of analysis);
- 4) Comparative (comparative, i.e. the one that is based on a comparative study of spatial and temporal interactions) method;
- 5) Historical method (study of the role of historical reality in the formation, operation and changing of institutions).

In institutional economics the following methods are often used: comparative and historical analysis, analytical modeling of microeconomics. A. Greif describing historical comparative institutional analysis focuses on its relationship with related theoretical trends in financial science. It is historic because with its help one tries to investigate the role of historical events in the formation, operation and changing of the institutions. It is also comparative because it allows us to draw some conclusions based on a comparative study of space-time interactions. At the same time it is also analytical because researchers who use it in the empirical analysis clearly rely on the specific micro model.

Hence, historical comparative institutional analysis is to examine the factors that determine the relevant rules of forces that make the rules self performed and promote compliance with certain behaviors within those rules. The rules established by the state, values or social norms that actually limit behavior, for example, are considered to be more a result than an exogenous factor. Some representatives of institutionalism (the liberal wing) also use methods specific to the Austrian school, such as causal and genetic [as opposed to functional — L. Walras and neoclassical]. These methods involve abstraction and hypothetical reconstruction. This means that you need to follow carefully, step by step, the way of interaction between individuals that leads to financial phenomenon in question.

Modern neo-institutional theory considers civilization changes under the influence of globalization owing to what dependence economic agents' behavior increased (both endogenous and exogenous) not only from national, but on supranational institutions. Factors of development and growth have shifted to the sphere of relations and scientific information resource. Thus representatives of neoinstitutional financial theory try to uncover and characterize the general laws of the institutional structure and development of the microeconomic system and its finances within a particular economic

system, to determine the principles of operation and management, and behavior that implement its activities inherent interests.

First, institutional theoretical background lays the foundation not only for a integral perception of the world, but also determines the content of deductive conclusions, in which the historical and practical activities are carried out. That helps us to understand the reason why different countries with the same financial resources get fundamentally different results in economic and social development.

Second, neo-institutionalism with its features and specific approaches is evidence of natural and regular development of the science of finance, that also evolves as well as in different ways.

Thirdly, an appeal to the theoretical issues of economics and finance as a natural stage of development through scientific institutions is a manifestation of the synthesis of an essential esoteric approach with the exoteric one. Similar to classical political economic theory, the research axiomatic is set at the essential level that reflects the relationship between a man, the nature, and available technology with the movement of financial resources and the development of the international community.

Fourthly, neo-institutional concepts construct modern financial architecture through an adequate system of categorical and conceptual apparatus, in the structure of which national states with their financial systems and mechanisms of management occupy an appropriate place. The neo-institutionalists complement the overall financial picture at different levels of management having received axiomatic settings from the general theory of rising.

Fifth, neo-institutional theory is at the center of the cognitive process determining its forming tools that are created for obtaining scientific results.

Schematically, the evolution of financial science methodology reflected in the table. 1.1.

What does institutional theory provide financial science?

- It brings financial models to reality through the inclusion of institutional environment into analysis. Usually models used by institutionalists are less formal compared with that of neoclassical models;

- It explains sound financial dynamics, in particular, features of the institutional transformation of financial institutions and it also reveals the essence of the evolutionary development of the financial and economic processes fully. This result is achieved by means of including instruments of related sciences (biology, history and even thermodynamics) into financial analysis;

- It provides better understanding of the role of individuals and the state in the formation of institutional structures and financial development of the state.

Table 1.1.

The main characteristics of financial research methods

Structural Characteristics of method	Methods		
	Esoteric, essential	Exoteric, eventual	Holistic ezo-, exoteric (essentially, eventual)
Paradigm	Intuitive, provides the selfish basis for principles with cultural values	Predefined: rational benefits by full information and zero transaction costs	Eclectic: implementation of the principles of holism on an interdisciplinary basis
Social and political determination	It exists as objective conditions, connections and relationships	Lack because of recognition of exogeneity of the environment to finance	Institutional determinism that creates the verge of financial development
Technological determination	Within the productive forces	Lack: land, labor, capital (the main factors of production)	Finance is open system, which has limited potential of financial resources
Organizational determination	Simple cooperation, manufacture, factory	Abstract firm, «black box»	Consciously formed organization (company, state, world, finance)
Subject of research	Internal resistant connections and relationships	External and sporadic communication and interaction	Organically holistic, complex structural formation
The purpose of the method	Heuristic: it consists in revealing political and economic nature of Finance (why does the system work?)	Positivist: it must clarify how the system works to achieve economic benefit	Theoretical, axiology (how to ensure sustainability?)
The character of the method	Dialectical (mostly)	Positivistic	Synthetic (unity of dialectical and positivist methods)
Spatial and temporal boundaries	The national government; long-term period	Not defined in terms of upward; short-term, current	Global, international; combination of time
The level of rationality	The predominance of national interests	Utilitarian and private rationality	National, regional interests
Display of the integrity, balance	Strives to general political and economic pattern, balance	Fragmental and functional, discrete focus: Financial balance	The world economy; global system; institutional balance
User of the research	Governing state elite	Managers, politicians in some areas	Domineering world elite, managers, politicians of various levels
Unit of measure	Cost	Value	Institutional value

What cannot institutional theory do according to some researchers' point of view?

- predict specific financial events;
- give normative judgments about financial policy, and develop detailed plans for institutional engineering;
- Be a direct supervision for the conduct of certain specific types of business and financial activities.

Representatives of institutionalism are often reproached for not giving answers to all the questions that faced researchers, unlike neoclassicists who try to give the answer to such questions. R. Coase wrote: «The desire to be helpful to their neighbors is of course a noble motive, but it is impossible to influence policy, if you do not give answers. So government economists (financiers) appeared, i.e. people who give the answer even when there is no one»¹. However, most of the answers in the mainstream are rarely satisfactory or very significant by severe restrictions. But the most important thing is that they are there. The formation of a research program for institutionalism involves the creation of quite clear theoretical constructs that deepen understanding of many financial problems. But does it make sense to answer questions answers to which do not exist, and act like Coase's «state economists?»

Analysis of conceptual terms and theoretical and methodological foundations of financial thought makes it possible to formulate a number of general methodological approaches to the study of financial thought of Ukraine:

- Considering the financial opinion on a «national basis» one should investigate issues raised by Ukrainian scientists and financiers together with the concepts of Western and Russian representatives of financial thought;
- Special work of professional economists, financiers should become the main source base of the Ukrainian financial thought, and public works of Ukrainian thinkers programs of political parties etc. should be its complement;
- The absence of analysis of development of Soviet financial opinion in Ukraine in scientific papers, textbooks and manuals can not be considered reasonable and appropriate as it impoverishes the evolution of Ukrainian financial thought in general

¹ Couz R. Firm, Marketplace, Law /Kouz R. — M., 1993; Couz R. The Nature of the Firm: origin and evolutionary development / R. Coase; Ed. OE Williamson, S. J. Winter. — K., 2002. — P. 123.

- Researchers of financial thought in Ukraine should consider that monolithic views and techniques which were characteristic of the past were changed into the pluralism of opinions and judgments of modern financiers, which should be widely publicized in the financial science;
- The study of the genesis and evolution of Ukrainian financial opinion is conducted primarily not in terms of the contribution of individual scientists and financiers but in terms of the developments of scientific research centers and national financial schools of thought.



Section 2

CLASSICAL AND NEOCLASSICAL SCIENTIFIC SCHOOLS OF THE FINANCIAL THOUGHT

2.1. Predecessors of the English classical political economy

Financial science like other social sciences was founded due to practice. In civilization, the development of financial practice is a thousand years older than financial science. However, under the conditions of an underdeveloped financial sector, i.e. when it used the same resources as the private sector, financial science didn't exist. Even during a period of importance for the financial sector in the development of a state, financial science developed as a part of political economy. This is explained by the fact that management of domains; fields, forests, etc., that were owned by a state, was carried out by the same terms as the management of individuals with their lands, forests, etc., and therefore there was no basis for the creation of a new science. This is the main reason for the existence of financial science in a political economy. The functioning and further development of numerous financial farms which changed during the development of the state system under the conditions of different civilizations became a subject of study for financial science. The origin of most researchers refers to 15th century, during the emergence of political science.

The period just between the Middle Ages and New Age was characterized as a time economic rise and great cultural growth in towns of Northern Italy. There was the separation of financial activity in a particular industry. Formed in the 11th century, banks strengthened their capital; the Italians mastered tools of finance successfully such as bills, credit, trade agreement for a certain period, loans, etc. Genoa became a legislative body for the financial world as a kind of international stock exchange, where the installed rate of money carried out money transfers. In 15th century Genoa, the volume of transactions amounted to 40 million gold florins a year. The city could be considered as a predecessor to future exchanges in London and Antwerp.

One of the first who tried to systematize the practice of financial accounting in his work, «On Trade and the Modern Merchant» (written in Naples in 1458, and printed in Venice in 1573 A.D.), was Benedetto Cotrugli. Later this practice gained fame as the Venetian School of Accounting, although in scientific literature the world's first systematic exposition on double accounting was considered to be written by French monk and mathematician Luca Pacioli (1445–1517), who in 1494 published the treatise «Sum of Arithmetics, Geometry, the Doctrine about Proportions And Relationships»¹. Without any superiority, we note the merit of both considering the fact that they began to organize, systematize and popularize accounting mechanism that was developed by merchants.

The essence of the term «double» lies in the fact that this accounting system was designed to display any commercial transactions in terms of the expression of two accounts that are debit and credit. A summary of all accounts in a single table gave an opportunity to get a clear description of the property and the financial state of an enterprise or sector, as well as the amount you receive for the accounting period. A similar table served in court as a proof of a person's financial condition. The forerunner to the dual system was simple accounting, the basis of which constituted inventory accounting².

In Ukraine and Russia, the awareness that a balance sheet as a document was extremely useful and necessary in legal accounting and analytical audit aspects, came only in the mid-18th century. So in the «Decree on Bankrupt Enterprises» (1740) there was written the following for those who want to avoid punishment in case of legitimate bankruptcy, «so keep your books clear like merchant's who've behaved decently and not torn and with no erasing or stripping, and at the end of each year you have to finish the records in it and draw balance³.» The main purpose of this balance was to be administered by the accounting value of owner's enterprise equity⁴. Only at the beginning of the twentieth century there appeared some works on balance sheet analysis, there also was formed independent scientific knowledge — the science about balance as the quintessence of information & financial

¹ find in.: L. Pacioli. Treatise on Accounts and Records / L. Pacioli.; edited by Ya. Sokolova. — M.: Finansy & Statistika, 2001. — 368 p.

² Double Accounting in Details: Malyuha N. M. Double Record in Accounting: historical and theoretical aspect: [monograph] / N. M. Malyuha, T.V. Davydiuk. — Zhytomyr: PE «Ruta», 2003. — 512 p.; Tsygankov K. Yu. Essays of Accounting History: double accounting origin / Tsygankov K. Yu. — M.: Bukh. Uch., 2004. — 376p.

³ Polnoye Sobraniye zakonov Rossiyskoi Imperii i Povelyeniyem Gosudarya Nikolaya Pavlovicha Sostavlennoye / ed. by M. M. Speranskyi. — SPb., 1830. — T. XI. — P. 8300.

⁴ Detalnishe pro traktuvannya termina «balans» u konteksti finansovoyi nauky i bukhgalterskogo obliku find in.: Kovalyev V. V. Uchet, analiz i finansovyi menedzhment: ucheb.-metod. posob. / V. V. Kovalev, V. V. Kovalev. — M.: Finansy i statistika, 2006. — P. 41–42.

model entity. Among Ukrainian economists and financiers such scientists as P. Migulin, V. Tverdokhlebov and others made financial analysis.

Merchant capitalism sneaked into all areas of the real economy, creating not only material conditions for the emergence of a new field of human knowledge, but also the urgent need for awareness of the importance of the financial sector. The Ancient world and middle ages under conditions of significant financial activities of the state could not leave that rich heritage for the Renaissance. The reason for this was the dominance of natural farming and, as a consequence, the weak development of the financial sector. Ancient Rome and Greece and even medieval Latvians had large gains in law and literature, but they could give nothing in the sphere of finance: treatise Xenophon (430–354 B.C.) on revenues of Athens («Revenues») wasn't well-known. In addition, it had purely practical features. Xenophon acknowledged state income types as the lease of State property, ships and pavilions, customs duties and taxes. He recommended that Athens would acquire slaves for the purpose of earning income from the transferring of Lavrion silver mines to their lease owners. Xenophon suggested building hotels, shops for goods warehousing in order to transfer their lease (of the modern terminology), and he advised the state to make loans. Aristotle's comments (384–322 B.C.) about money in «Politics» (Treatise On State Structure) and Thomas Aquinas's remarks about loans and taxes (1225–1274) in the treatise «Amount of Theology», which later was developed by Petrarca (1304–1374) in the treatise «On Contempt for the World» (1342–1343) and others, were almost the only materials which were taught and commented on. These were the first steps in differentiating the real and money (financial) sides of economic life.

The lack of scientific research on finance in the ancient world is explained by the fact that there was no finance as such. The Ancient world though had treasury and state/ public income or losses costs, but did not have a financial economy (finance). This changed when there was a «merge» of two main legally distinct elements: the first was the property of a head of a state together with his income and expenditure; the second was the donation or people's service, used for public need which was seen as totally needed.

Civilization's progress intensified its economic life, needed to strengthen the state. Therefore the growth needs of the economy set a number of new and highly controversial issues, the answer to which no classical and medieval literature of that time could give. During that period, new categories of revenue developed, i.e. taxes, then study about taxes, monopoly, etc. So monitoring of the phenomena began. The development of financial science took place simultaneously with the development of financial concepts in public life. Methods of preparation of the state and the

nation began to study the practice of writers, which were referred to as mercantilists. They included introduction to scientific circulation of macroeconomic categories of «national wealth» as common good, necessary for the state.

Mercantilists' views did not have systematic and analytical nature. They were rather «recipes» on the occasions of life, or rather the art and skills (cunning — whence the notion «Finance» got the feature) to find the funds at this time. And those «recipes» were based not on systematic observation, but on the ideas and preconceptions of that person.

Mercantilism was a reflection of the first successes of capitalism, especially trade, and not the center of attention and the subject of historical study became a sphere of circulation (primarily external as well as internal trade and cash turnover). According to its representatives, the source of the growth of national wealth had been accumulating money in the form of precious metals and money was considered as an active factor in the economy. The latter became interesting for monetarists in the twentieth century. That was the reason for modern scholars to believe that the ideas of the early mercantilists laid the foundation of monetarism.

The most interesting ideas in this period of financial economy and financial policy of the medieval Italian powers were expressed in the work «De regis et boni principis officio» (1668 — translated from the Italian original) written by Diomed Caraffa (died in 1481 A.D.). He was influenced by ideas and instructions about finance, expressed in the writings of Thomas Aquinas and Petrarca. However, leading the financial sector of the Neapolitan Kingdom, i.e. relying on practice, Caraffa initiated a new kind of economic knowledge that made the facts of economic life general and found resilient natural connections. He was the best to understand the essence of economic phenomena and more attention was paid to the disclosure of the nature of financial institutions. His reasoning about what was mandatory and desirable, real and possible underpinned the empirical experience of a monetary economy, which had become a prerequisite for the transition from the perception of economic phenomena, which common sense, scientific understanding, research, and medieval literature of the time could not explain.

Therefore, analyzing the costs of the kingdom, D. Caraffa was the first of the mercantilists to divide costs into three groups: spending on defense; the cost of maintaining the king; costs to meet the emergency needs. In his opinion, to accumulate funds in case of war they needed to stimulate foreign trade in peacetime. So he recommended the elimination of exemptions to export.

D. Caraffa considered domains as the basis of budget formation. Later the Ukrainian economist I. Yanzhul proposed its most complete definition. In his opinion, the domains are state property, the purpose of which was to bring revenue for the Treasury. Such public property should include: 1) any ground for crops; 2) forests; 3) rights to use private property; 4) all kinds of capital, which belonged to the Government. In practice, the first two categories are valuable¹.

D. Caraffa believed that the government should not take large taxes from the nation; they should be a source of replenishment of the State Treasury only during a period of emergency. D. Caraffa was a proponent of the productive use of capital. He opposed forced loans, confiscations, especially against the blight of money. Like its predecessor N. Orema (1323–1382), he saw a trend: if you introduce into circulation metal money with a different content of precious metals (gold or silver) with coins which have more content of precious metals, the «good» money could be replaced by coins with less content (the «bad» money). In the style of this era D. Caraffa selected the best source of revenue collection of the state — development of redeemed system.

Among the Italian thinkers of this era two should be noted, Niccolò Machiavelli (1469–1527) and Francesco Guicciardini (1483–1540). In Machiavelli's «Principles» he called money «a nerve war», so that the State, in its opinion, should collect as much money as it could if it worried about its independence. A well established organization of land cadastre would be able to distribute the tax burden evenly.

N. Machiavelli had some doubt on the existence of financial science, arguing that such science wouldn't have any indisputable truths, and because it came down only to certain skills and agility in making decisions by citizens, it is not science itself.

Those ideas had a particular foundation. A significant part of researchers stressed that the medieval theory of finance amounted to such a simple statement: «take it where you can, and as much as you can»². The key idea of the management of public finances was constantly expanding the practice of taxing citizens and finding new, and not always the moral, ways of being liable. Examples of such ancient tax bases were used since Ancient Greece; a tax on balconies, on doors which open onto a street, collecting for the right to use the street, etc. Obviously, according to P. Hänsel, «financial science» in ancient times was a science «of those ingenious, sometimes obviously

¹ Yanzhul I. I. *Osnovnyye nachala finansovoi nauki*. — P. 59.

² *Ocherki po istoriyi finansovoi nauki: Sankt-Peterburgskiy universitet / [O. N. Ansberg, Yu. V. Bazulin, S. A. Belozierov i dr.]*; ed. by V. V. Kovalieva. — M.: Prospekt, 2009. — P. 51.

shameless ways, for private legal relations to the benefit from property of the state's inhabitants.»¹

N. Machiavelli expressed the idea about money as a «nerve war» based on the thesis that the impact of war on development was carried out by the tax system. Problems of the tax system's origin in financial science were discussed in modern terminology, within the framework of civilized and formation approaches. Wagner believed that tax system reform was solely a result of economic evolution. The supporters of the civilized approach won in the discussion about the origin of the tax system. At the same time a considerable part of Ukrainian and Russian economists and financiers (I. Yanzul, Yo. Kulisher, I. Ozerov and others) especially noted the thesis of the impact of wars on the development of the tax system. In their writings they showed the influence of wars on the evolution of its tax system. They all supported the view that the war caused a reformation effect on a market system of Russia and Ukraine. The war demanded additional funds, made economy weak and forced governments to think about improvement to the tax system. Surtax, which was introduced in Russia and Ukraine in 1916, in history was known as the «little war»².

Francesco Guicciardini was one of the first who offered the idea of a progressive exemption. In his opinion, the exemption should be directly proportional to income and property. The thing that cannot be achieved by a direct tax levy should be achieved by the indirect taxes on salt and flour. He believed that taxes should overlap on the property, not the person. Preference should be given to the real levy.

In the heyday of Italian cities, in their treatises many contemporary thinkers tried to give advice on the further development of the economy. However, the impact of their ideas was exclusively local in nature and their treatises rarely appeared outside of Italy. German, English and French mercantilists' treatises appeared with similar financial problems somewhat later, during the period of commercial capital. It was then that life put development issues on the financial industry.

Since that time, systematic observation of use and influence of various methods on the economic life began to develop. The observation field expanded and deepened. And financiers began to give tasks themselves, not just prescribing «recipes» on the occasions of life and detecting the pattern of financial phenomena with their mutual dependence and connection with

¹ Genzel P. P. *Ocherki po istoriyi finansov* / Genzel P. P. — M. : Tipogr. G. Lissnera i D. Sobko, 1913. — Vyp. I. — P. 15.

² Pushkareva V. M. *Nalogovaya sistema Rossiya v 1861–1916 godax* / V. M. Pushkareva // *Finansy*. — 2009. — # 6. — P. 42.

other socio-economic processes. From this period the art of finance gradually turned into the financial science with its tasks.

As financial science developed within political economies, it was influenced by schools which arose in a different era. Each of them eventually made their share of influence on the study of finance. The history of financial literature can be divided into appropriate periods:

1) During the elaboration of legal financial relations in connection with the development of a state and law (16th–17th century)

2) The Beginning period of system processing provisions of financial science under the influence of legal science of national economy (18th century)

3) Period of emphasis on independent learning about finance (19th century) However, the history of financial literature consisted of two periods: one of them was all-European, or the history of pure science; the second was the history of development of the financial structure of separate states. The first explained how the theory of science existed due to the study of financial life of Europe, on the basis of which financial science arose. The second was actually the history of development of financial legislation.

In 16th century, revenue from the domain for public functions was not enough. The state had to use its regalia, duty, taxes. «It is popular now to call regalia (monopolies) as industrial source of income that the state is predominantly or exclusively uses for itself, not allowing private competition or significantly limiting the latest», — as I. Yanzul noted . There are the following types of regalia: state-owned factories, railroads, postal regalia, telegraph, mining, monetary, and fiscal regalia: salt, tobacco¹. The analysis of new sources of revenue to replenish the state budget and strengthen the link between financial theory and practice, science increasingly impacted financial practice.

Since formation of market relations, one of the most important issues of practice has been participation of the State in guiding and regulating of economic life. Mercantilists saw a state as an important regulator of financial industry. In their opinion, authorities should increase or maintain a country's stock of gold or silver. As precious metals they are an essential means of exchange and savings. Developing foreign trade and providing a positive trade balance, the country could increase financial resources. The mercantilists believed that it was important to create conditions for achieving a positive trade balance for the development of national industry and to stimulate population growth. The establishment of this internal industrial

¹ Yanzul I. I. Osnovnyye nachala finansovoi nauki. — P. 101.

potential of the country, which would provide an active foreign trade required large public spending and various economic means of promotion.

To ensure a controlled flow of «treasures,» mercantilists offered to organize tough customs protection and consequently an adjustable import and export scheme. Moreover, the economic aspect of this control had to galvanize the importation of raw materials and semi-finished products and the export of finished products. To implement this policy, a government should have sufficient financial resources, i.e. mercantilists laid the foundations of understanding of protectionism, or free trade, as the overall trends in implementation of financial strategies. The deeper understanding would come in the aftermath of the so-called industrial coups when the predominance of one or the other would lead to the development of the domestic industry. The fact of retreat from the policy of protectionism in the early nineteenth century in Russia, part of which was also used Ukraine (rates of 1816 and 1819 pp.). In 1819 the most moral tariff was approved (which abolished all restrictions on the import of products from Russia and Ukraine, had moderate fees), resulting in a trade balance for the first time in the 19th century and it became passive, and introduced a free trade rate that led to a reduction in the number of industrial enterprises, since many of them could hardly overcome foreign competition. Contemporaries regarded the tariff in 1819 as a «collapse» of the state comparable to the Napoleonic invasion.

Return to reasonable protectionism in customs levy in 1822 helped to maintain a positive trade balance from 1826 to 1848. Income from customs duties on imported goods was an important source of funding for industry. It was a period of awareness of the importance of a positive trade balance for the development of a country. A new transition from reasonable protectionism to the stage of free trade took place in accordance with the approved liberal tariff in October 13, 1850 (until 1877). This approach to economic development was typical for all countries in Europe, especially England, which for the sake of its industrial hegemony started to reduce duties on agricultural products and raw materials, while simultaneously leading negotiations with the countries which imported British goods, about the reduction of duty on them. The governments of countries failed to appreciate the significance of this policy, as the industrial revolution culminated in England and took place in other European countries, which affected the development of Ukrainian industry. The Crimean War showed the backwardness of the Russian industry.

Note that in the age of mercantilism, national industrial production controlled trade capital and developed commercially which no longer stayed in cities. Due to the fact that the merchant knew the market and the volume

of the existing demand, could therefore ensure the supply of goods used in home production. Even if expensive equipment was available, it didn't risk taking responsibility for production. That is why Western Europe and Ukraine remained a simple supplement to trade well into the middle of the nineteenth century.

Mercantilists were the first to understand the negative consequences of the government on «spoilage» of national coins through reducing the value and weight. In this way, they tried to make foreign merchants be interested in exchanging their money for national one and to buy more goods. Conversion of money on a conditional sign, setting a fixed ratio of gold and silver coins that were in circulation (bimetallism system), explained how the fact of money exchange presented the defective and erroneous thought that gold and silver were money due to their natural properties so that they functioned as a measure of the value of treasure (accumulation) and the world of money.

Recognizing the commodity of money's nature, later mercantilists, like their predecessors saw their value as natural properties of gold and silver. However, their views were the foundation of quantitative theory of money and the system monometallism. One of the first who tried to analyze the relationship of the real economy and finance, was P. Maltroye. He argued that the general increase in prices during the Elizabethan period, 1530 to 1550 (inflation rates grew three times) was the result of damage to coins and prices expressed in value coins as they did not increase. In his message «The response to P. Maltroye...» (1568) a prominent French mercantilist Jean Bodin (1530–1596) connected the inflationary phenomenon with the influx of gold and silver from America to Europe (through Spain). In his opinion, the «price revolution» was caused by a combination of factors, including:

- 1) Significant growth of gold and silver on the world market;
- 2) Establishment and spreading of monopolies in all sectors of the economy;
- 3) Natural and economic disasters that reduced the number of products coming to the market;
- 4) Ensuring extraordinary luxury and extravagance of rulers;
- 5) Governments stimulating «spoil» coins¹.

Analyzing the relationship of growth of gold and silver, and prices on the European continent, J. Bodin became the undisputed «discoverer» of the quantitative theory of money. Although modern researchers believe the foundation of this theory could be found in «The Tutorial with the Moral

¹ Shumpeter Y. A. Istorija ekonomicheskog oanaliza. --- S. 408.

Theology» by Martin de Azpilicueta (known as Navarre man), which was published 12 years before «Answer ...» by J. Bodin¹.

Later in «Six books of the Republic» (1577), J. Bodin would analyze the wider financial sector of the country, calling it the State's finance nerve. He included in the system of finance seven sources of income for the ruler: 1) domains; 2) prey from enemies; 3) gifts; 4) levies from allies; 5) gains from trade; 6) duties; 7) tribute (taxes from subjects — the author's)². In his opinion, they should not increase the number of taxes, and the basic system of the state economy should be the domain revenues and customs duties. Bodin believed that this was the cause of internal conflict and abuse. However, he supported an in-directed exemption.

The collected resources should be directed to: 1) supporting the Royal Court; 2) charity; 3) the army; 4) construction of fortresses, bridges and public buildings. These were the first steps of a scientific definition of financial management of the economy, which was composed of public income and expenditure. Bodin believed that taxes were a temporary «necessary evil» and taxation should be exceptional in nature. That opinion was drawn to attention by Ukrainian scientist Yo. Kulisher in his work «Essays of Financial Science.»

In the 16th century, one of the first who clearly presented and basically used the concept of financial management was Anthony Serra. His attention was on the invisible articles, balance of payments, which gave him the opportunity to realize the nature of the policy of currency control. Serra's arguments in favor of banning the export of gold and silver were used as the basis for practical activities of the Government of England and became generally recognized by the end of the century. In his discussion A. Serra used quantitative theories on the possibility to stop the exportation of gold and silver through devaluation. His ideas about the relationship between influx and relevant gold and silver and trade (payment) balance were more deeply analyzed by the English mercantilist Thomas Mun (1571–1641) in the 17th century. In his work «England's treasure by foreign trade» (1664) he tried to establish a causal link between the goods, money, profit, capital, and real cash economy. The success of treasure T. Maine connected with the development of both industries, i.e. with the economic development³.

¹ Shpigel Genri U. Shoflasticheskaia ekonomicheskaya mysl / Genri U. Shpigel // Ekonomicheskaya teoriya / pod red. Dzh. Iruell, M. Milgeyt, P. Nyumen : nauch. red. chl.-korr. RAN B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 773.

² Mitilino M. I. Osnovy finansovoyi nauky / Mitilino M. I. — K.: Derzh. vyd-vo Ukrainy, 1929. — P. 15.

³ find in: Men T. Bogatstvo angliyi vo vneshei torgovlye ili Balans nashci vnesnei torgovli kak regulator nashego bogatstva/ Men T. //Merkanlitzm/ cd. By I.S. Plotnikov — L.: Sotsekgiz. — P.155-183.

The analysis of sources of replenishment for the state economy in the same period was in the spotlight of English philosophers and economists, including T. Hobson (1588–1679) and J. Locke (1632–1704). T. Hobson in 1642 wrote about the absolute right of a state to levy taxes, but points to the need to comply with moderation and uniformity in the distribution of taxes and criticized the taxation of property. Analyzing the direct and indirect taxes, he preferred the latter, believing they were the fairest. Due to T. Hobson, England started a typical 17th century indirect exemption protection. However, at the end of the 17th century under the influence of the famous philosopher and economist J. Locke, one of the favorites of the materialist theory of knowledge in the public opinion in England, there was a turn in the direction of direct taxes.

Analyzing the relationship of real production with money management in labor, «some thoughts about the consequences of the lowering of interest and raising the value of money» (1691), J. Locke suggested the idea: if the supply of money increased, the prices of all goods grew. His claim that the price level was always proportional to the amount of money meant taking into account the «speed of circulation» of the latter. Of course, proportionality in each case depended on the volume of trade. So you could hardly call that finding a theoretical achievement, but it was useful in that it emphasized the function of money as a means of circulation. Two flows were compared: the total amount of money during a segment of time and the aggregate turnover of the trade during the same period. In this way, it was shown that the absolute amount of money had no value in terms of the wealth of the nation. The conclusion about the lack of «internal values of money» was damaging to merchantilists' principles, although Locke as a representative of the tide, believed that any country was advantageous to have more in reserve money than other ones¹.

However, J. Locke was one of the first to pay attention to practical problems in the process of shifting taxes, which began to flourish in the period of formation of the commercial capital. In his opinion, in those countries where the main wealth was land, all taxes, even as they were built, eventually fell mainly on the land. Therefore, Locke proposed to change all taxes to land. The scientist thought it was the best way for landowners, because of the variety of taxes through rearrangement of landowners were a much greater burden and it would be by direct exemption. In England at the same time there appeared scientific papers by the founder of the political economy W. Petty (1623 — 1687), which were devoted to the problem of

¹ Golichenko O. G. Denezhnaia teoriia: osnovnye idei, problemy i tendentsii razvitiia / O. G. Golichenko // Ekonomicheskaya nauka sovremennoy Rossii. — 2003. — # 2. — S. 48.

taxation — «Treatise of Taxes & Contributions»(1662). In scientific literature, W. Petty was called the first English explorer of taxes. K. Marx called him the most brilliant and special researcher in economics. Understanding the role of capital, W. Petty opposed his taxed and shifting taxes onto annuity landowner. According to him, the taxation of capital reduced the possibility of accumulation and held back the expansion of production. W. Petty noted that taxes could have a positive impact on society and the economy: for example, money might be taxed on those who spent extra on food and drink, and transferred to improve the cultivation of the land, fisheries, development of mines, at machinery manufactories, etc. It was clear that such a tax benefited the state, members of which were the mentioned people¹.

Unlike his predecessors, W. Petty investigated the impact of taxes on production and paid attention to both negative and positive points. First he considered using taxes as an important instrument of regulating production. Due to moderate tax cuts it was possible to stimulate production of previously imported goods, or to help to reduce «excess production.» The production of goods for the consumption of the parasitic clergy, nobility belonged to the latter. As W. Petty considered, the reducing of such consumption, would led to funds receiving in order to improve the required production. The famous American historian of economic thought, J. Bella, noted that in taxes W. Petty saw the enrichment and improvement of the state: the collected money would be aimed at stimulating trade and industry and on economic growth. W. Petty believed in the state as an activator of the economy because the strength of the industrial bourgeoisie was still weak. The most powerful financial resources were concentrated in the state. Only at the beginning of 18th century did industrial capital grow, and state support would only undermine it. Despite this, taxes are used today as an effective mechanism of stimulation and deterrence of production.

W. Petty, unlike the merchantilists, understood that wealth is created primarily by work and its outcome, i.e. he denied it as a «special» role in economic life. The scientist considered the source of wealth as non-sphere of circulation and scope of production. Proceeding from this defacement of coins, in his opinion, was a characteristic sign of the decline of the state, undermining public confidence in the money. W. Petty spoke against the ban on exportation of money. The amount of money in circulation affects the magnitude of the tax. If in the country there was a lot of money, as he believed, it would be profitable (and it didn't harm private individuals) if the

¹ Petti U. *Ekonomicheskive i statisticheskiye raboty / PettiU.* ; ed. by M. Smit ; foreword by D. Rozenberg. — M. : Sotsekgiz, 1940. — P. 172.

entire surplus was in Royal chests. Furthermore, he pointed out that when the amount of money in circulation was less than needed to conduct trade, then the effects of that could negatively affect production. According to Petty, the country had to be a certain measure or proportion, money needed to conduct trade, and excess or lack of it could be harmful. Reduction in production might result in reducing the amount of inhabitants, reducing their diligence and creativity.

It was a simplified approach to the evaluation of the role of money in the economy. On the one hand, the quantitative theory of money really showed that money alone did not score wealth. On the other hand W. Petty and other representatives of classical political economy, focusing exclusively on the role of money as a means of circulation, did not understand the relationship between commodity and currency markets, which followed from the function of money as a means of savings. Analyzing the tax system of England, W. Petty pointed out the inequality in the distribution of taxes. It manifested itself, in particular: 1) paid money taxes made up a small part of the total wealth of the Kingdom; 2) the burden of tax was determined by the results of last year and ignored the current results; 3) taxes were not imposed on houses belonging to the Church and lords; 4) there was no consideration for the poor. The scientist concluded that the fourth part of the population paid four times more than they would have to pay. W. Petty quite widely considered the problem of imposing indirect taxes. The question posed required expansion of industrial production with a soaring class of salaried workers who, in addition to low-wage, weren't subjected to direct taxation and had neither land nor houses. In terms of the growth the state needed new sources of revenue for its economy. Because of the growing problem of taxation (quantitatively) public capacity-wage workforce became the center of attention of W. Petty. He deeply analyzed the Dutch system of excise taxes and concluded that the best way was to exempt hired workers through taxes on consumer products in the form of special excise taxes, i.e. taxation of each product separately, unlike universal excise tax. According to him, it was important to tax the final product, rather than raw materials: you didn't want to tax the grain before it turned into bread. The idea was first suggested in the 4th and 3rd centuries B.C. by Guan-Zi in China, however, on the European continent, it reflected a new trend of development of the financial management of the state.

During this period the most developed economy was Holland's, better even than England's industrial and trade development. Experience with the Dutch tax system changed W. Petty's view on indirect taxation. He concluded that the state could successfully tax not only the income of the taxpayer, but also his consumption. That type of tax covered almost all

segments of the population in the state. W. Petty understood that rearrangement of taxes in commodity prices aggravated the financial situation especially those who received low income. However, he maintained the view that taxes had to be superimposed on all the population, everyone had to participate in government financing according to what he consumed. Therefore, according to W. Petty, excises were exactly those taxes which strengthened the state economy in terms of growth of industrial production¹.

W. Petty in his treatise clearly identified the article of public spending, clarified reasons for an increase and made more types of taxing for government finance. Here are some of the reasons for the various tax methods: 1) reluctance of large parts of the population to pay taxes because of suspicions that the exemption was too large or that the collected amounts were stolen or improperly spent, or that they were uniformly overwhelmed and distributed. 2) Ambiguity and doubt about the law being liable to taxes. 3) Ignorance of the amount of wealth and commerce which was taxable 4) significant cost overruns of the administration and the court, «because there are many posts that are completely performed by assistants for a small fee, whereas their bosses get ten times more, though they do not know either what was done, or what you want to do.»²

According to Petty some factors which could weaken the displeasure of taxpayers and remain relevant to stimulate the domestic market. «If taxes are actually spent on our own domestic goods, they are, as I see it, there is little harm to the population in general, they only carry out change in individuals' wealth and position; in particular, they carry them from landowners and loafers to the knowledgeable and enthusiastic individuals.»³

«Political arithmetic» (1683) by W. Petty was a prototype of statistics, and the introduction of it to economic analysis of the quantitative method predicted a number of important trends in economic and financial science. Developing the ideas of his adherer John Graunt (1620–1674), he only wrote about the importance of calculating of national income, national wealth of countries indicators that played an important role in modern statistics and economy. In order to conduct calculations at the state level, the Petty offered to create the state statistical service. He was the first to count the national wealth of England, and to separate potential sources of state revenue. Although in his calculations he neglected wealth that went to investment in construction, the equipment, the improvement of land, etc. But with its

¹ find in: Petti U. Traktat o nalogakh i sborakh / Petti U. // Klassika ekonomicheskoi mysli : sochineniya / [V. Petty, A. Smyt, D. Rikardo i dr.]. — M. : Eksmo-Press, 2000. — P. 9–31.

² Kim V. M. Viliam (Uyiliam) Petti (iz istoriyi nalogovedcheskoi mysli) / V. M. Kim // Finansy. — 2009. — # 3. — P. 51.

³ Petti U. Ekonomicheskkiye i statisticheskiye raboty. — P. 29.

beginning, the modern system of national accounts grew, which in a general sense allowed us to consider the volume of production in the country, consider how manufactured products were distributed and consumed, investment in which income classes and groups of society, etc.

W. Petty considered the population as its wealth and gave his assessments: 26 million people evaluated the amount of 417 million pounds. In his opinion, the greater

the population in the country, the wealthier it was, a small population was a true source of poverty. In his calculus, he went with the availability of labor skills, experience, health, ability to acquire new machines (education) — all things that almost 200 years later would be called human capital management. Realizing the importance of the latter in social development, he emphasized the need for significant expansion of public education, and training at the expense of state entities. Capability in science was the most important factor in the development of production. W. Petty attempted to calculate the balance of qualified professionals, in particular determine how many doctors and lawyers there should be and how many students should enroll universities every year¹.

Exploring the issue of the country's population as the main point of wealth and tax system, W. Petty drew the conclusion about the inadvisability of the per capita tax. Lack of per capita being liable, in his view, depended on «the tax at this fairly uneven: people who have uneven funds pay all equally, and those who must have the largest expenses for children, pay the most, i.e. the poorer they are, the stronger taxes are².»

From the standpoint of «political arithmetic» W. Petty noticed some benefits from taxes: customs duties provided opportunities to conduct accounting in foreign trade and made the trade balance of the country; a simple and generic poll tax helped keep track of the population; exemption of houses by the number of chimneys (the real estate tax for external signs) reflected the improvement and the destruction of residential property; excise duty showed the internal costs of consumption and gave general information about redundancy; the Land Tax Act made payments for taxes, proportionate to the whole value rather than an annual rent; tax on movable property brought clarity about the property.

Consequently, W. Petty outlined the problems of taxation in the period of initial accumulation of capital. Due to his work in the middle of the 17th century there formed the so called political arithmetic as a body of knowledge about the statistical side of social phenomena and a quantitative

¹ Petti U. Ekonomicheskkiye i statisticheskkiye raboty. — P. 160-165.

² Ibid. — P. 50.

study of commercial and financial transactions. In Russia and Ukraine that direction appeared later. In 1811, Director of Moscow's commercial college V. Kriazhev (1771–1832) published the first systematic manual on commercial arithmetic, «Merchant Arithmetic for Bankers, Merchants, Factories Owners, Manufacturers and Their Pupils.» It was the first guide for business education in Russia and Ukraine. In 1845 Professor of mathematics at the Richelieu Lyceum (since 1865 — Novorossiysk University, now Odessa National University named after I.I. Mechnikov) V. Brun wrote the fundamental work of financial accounting «Guide to Political Arithmetic» (1845).

His work was famous throughout Russia; he received the Demidiv's Prize (1,420 rubles from «Demidiv's Foundation Awards for domestic work, which was enriched with Ukrainian and Russian literature»). This was the beginning of formation of the domestic School of financial analysts, which later was developed by I.Kaufman (1848–1916), a graduate of Kharkov University in 1893, Professor of statistics, University of St. Petersburg and others.

On the writings of V. Brun many Russian and Ukrainian scientists in statistics were raised: M. Lunskyi (1867–1956), B. Maleshevskiyi (1844–1912) and others. Note that in about 150 years of the financial accounting and balance or also known as the theory of accounting balance as the financial model of the firm, will be among the key topics of financial management is the science of managing the finances of the economy subject¹.

Mercantilism became interesting in economically backward Germany in the 17th and 18th century. Its financial sector, predominantly built on revenue from the main domain. The management of Royal property required separate information gathering and grouping which were the so-called cameralists (estimated financial specialists of the nineteenth century — the original branch of mercantilism). Their name comes from the Latin word *camera* that is a set, the indoor space, figuratively — the Treasury. The knowledge, necessary for the proper administration of the Treasury, was named the cameral Sciences, i.e. the Science, that studied court finance (in the broad sense — state farm) and the basic principles of managing them.

As the Ukrainian economist I. Patlayevskiyi explains, «in Germany they began to worry about bringing the income with domains and regalia in the

¹ find in: Blank I. A. Finansovyi menedzhment : ucheb. kurs / Blank I. A. — 2-e izd., pererab. i dop. — K. : Nika Tsentr, 2005. — 653 p.; Finansovyi menedzhment : pidruch. / [A. M. Poddyeryogin, M. D. Bilyk, L. D. Buryak and oth.]; ed. by A. M. Poddyeryogin. — K. : KNEU, 2005. — 535 s.; Sheludko V. M. Finansovyi menedzhment : pidruch. / Sheludko V. M. — K. : Znannya, 2006. — 439 p. ta in.

rational system; purely technical rules have been merged with the financial terms and formed a so-called cameral science; it was called so because managing the income from domain and regalia was entrusted to a special camera-collegiums.»¹

In financial literature individual authors examined the totality of cameral sciences which covered three areas of economic management: 1) economic science (trade, forestry, mining, etc.); 2) the science of police (measures to ensure security and prosperity); 3) cameral science itself, i.e. financial science as a doctrine about the collection and expenditure of government revenues. The first of the cameral science was created in 1727, the Prussian King Friedrich Wilhelm I in Halle and Frankfurt-on-Oder. This was the beginning of financial science as a system of knowledge in Germany. Later the key principles and scientific instruments of that direction would get the name of the classic theory of finance.

Despite the applied nature of the research of the German cameralists, they made the first attempts at systematic presentation of the fundamentals of financial management, and that was the foundation of financial science. The literary exposition of their views in the form of letters linked them with merchantilists; the ideas expressed in them, had a scientific character. For example, in one of the following letters in 1686 Wilhelm von Schröder underlined the idea of moderation of taxes. But the problem of the impact of taxes on the national economy and on the relationship between different manufacturers remained unsolved.² For the sake of justice we note that the problem of border tax burden has existed since the time of taxes. The Russian researcher M. Turgenev cites the words of the Roman Emperor Tiberius (42 BC — 37 BC), who at the suggestion of one of his subordinates to increase taxes replied: «A good shepherd has to cut their sheep wool, but not to cut the sheep»³. Unfortunately, these wise ideas did not become the guide for power, which more often did haircuts, and «cut off all hair.»

L. von Seckendorff (1626–1692) was a significant contributor to the development of financial management; he was the first to express the idea of linking the national economy, welfare and tax the capacity of the population. His work «Der Dents ehe Furstenstaat» (1655) was reprinted many times and served as a textbook in universities for almost a century. Unlike his predecessors Seckendorff doubted the good management of the officials

¹ Patlayevskiy I. I. Kurs nauki finansovogo prava / Patlayevskiy I. I. — Odessa: Tipogr. "Odes. Vesti", 1885. — P 10.

² Aleksyeyenko M. M. Vzgl'yad na razvitiye ucheniya o naloge u ekonomistov A. Smita, Zh.-B. Seya, Rikardo, Sismondi i D. S. Millya / Aleksyeyenko M. M. — X. : Universitet. tipogr., 1870. — P. XXIV.

³ Turgenev N. I. Opyt teorii nalogov / Turgenev N. I. — SPb. : Tipogr. N. Grecha, 1818. — P 15.

demanding their cut. The best way to use the domain, in his opinion, was renting, the best way to levy taxes was farming. Regarding the income and expenditure it required organization accounting. Under his influence there appeared the first in Germany statutes about taxes. But Seckendorff believed taxes were an extraordinary resource and expressed the hope that a good control of the Treasury even without taxes»¹.

Special writings by representatives of the German financial school like F. Justi (1720–1771) and J. Sonnenfels (1733–1817) were notable for their details, depth and systematic presentation. In scientific literature it is believed that they codified the existing financial theory and built a general system of financial science. In particular, F. Justi in his work «The System of Financial Management» (1766) showed the doctrine of the state's revenues separately, on costs and on the management of cameral affairs which were divided into revenue from domains, regalia, and taxes.

F. Justi was one of the first among cameralists to give a system summary for the doctrine of taxes. It was much earlier than others who came to understand the basic principles of taxation. F. Justi considered that good taxes included the following: 1) ability to pay; 2) uniform; 3) does not harm the welfare of the citizens and the state; 4) convenient for the levy; 5) correspond to the style of authorities and the economic conditions of the country. Considering their constant nature they needed to take taxes from the income of the citizens, without affecting their property.

As for the theory of taxes F. Justi belonged to supporters of proportional taxation as he wrote in «The System of Financial Management» (1766): «As the basic principle of exemption indicates that the subject should be taxed so that they were able to pay taxes, and as someone who owns a large property, should use security, then fair equality and is manifested in the fact that every citizen participates in the cost of the state in proportion to its property»².

F. Justi was one of those cameralists who already understood the link between economic policy («police welfare» for German terminology XVIII centuries) and financial science. In his opinion, the first taught how to strengthen and maintain the national economy as the base of financial economy, and the second as a reasonable use of state farm. Most important in the writings of F. Justi was a clear allocation of financial science from cameral knowledge and attempts to prove the possibility of its existence as an independent sphere of human knowledge³. The Ukrainian economist I. Anzhul called F. Justi as a father of financial science.

¹ Kulisher I. M. Ocherki finansovoi nauki. — Vyp I. — P. 59

² Ibid.

³ Teoriya finansiv : navch. posib. / [Leonenko P. M., Yukhymenko P. I., Ilyenko A. A. tain.] ; za zag. red. O. D. Vasylyuka. — K. : Tsentruchbov. literatury, 2005. — P. 34.

Approximately at the same time there were issued the writings of Austrian Minister of Finance, the first Professor of political science at the University of Vienna, J. Sonnenfels. One of them was «Fundamentals of Police, Trade and Financial Science» (the first edition of 1765) and until the middle of the nineteenth century it was reprinted eight times, translated into nearly all European languages and recognized as a leader in the study of political science in most European countries. For example, according to the testimony of J. Schumpeter, this work remained the official textbook in Austro-Hungary until 1848¹. In the third volume of this work the basics of financial science were discussed.

In J. Sonnenfels' writings economic science was separated from all other sciences, including politics. As the scientist defined, politics was a special science, «a collection of those rules, under which a foreign state gets security»². J. Sonnenfels affiliated economic problems to the three different economic problems — the police, trade and government revenue (finance). He identified the task of each of them as: «Rules that serve to support and enforce internal security, educates police or charity». The trade science dealt with the increase of industries with a favorable. The science, which belonged to state revenue, showed finally, how exactly they were all profitable, and had to be collected and managed³.

Hence, J. Sonnenfels' financial science considered the rules collection for state revenue obtaining in the most advantageous way. In his opinion, in the finance field the main task was to state income which was enough, but citizens benefits were in reasonable shares. Sufficient revenues to the state treasury would be the ones that covered the expenses, and the costs should not exceed the size of that job, and lead to a reduction in population or decline of any sector of the economy.

Unlike the mercantilists, J. Sonnenfels considered taxes not as extraordinary, but as the normal source of state income. Therefore, the domains transfer to private sector would bring the country more welfare than if they were left for the State. In his writings he examined in detail the form of taxes and for the first time in the unique form he expressed the idea of a living wage. Unlike F. Justi he more critically and thoroughly examined the current financial legislation and expressed his vision of its perfection.

It is appropriate to draw attention to the fact of the almost simultaneous release of J. Sonnenfels' writings and A. Smith's «An Inquiry into the Nature and Causes of the Wealth of Nations» (1776). However, the

¹ Shumpeter J. A. *Istoriya ekonomicheskogo analiza*. — T. 1. — P. 218.

² Find in: *Teoriya finansiv*/ ed. By O. Vasylyk. — P.35.

³ *Ibid.* — P.36.

economic doctrine approaches to classifying economic sciences of the scientists differed much. The first did not completely get rid of mercantilism, which A. Smith criticized a lot. The Austrian scientist gave great importance to foreign trade, to the maximum increase in population as a means of ensuring the external and internal security, to productivity increasing and tax revenues increasing by simultaneous taxes decrease for separate manufacturer. In the spirit of mercantilism J. Sonnenfels demanded the implementation of a policy of protectionism, imposing protective duties. At the same time he was significantly better than mercantilists were, considering that national wealth was not just precious metals but also all other values. As for money J. Sonnenfels followed the quantitative theory of money.

Thus, J. Sonnenfels laid the foundations of the process of financial science separation from politics, of differentiation of economic sciences. However, the content of the science was laid out under the influence of mercantilism ideas, which, despite rich literature was rather a system of economic policy than the theoretical or scholarly system of political economy. Moreover, the classification still reflected the industry's approach to economic science. The value of German financial school¹ appreciated, if you recall that in other European countries financial science as systematic and scientific direction was developed much later. The Russian financier V. Lebedyev cited the statements of the famous French researcher Clémence Roy, with regard to the spread of scientific knowledge and financial science in France at the beginning of the 1860s «still only said the first formula»². It attested to the recognition of the priority of the German financial school from the mid-19th century, and the representatives' writings were used in all European universities as basic tutorials. Many Ukrainian economists came about due to these ideas. In particular, M. Baludianskyi who studied at the University of Vienna, where J. Sonnenfels worked and where the establishment of finance as a system independent scientific direction occurred. M. Baludianskyi's brilliant skills and acquired knowledge implemented not only into his academic field, but also in practice. Working in the Ministry of finance, he took an active part in developing M. Speranskyi's «Finance Plan» (1810).

In Russia the first progressive ideas on political economy, law and finance were announced at the Philosophical and Law Faculty of St. Petersburg University at the end of 1819 — in the early 1820 's. during the

¹ find in Shumpeter Y. A. *Istoriya ekonomicheskogo analiza* — T. 1. — Gl. 3.

² Lebedyev V. A. *finansovoye pravo : kurs lektsiy* : in 2 v. / Lebedyev V. A. — SPb. : A. M. Volph's Tipogr., 1882. — V. 1. — P. 17.

lectures of Professor M. Plisov, who was a pupil of M. Baludianskyi at the Imperial Pedagogical Institute¹. Baludianskyi tried to support his professors, but failed. Moreover, in his position, he was removed from the post of the rector, and later left the University.

The most famous representative of mercantilism in France was Antoine Monchrestien (1575–1621). In his «Treatise of Political Economy» (1615), he considered merchants as the most valuable public figures as characterized by trade as a craft target. Active government intervention in the economy was considered as the most important factor in investment, strengthening and developing the economy. He recommended expanding trade in goods from national production, displacing the French market of foreign merchants, which he likened to a pump that fetched wealth out of the country. Antoine Monchrestien's program foresaw the France foreign expansion. It partially reflected monetarism, as well as the idea of active trade balance, which the author approached. He even before A. Smith stirred up questions about the fairness of taxation. Antoine Monchrestien considered it as very important to show income declaration, giving them a portion of the state in the form of taxes. The Declaration, in his opinion, would help eliminate the bribery of officers, officials, and taxmen. The main purpose of the sovereign should be justice. Thus, actually there was a requirement ensuring transparency of state taxes, their sources and methods of collecting. The representative of the late mercantilism was Jean Baptiste Colbert (1619–1683), who preferred economic life practice, mainly in the sphere of circulation. As a Minister of finance at the times of Louis XIV (1638–1715), he tried to ensure stable sources of income by creating a powerful network of manufacturing. At the same time through there was deliberate reduction of farming products, indicating mercantilists' not always a positive impact on the economy. His reforms were the following ones:

Firstly, the system of taxation, which in France was characterized by numerous taxes and the complexity of their collecting, was greatly simplified in order to ensure control over State revenues. The tax burden was laid on the peasants. Agriculture was seen as the main source of replenishment of the state revenue which led to downfall and caused peasant revolt.

Secondly, internal customs duties that coped with any of the goods in all markets and essentially made it difficult to trade, they were canceled. This contributed to the development of the internal trade turnover.

Thirdly, only a French customs system was introduced. To protect the national industry the protectionist customs policy was introduced.

¹ Ocherki po istoriyi finansovoi nauki . — P. 60.

Fourthly, the creation of the infrastructure was necessary for the development of the internal market: roads were built at harbors and ports. Special attention was paid to the development of naval forces to the colonial policy and protecting trade routes to overseas territories.

Fifthly, they encouraged the creation of a private and a great state manufactory for producing luxury items that were of high quality, elegance and high artistic taste. In this field France was the best¹.

Assessing the general state of economic the research in the era of the birth of political economy (it coincided with the period of formation and development of mercantilism), J. Schumpeter noted that scientists tried to figure out individual issues (primarily financial relations, tax and trade policy), spanning little substantial dependence. It was typical situation everywhere and did not give the ability to install deeper causal relationships. At the same time a single scientific perspective on the most important problems of the economy didn't exist, it was also impossible to find deep generalizations in the literature. «Mercantilism was not so only a scientific direction, but also practical politics, and its literature generated it, being as a secondary phenomenon, in generally contains the beginning of science», J. Schumpeter concluded². The view on mercantilism in the history of financial thought in 19th and 20th centuries became general.

In Ukraine the brightest mercantilists' ideas were reflected in the Constitution of Pylyp Orlyk «[The Legal Way and the Constitution Regarding the Rights and Liberties of the Zaporozhia Troops]» (1710), where great attention was paid to financial affairs. The Constitution separated the government treasure from Hetman and sent it at the disposal of General pidskrabia (treasureman). Only an honored, rich and noble person could be chosen for the post. In this way, public finances were created. The same junction was to be carried out at other sites. Colonels «should not have interest to treasure of regiments being satisfied by their welfare.»

The Constitution reflected the issue of trade, which testified to the development of commodity and money relations in the Hetmanate. If markets and trading states serviced only local markets that provided the economic connection between cities and villages, the fairs linked between the different cities of Ukraine and were a sign of establishment of the internal market. The rules of fair trade were regulated by conventional norms. The fair judges or kozaks controlled the compliance of the rules of trade. They paid various taxes for using of fair places, including the fee for

¹ Teoriya finansiv : navch. posib. / [Leonenko P. M., Yukhymenko P. I., Ilyenko A. A. iain] ; za zag. red. O. D. Vasylyuka. — K. : Tsentr uchbov. litratury, 2005. — P. 105.

² Shumpeter J. A. Istoriya ekonomicheskogo analiza. — T. 1. — P. 198.

storage space for the number and variety of goods by importing («indukta»-import duty, «evakta» — ferrous duty).

According to the Constitution the main source of the state treasury replenishment were taxes. Some directions of improvement of the taxation of the population were determined. The tax burden was expected to ease due to taxation of those sectors of the population that were not previously taxed, especially merchants, who were protected by «colonel and sotnyk's patronage», and by pidsudky. Kozak's widows and orphans, kozaks' wives, men who were at wars or in other military service were exempted from taxes: «Widows, kozak's wives and their orphaned children, kozaks' menage and women in the absence of their husbands — when those will be occupied in military campaigns or some other military services, — are not involved to any duties or to public work that are included in the pospolits 'duties, and they are not levied. It is agreed and approved»¹.

In the middle and especially at the end of 18th century, physiocrats started to investigate financial issues in details not only from the practical point of view, but also in theoretical terms. That happened due to the emergence of new theories in the field of philosophy of law and state. In particular, the works by Sh. Montesquieu (1689–1755), J.-J. Rousseau (1712–1778), Immanuel Kant (1724–1804) and others reflected this. A particularly big impact on physiocrats was «On the Spirit of Law» (1748) by Sh. Montesquieu, where he tried to set the regularities between the administrative forms and tax organization. Sh. Montesquieu proved that they should not deprive people of what is really needed to satisfy the imaginary needs of the state. In his opinion, in the development of tax systems there was a pattern, even the most despotic power in organizing their financial sector could not arbitrarily make decisions, and it was related to general conditions: «In despotic states they are not allowed to increase taxes, so that they cannot increase the extreme level of slavery»². Sh. Montesquieu was a proponent of indirect taxes.

Sh. Montesquieu's views were not the exception. In the middle of the 18th century the idea of indirect exemption had a wide range of practitioners and theorists. In their arguments to protect the kind of exemption were based on ideas expressed by T. Hobbes (1588 — 1679) in 16th century as well as by a number of Dutch merchantilists, headed by Peter and John de la Kurt. Holland was the school not only of practical application of excise taxes, but

¹ Persha Konstytuciya Ukrayiny hetmana Pylypa Orlyka [Elektronnyi resurs] / Natsionalna biblioteka Ukrayiny im. V. I. Vernadskoho. — Elektron. dani. — Rezhym dostupu: <http://www.nbuv.gov.ua/articles/history/1710cnst.htm>.

² Monteskie Sh. Izbrannyye proizvedeniya / Monteskie Sh.-L. — M., 1955. — P. 344.

also it gave the opportunity to borrow its thinker's arguments for protecting indirect exemption.

However, new ideas about taxation appeared. One of the authors of these was Pierre Boisguilbert (1646–1714). In his «System» (1707) he examined in detail the dire state of agriculture after the so-called Colbertism. He offered a number of ideas that, in his opinion, had to change the status for small manufacturing.

Firstly, he believed it was necessary to implement large tax reform. Its basis posited the idea of changing the old, oppressive system of proportional or progressive taxation. These principles of taxation remained relevant up to now. Boisguilbert's suggestion was extremely bold for its time, he offered for the first time taxes in the same proportions as the church and the poor.

Secondly, he proposed to release internal trade restrictions: according to him — «to clear the way» (from customs liens). From this reform, he expected the expansion of the internal market, to reinforce the labor division, and increase the circulation of goods and money.

Finally, P. Boisguilbert demanded free market grain to be allowed and not to restrain the natural increase of the prices on it. He believed that the economy would continue to develop better in conditions of free competition, when goods could find on the market a «fair price».

P. Boisguilbert considered these reforms as a necessary condition for growth and welfare of the country and the people. Only in this way they could increase the profit of the state as she convinced the government. The ideas were laid out anonymously in the book «Detailed Description of the Situation in France, Causes of Failure of Its Welfare and Simple Methods of Recovery, or As One Month to Deliver to the King of All the Money He Needs and Enrich the Whole Population» (1695–1696). These ideas he would describe in two volumes of the book «the Prosecution of France» (1707) again. In this work, he declared himself the «counsel of agriculture» and it came to consideration of economic and financial issues.

P. Boisguilbert opposed excessive taxes. He compared the process to robbers who became rich, tried to accumulate money, not goods, and that made priceless the real wealth and violated the real course of economic life¹. He believed that the main task of the State was in the rejection of intervention, which should lead to a reduction of State activity, reduced government spending and lower taxes.

Regarding prices, P. Boisguilbert was a proponent of high prices for agricultural products. Actually, those arguments came out with ideas of active start of production: farmers, who were the basis of the intermediate

¹ Shumpeter Y. A. Istoriya ekonomicheskogo analiza — T. I. — P.278

consumption of goods, in case of falling prices got lower profits and might cut their costs. The correct understanding that the many consumers were poor, who spend their entire income on consumption (unlike the rich, that save a portion of their income, preventing the return of the money to circulation), enabled P. Boisguilbert to make an important practical conclusion. According to him, the redistribution of the tax burden to benefit the poor should increase consumption, and therefore national income¹.

The writings of V. Mirabeau (1715–1789), F. Quesnay (1694–1774) and A. Turgot (1727–1781) had a significant impact on the development of physiocrats' ideas in France and other European countries. In his pamphlets and the famous work «Theory of Taxes» (1760) V. Mirabeau sharply criticized farming system. He considered farming as parasites that gnawed away national economy. V. Mirabeau analyzed the legal nature of the exemption. He drew the conclusion that no tax exemption may be entered without the approval of the subjects. Tax flows voting came from the recognition of property rights. According to Mirabeau if taxes were not voted, there was no property. On his conviction, it should cancel all indirect taxes, except for land.

V. Mirabeau, F. Quesnay and other physiocrats expressed the idea of a single tax. In their opinion, the natural order led to the existence of a single tax on net income (produit net). F. Quesnay proclaimed one of the principles of taxation: «the tax must not be burdensome or disproportional amount of national income, its increase should take place only in the case of growth of the last ...»²

Taxed had to be managed «directly from a pure product of the land property (produit net des beinsfonds), certainly not of wages or with vital supplies. Otherwise, it would increase the cost of collecting, harm trade and each year it would ban part of the wealth of the country. «In any case, you should not provide a tax on the wealth of the land farmers»³.

Physiocrats believed that the personal income tax and payroll tax, as well as the presence of large amounts of taxes was irrational. Such tax system was «associated with huge costs on their charging, which absorbed a significant portion of tax revenue and were for a society an entire loss»⁴. The whole construction of the idea of a single tax was based on understanding of the net

¹ Yukhymenko P. I. *Monetaryzm: teoriya i praktyka* : [monografiya] / Yukhymenko P. I. — K. : Kondor, 2006. — P. 22.

² Kene F. *Izbrannyye ekonomicheskoye proizvedeniya* / Kene F. — M. : Soczkgiz, 1960. — P. 433–434.

³ *Ibid.*

⁴ Bogachevskiy M. B. *Nalogi kapitalisticheskikh gosudarstv* / Bogachevskiy M. B. — M. : Izd-vosocz - ekon. literatury, 1961. — P. 253.

profit and the need to minimize the costs of the state to levy taxes. In their opinion, only agriculture led to the growth of wealth and the resulting product in excess of the costs of organizing agricultural production created a pure product of new wealth. Land brought net product the and not the plant or factory, and more trade. F. Quesnay emphasized that the tax was not a tribute, but the share of income that the government got to cover social needs. Therefore, the proposal by physiocrats product «clean» levy, which belonged not only to an owner, but also to the state, essentially that was tax land rents, which the owner of the land assigned.

Very important heritage for physiocrats remained «Economic Table» by F. Quesnay. Contemporaries called it as «human thoughts ingenious takeoff», first performing an experiment of macroeconomic analysis. «Economic Table» was an abstract grid of commodity and cash flows, in fact this was the first economic model, in which the development of production and exchange occurred continuously only under conditions of observance of certain proportions. F. Quesnay showed the whole process of social reproduction of the circulation, distribution and consumption of products. The table reflected the process of simple reproduction but comments show that he also clearly represented wide reproduction. Later on the basis of this model Marx created a scheme for extended reproduction. The idea of economic equilibrium was an interest of neoclassics in the twentieth century. A prominent Ukrainian economist M. Tugan-Baranovskyi, who followed F. Quesnay's consistent macroeconomic approach (he devoted his «Political Economy» to F. Quesnay — a creator of «Economic Table»), noticed that «only Marx in his scheme of reproduction in the second volume of «Capital» turned to the ingenious attempts of F. Quesnay's analysis of economic cycles; However, neither Marx nor his disciples didn't use all existing possibilities of the toolkit.»¹

For the first time F. Quesnay discussed the interrelation between reductions of reproduction with levy. If a landowner wasn't tax levied on the income («net income», in his terminology), but the farmers or consumption were, it led to a reduction in capital, which was invested in farming, and reduced the size of the revenue of the manufacturer.

He was convinced that the wealth of the tiller had to be under protection of the state, since it was the beginning of all wealth. In his opinion, the most important task of the Ministry of Finance was to provide farming administration, which would be its steady development and it'd create a basis for economic growth. Therefore, taxes had to be levied from landowners rents, as well as from merchants and artisans ones as «infertile classes.»

¹ Teoriya finansiv: pidr./ed. By V. Fedosov, S. Yuriy. — P. 106.

We should consider F. Quesnay's statement as new ideas of organizational connection with tax levy with all of the economic processes. The explanation to the «Economic Table» ended with a list of reasons that reduced the process of reproduction: 1) imperfect form of exemption, if the latter concerned the costs of agriculture (farmers); 2) excess burden of taxes due emergency expenses for their charging; 3) emergency legal costs; 4) lack of foreign trade production farming; 5) lack of freedom in the internal trade of raw materials; 6) lack of personal freedom for the village¹.

The above idea about the link of levying with all commercial processes was expressed by A. Turgot (1727–1781). Unlike F. Quesnay A. Turgot examined the rearrangement of taxes in detail. For the first time he also proved that the presence of international exchange of tax for one country actually was paid in other states. The scientist believed it was possible to install a single tax in the form of specified, exactly fixed amount that concerned land rents. In his opinion, the freedom of trade and full exemption from all kinds of duties would be more reliable means to raise all sectors of the national industry to the highest level.

A. Turgot in addition to the determination of the theoretical aspects of the tax system first stated that it was necessary to build inventory for the proper determination of the land taxes.

His economic and financial policy, as he was the Controller General during the reign of Louis XV, helped: 1) recover of the domestic grain market to market basis; 2) liquidate shops and guilds that had impeded the free development of industry and trade; 3) eliminate the natural road duties; 4) reduce taxes and reduce public prodigality; 5) implement a monetary land income tax and spread it to the nobles.

Turgot also studied much in the nature of the origin of loan (money) percent, denouncing the moralists' gossips considering borrowing for profit as a crime and citing the Gospel: «Let's lent, not waiting for anything». In his opinion, then whoever lost profits that could get the risk to their capital, and the one who took the loan, could use the money for profitable acquisitions, which could bring a large profit. So he concluded: «one who gives the loan without causing any damage to someone who borrows because this latter is adhering to the terms and has no rights to the borrowed money. The profit, which can be obtained by having the money, is one of the most frequent reasons that even borrowers take loan under the interest; this is one of the sources, which enables you to pay this interest. «As for current interest, as A. Turgot considered, it was a thermometer at the market, by

¹ Kene F. *Izbrannyye ekonomicheskyye proizvedeniya* / Kene F. — M. : Soczkegiz, 1960. — P. 433–434.

which you could judge about the excess or lack of capital, not in particular that low cash level was a consequence and indicator of capital excess¹.

A. Turgot expressed his opinion regarding the quantitative theory of money. He stressed that «the gold, like everything else, loses in value if its amount increases»². At the same time he ascertained the inferiority of paper money when their number did not match the value of the created products and services. He believed that gold and silver changed in value not only in comparison with all other merchandise, but also with respect to each other, depending on a larger or smaller their abundance.

Physiocrats views regarding deposits were not less important for the future of monetary theory. In their opinion, the accumulation was a kind of a society enemy. Withholding cash accumulations led to reduction of the reproduction of income and taxes. In modern language, of course, money accumulation can be interpreted as the non-investment savings. Much later this approach will be noticed in J. Keynes' works. In his opinion, the contributions themselves are not profitable and they break the economic process, they always have to be «compensated», but this compensation is a special act that may happen or not happen. Thus, before disappearing, the accumulating ideas received a new interpretation. This is the most important idea of monetary theory for physiocrats.

It is worth speaking about simultaneous establishment of physiocrats and the appearance and development of English classical political economy. A. Smith did not know F. Quesnay and A. Turgot, and in 1766 he attended a meeting of economists (as physiocrats called themselves), carried out under the direction of F. Quesnay. Subsequently, A. Smith wrote that he could devote his work «The Wealth of Nations» to F. Quesnay, if the latter was alive.

For the first time in Russian and Ukrainian financial literature we meet criticism of economic perspectives of physiocrats in the works of Turgenev. In earlier writings even if the negative evaluation of experience and theories in other countries happened, it was anonymous criticism of the tax or duty only in relation to Russia, part of which was also Ukraine. Turgenev's criticism was targeted, the criticism of the whole direction in economic theory. He explained the position of the physiocrats who believed «that all taxes are collected from a landowner, as he is one who maintains new products to a society»³ and Turgenev showed defects of the position. The tax

¹ find in: Turgot A. Izbrannyye ekonomicheskyye proizvedeniya / Turgot A.: transl. form French by L. Brodskaya, A. Miklashevskiy. — M.:Sotsekgiz,1961. — P.110-120.

² Turgot A. Izbrannyye ekonomicheskyye proizvedeniya / Turgot A.: transl. form French by L. Brodskaya, A. Miklashevskiy. — M.:Sotsekgiz,1961. — P.110-120.

³Turgenev N.I. Opyt teorii nalogov. — P.74

would increase and great part of his products that remained was not enough to refund and he couldn't sell anything, i.e. non-farmers would have anything to survive: impact of imports wouldn't increase the price to get out of a small portion of the marketable products of high taxes.

2.2. Classical school

The foundation of English classical economics was a qualitative and quantitative change in socioeconomic and political development of England in the 14th and 18th centuries. From the beginning, the objective was to restore the natural order of destruction for many barriers and pave the way for the field of financial science. A new era in the financial science was discovered by Adam Smith and David Ricardo (1772–1823). The classical expression of socioeconomic problems was described by Adam Smith in his famous book «The Wealth of Nations» (1776) and David Ricardo's in «Political economy and the tax levy» (1817).

In the above-mentioned work, Adam Smith has not yet shown how financial science differs from political economy; however, due to the level of the latter the financial science theory marked a powerful foundation and focused development. In his book «Inquiry into the Nature and Causes of the Wealth» Smith did not use the term «finance» and «financial management», which had been already introduced in the economic literature. However, he deeply analyzes the relationship between finance and economics, and showed the dependence of financial management on economics.

Unlike its predecessors, who were isolated only by one source of wealth, Adam Smith points out three sources — land, labor and capital providing state economy with financial resources. They procure private income individuals (rent, profit and wages), each of which must be taxed¹. As the sources of income have different economic basis, we should apply different forms of taxation. The scientist does not consider taxes separately but in general relationship with one another. And the levy is made separately for each source of income or a flat tax — a tax on income or tax consumption.

Thus, the merits of Smith include the theoretical discourse of economic foundations of financial management. He not only provided the financial science with quite strong national economic grounds, but also gave the national wealth of the doctrine of finance that met the requirements and views of his time. The writings of Adam Smith and later in that of Ricardo,

¹ Kim V. Adam Smith on general provisions on taxes in general / V. Kim // Finance. — 2009. — № 1. — P. 47.

there developed the financial position of predecessors, foundations laid of the theory of State Finance and causes disclosed in the their relationship with the economic system. Financial concepts of the classical theory were dominant and were grounded on the solution of the main problems of primitive capital accumulation and later on the problem of competitive market economies. Scientific research of the classical financial concepts was the basis for the financial policy of that historical period. Classical political economy revolutionized basic concepts of economics and substantiated the main postulates required for the development of the market economy.

In economic analysis classical political economy focuses not on an exchange, but on the production and domestic social and economic relations that arise in it. Representatives of a classical school apply new methods — abstract, historical and descriptive, allowing them to analyze more deeply economic and financial relationship. Common to the above-stated works is the basic fundamental idea of capital protection: creation of conditions for its accumulation promotes industrial development necessary for the enhancement of the national wealth. A major issue of classical finance theory is the question of public expenditure, public revenues and public debt.

Distinctive and original ideas of Adam Smith were about money and credit. Money he saw only a technical tool that facilitated economic processes. Credit for Adam Smith was only the means of activation and gave him a little attention. A step forward in the opinion of Smith, compared with its predecessors was that he singled out money and credit for production and saw their subordinate role in relation to production. However, he underestimated the autonomy acquired by monetary factors and their significant feedback effect on production. Only in the late 20th century, analysis of this relationship would be put into focus by the representatives of the «new paradigm» of modern monetarism.

Smith's concept of productivity which complemented his labor theory of value was the basis for the disclosure of public expenditures and public revenues. To productivity Smith attributed that work, which «increases the cost of materials it recycles ... is fixed and realized in some particular subject or product that you can sell and that there is at least some time after the work is finished¹«. Unproductive labor, according to Smith, is a service that disappears as soon as it commits a labor expended on it, adds nothing to the cost, has its value, and deserves remuneration not fixed and not implemented in any particular subject or products fit for sale. For him productive work could be exchanged for capital, non-profit work is exchanged for profit. Full

¹ Smith, A. *Wealth of Nations. The study of the nature and causes of wealth of the nation* / A. Smith; [trans. from English. O. Vasiliev] eds. E. Litvin. — K: Port-Royal, 2001. — C. 202-203.

range of non-material production including the state economy Adam Smith considered unproductive because it produced nothing and was supported at the expense of work product of others.

The world renowned economist M. Blaug on the theory of Smith from «The Wealth of Nations» said that the distinction of productive and unproductive labor, made by Adam Smith, is perhaps one of the most destructive concepts in the history of economic thought.¹ But with all critical attitudes towards the concept of Smith it cannot be denied that it isn't dual or meaningless. On this basis, scientists developed the idea of a minimal state role in the economy. Its financial sector was aimed at three very important responsibilities that include: the cost of public works (to create and maintain public buildings and public institutions, to provide compensation for teachers, judges, officials, priests and others who serve the interests of «statesmen and the state»); costs of military security; the costs of the administration of justice, including the protection of property rights.² So Smith's economic social order is based on the play of private interests within and under the law protection.

Through the idea of «cheap government» Adam Smith divides the government spending into two groups: those costs that are of general importance and that can be paid from the revenues of the society, and expenses that are of interest to some individuals. Developing these ideas Smith expresses the idea of the division of state and local financial sector. He believed that local or provincial costs of which benefits are limited to one in any terrain, such as the maintenance of urban and rural police have charged a local or provincial income and do not fall on the total income of society. It would be unfair to compel society to bear the expenses that give benefits only to a part of it.

Only the costs of defense and maintenance of the state apparatus, according to Smith, should be attributed to taxes that fall on the whole society. The rest of the service and maintenance of institutions that provide these services must be paid from the proceeds of taxes. Only if totally useful institution cannot be kept by the duty that comes from those who seek it, in this case, as an exception, the cost can be made from taxes that are collected from the entire population. A. Smith closely links the organization of defense in the era of advanced technology to the state of the industry — «only that

¹ Blaug M. Economic Thought in retrospect / Blaug M. — 4th ed. — Moscow: Case-LTD, 1994. — P. 48.

² Leonenko P. History of economic studies: a textbook. / P. Leonenko, P. Yukhimenko. — 2nd ed., Processing. and add. — K: Knowledge, 2008. — P. 352.

nation can win which can make the cost of production of firearms.»¹ In the colonies, he observes the constant source of unproductive expenditure. The growth of public debt which was the result of war, would not have been needed except for the desire to build an empire beyond the seas. «Can the provinces be considered your own which are not involved in maintaining the state neither in income, nor in military forces?»² Social needs, according to Smith, should be reduced to a minimum because they are financed through taxes that affect the development of industrial production.

Classical political economy reveals the essence of the primary and secondary distribution of national income: as for the primary one work is rewarded through wages, capital — by profit, land owner — by the rent; the secondary distribution takes place in public finance. Taxes imposed from primary incomes are converted into secondary income of persons employed in the state apparatus the army, the police and so on, i.e. which have a fiscal origin.

Adam Smith is always mentioned in financial literature as the author of the four principles of taxation:

1) A subject of any state shall be taxable in accordance with their capabilities, i.e. according to the revenue which they enjoy under the patronage and protection of the state; 2) taxes that everyone has to pay, should be clearly defined and not random. Its size, time and manner of payment must be clear and known to the payer himself and to anyone else; 3) each tax has to cope with the time or with manner that is convenient to the payer; 4) organization of tax collection should provide the minimum cost of collecting it.³

The tax should be determined on an equitable basis. It is not just the size of the payment but penalties for non-payment, distribution levels in proportion to income tax and so on. The tax set unreasonably creates a strong temptation to cheat, but with the growth of such temptations usually increases the penalties for fraud. Thus, according to Adam Smith, a law violating justice provokes itself to temptation and then punishes those who do not stand against it.

Adam Smith relates taxes with their obligatory certainty as means to avoid abuse, corresponding to the second principle of taxation: «The experience of all people — he wrote — even substantial irregularity is not such a great evil, as the smallest uncertainty.»⁴

¹ Smith A. *On Investigation of nature and causes of wealth of the peoples* / A. Smith; introduction. Article and comment by V. Afanasyev. — Moscow: Sotstkhiz, 1962. — P. 448.

² *Ibid.* — P. 449.

³ *Ibid.* — P. 588-589.

⁴ Kulisher I. *Essays on financial science.* — Vol. 1. — P. 139.

One of the first who tried to convey the ideas of Adam Smith in Russia and Ukraine was Ukrainian economist-financier M. Baludyanskyj. As the head of the department of encyclopedia, law and political science and political economy of Petersburg teachers' school, who gave a course on political economy, which, as you know, in the years developed mainly according to the ideas of Adam Smith and contained some elements of the theory and practice of finance (taxes and fees policy). These ideas bore a whole galaxy of disciples of M. Baludyanskyj.¹

However, the role of the classical school, foremost that of Adam Smith, is undeniable in the development of financial science. As Ukrainian economist-financier J. Kulisher wrote in the early twentieth century «life created the science of finance, which for a long time hesitated to accept this name and preferred to say,» the science of the state economy « which hatched on political economy and, finally separated from it like a ripe fruit that falls from the tree». Originated from one of the «books» from the course of political economy — in the works of Smith, Say, Malthus, Ricardo, Canar, Mill it was evolved into an independent unit with new, though closely connected ... with the science of economics their goals and objectives»².

Following Adam Smith, who established the relationship of tax to each separate category of income, became the focus of his most talented students — David Ricardo in his book «Principles of Political Economy and the tax levy» (1817). In his speech in the English Chamber in June 1819, Ricardo said that «he is the enemy of any tax,» that taxes are the «great evil.»³ Ricardo calls taxes «part of the labor of the country, which is still owned by the taxpayer and which now falls into the hands of the state.»⁴ Analyzing the methods of collection, the impact on the distribution of national income and development of industrial production, Ricardo comes to the following conclusions: firstly, taxes ultimately paid from the capital or from income. Continuation of the previous volume of the reproduction process requires that taxes fall only on net income did not affect the funds allocated for productive use; secondly, despite the fact that David Ricardo, like his predecessors, considers taxes only as legitimate source of income for state taxes and fees (excluding rent), which are transformed into capital and impede its accumulation. Taxes do not contribute to the accumulation of capital. «Some taxes affect to a greater extend, the others — to a smaller but great evil of taxation is not so much that it falls on certain items but on the

¹ Essays on the History of fiscal science, St. Petersburg State University. — P. 60-63.

² Kulisher I. Essays on financial science. — Vol. I. — P. 11.

³ Bogachevsky M. Taxes of capitalist states. — P. 257-263.

⁴ Ricardo D. Compositions: in 4 v. / Ricardo D. ; translated in editorial office by M. N. Smith. — M.: Gospolitizdat, 1955. — T. I. Principles of Political Economy and Taxation. — S. 155.

total amount of action»¹; thirdly, taxes reduce consumption in general and for specific commodity groups complicate the exchange of goods, i.e. the development of market relations.

Ricardo points out how effective the use of capital is, resulting in its growth: 1) focus on production growth; 2) reduction of unproductive public consumption. If government consumption, increased due to the introduction of new taxes covered production increase or reduction in consumption, then, says Ricardo, the national capital would not be reduced. But if production was reduced or non-production costs rose, or both factors happened simultaneously capital would reduce taxes paid from the fund for industrial consumption. The size of the fund is regulated by the productive activity of the country, so it results in the reduction of the accumulated capital. Ricardo underscores that when the taxes paid on income they also reduce the accumulation and force people to reduce consumption.

Analyzing the tax system in England, beginning from taxes on grain, to taxes on the poor, Ricardo opposed the taxes that affect the price increases in consumer food products, especially bread. The price of bread is regulated by the cost of its production at relatively inferior plots. Paid taxes — on land, the tithe and tax on land resulting product increase these costs affects the price increase. The only way to get the average profit for the farmer after tax is higher prices. Thus, according to Ricardo, there is shifting of the tax payment growth to the bread consumer. As the price of bread significantly shapes the «consumer basket», i.e. a set of goods necessary to sustain life and ability to work of the laborer and his family, raise payroll taxes and thus reduce profits, impeding capital accumulation.

A. Smith considered payroll tax pointless and destructive to the real economy. This provision detailed by Ricardo, led to higher wages and, hence, reduced the rate of return on capital. Since wages cannot be lower than the minimum means of subsistence any tax on it will be transferred to businesses. According to Ricardo, the income accounted for farmers, participation of landowners increases in total household income, so the rent is more convenient target for taxation in terms of the real economy. Removal of rent to cover government spending will reduce private consumption of the land owner, and no sector growth will suffer. Ricardo said that a tax on rents only affects the rent. It completely falls on landowners and cannot be transferred into any class of consumers.

Despite how Ricardo's theories appear controversial (including his assertion that wages are the price of labor determined by the demand for

¹ Ricardo D. Compositions: in 4 v. / Ricardo D.; translated in editorial office by M. N. Smith. — M.: Gospolitizdat, 1955. — T. 1. Principles of Political Economy and Taxation. — P. 130-131.

labor and incompatible with the idea of impact on tax policy), this theory is not only prevalent in financial science, but has found application in the current legislation of European countries¹.

Classical political economy supporters were opponents of indirect taxes. At the time of Adam Smith the main indirect taxes in England were taxes on four commodities: salt, leather, soap and candles. Their taxation, according to the scientist, respectively increased the price of labor. Indirect taxes (and payroll taxes) were considered as one of the reasons for the increase in production costs. According to the classics, as a result, the basic rule of entrepreneur is violated: thrift and good management are necessary to increase the rate of profit and the possibility of accumulation. Exceptions were luxuries. A tax imposed upon them, says Ricardo, pays only the consumer; it does not increase wages and does not reduce profits.

Classical political economy considers public debt as something that «is depressing and may ultimately destroy the great nations of Europe.» The growth of debt is also noted, which in their opinion is linked with the lack of ordinary government revenue — taxes. And the reason for their increase classists felt the need to funding military spending. Adam Smith reveals the economic content of state loans as the government needs and desires of citizens to give it a loan, not for free, but at interest. The need for public debt at the same time created public creditors from which moneyed people benefited.

Adam Smith and David Ricardo revealed dialectics and controversy of state loans. On one hand, it is a source of primitive accumulation of capital, and on the other hand — the loan undermined its process and foundations. Growth of state loans through investments in government securities altered the ratio of productive and unproductive investment. In exchange for the capital provided, said Adam Smith, creditors received an annual rent of public funds predominantly of higher value. This annuity, no doubt, was able to cover their capital and made it possible to trade and transact in the preceding on broader scale, however, the first capital of the state of the creditor for a certain period distracted from investments in productive work. The government used these funds through a loan mainly for unproductive purposes, such as warfare.

Analyzing the economic substance of a percent on capital paid to investments in government securities, Adam Smith compared it with the rent. He explained that taxpayers' money devolved to the creditors of the state, thus increasing the capital of the latter. Therefore, the logical conclusion of Adam Smith is that government loans inherently anticipated

¹ Ricardo D. The origins of political economy and taxes levy/ Ricardo D. // Classics of economic thought: Works / [B. Petty, A. Smith, D. Ricardo et al.]. — Moscow: Eksmo-Press, 2000. — P. 427-474.

taxes. The first lender after the restoration of its equity was able to borrow capital from banks or sell annuity, increasing equity. But this new capital, borrowed or purchased from third parties existed in the country before it was submitted for the maintenance of productive labor. However, when it first moved into the hands of the creditor, the new capital was only for him and not for the country. As Adam Smith noted, it was the capital in fact, distracted from a single use in order to be transformed into another. If the state had not diverted the capital through loans, the country would have had two capitals instead of one that would have been directed to productive use.

Developing the ideas of Adam Smith on state debt, Ricardo emphasizes that a country with huge debt is in a very unnatural position. In his view, the donation of property to buy out the debt is more reasonable and economically expedient than having a big debt.

What is reasonable for an individual is reasonably well for the nation. Pointing to the unproductive nature of the use of government loans, the classics were unanimous that government loans undermine the process of accumulation of industrial capital. They are prevented from investing into the expansion of productive work spent on unproductive labor.

Major achievement of the classics is the development of theoretical foundations of the study of economic and financial relations at the macro level. The Industrial Revolution in England needed to research the problem of the capital, its structure. Adam Smith describes the capital as one of the two part inventory, which is expected to give profit, and the second part is the one that goes directly to the consumer. Analyzing manufacturing, A. Smith introduces the concept of division of capital into fixed and circulating. He showed the difference in the ratio between the sharing of the capital depending on the industry sector. Under the turnover capital A. Smith understood that part of which is in the back, that is a short-term capital invested in raw materials, the reversibility of which is made within the year. That part of the capital, which does not enter into circulation, named the capital stock is long-term capital invested in buildings, machinery and equipment with long turnover — up to 10–20 years or more. Both basic and turnover capital, according to A. Smith makes a profit: basic income — into production, working income — into circulation. The volume of investments in fixed assets required considerably more effort than working and the duration of its turnover raised the question of its definitions of payback and efficiency.

Evolving the ideas of his teacher, David Ricardo was one of the first economists who revealed important theoretical and practical feature of investments in fixed assets. Machines, tools, buildings, land improvement, the cost of qualified workers (in modern terminology — human capital)

transferred their value gradually. The validity of the definition of «gradualism», i.e. the timing and amounts of the full carrying value of the product, affects both commodity prices and the efficiency of capital investments. At the level of prices (Ricardo used virtually interchangeably the category of «value» and «price»), along with spent living labor affects materialized labor, i.e. «work spent on tools, instruments and buildings that contribute to this work.»¹ The study of long-term investments in both real and financial assets would become the focus of many modern scientific schools.

The great merit of Ricardo in the development of the monetary system theory an important component of which was the idea of transfer of the right to issue banknotes and management of public funds to the newly created national (state) bank, taking them from the Bank of England (a private company). At that time it was a very bold proposal, which was later legalized all over the world. It was the National Bank which became the main institution to regulate the money supply in the monetarist economic model. The second important idea of this theory was the importance of maintaining steady circulation of money as a condition of growth of the monetary system that was based on the use of gold as a guarantor of public finance sustainability. Ricardo pointed out that the price system was not exposed by the political power and the action of the law of nature was not in contact with any obstacle, it was necessary that gold was distributed «between civilized nations of the world according to the situation of trade and wealth, and therefore and according to the number and frequency of payments which they had to perform.»²

The problems of financial theory were further developed in the works of the classical school supporters. In particular, J.B. Say (1767–1832) in his work «The treatise on political economy, or a simple presentation of how wealth is created, distributed and consumed» (1803) and who noted that «the best government — is the least active; the best tax — the one that is the smallest of all; the best financial system the one that takes a little». ³ The most effective of all financial plans is the one that directs to spend as little as possible. So J.B. Say vigorously opposed the state intervention in any case — it should not interfere with the «natural course of things.» He pointed out that «from the time the tax is paid by the payer, the payer loses the value transferred to the state sum. When this value consumed by the

¹ Leonenko P. The history of economic doctrines. — P. 113.

² Ricardo D. Works. 4 vol. / Ricardo D. ; ed. Lane. N. Smith. — Moscow: Hospolytyzdat, 1955. — Vol 2. Articles and speech on monetary circulation and banks. — P. 48.

³ Jean-Baptiste Say. The treatise on political economy/ Say J.-B. ; comp., introd. c. and comment M.K. Bunkynoy and A. Semenov. — Moscow: Delo, Acad. b. households Islands Government at Russian Federation, 2000. — 51 p.

government or its agents, it is lost to anyone and is not saved for any society in any form.» For the same reasons that unproductive consumption is not conducive to reproduction, state tax may not be conducive to the creation of new values, it takes from the payer that part of the product that he could spend productively or use for any useful output.» In both cases, remove tax — is to harm society, not replacing it with anything else.»¹

J.B. Say supported the productivity of the government spending emphasizes that taxes are surcharge to the cost of production. If the advances in manufacturing enable to produce products at lower cost and thereby increase production and consumption, taxes provide direct antithetic result: increasing the value of the goods, they reduce the possibility for consumption and lead to a decrease in demand from consumers.

French finance literature throughout the nineteenth century was completely under the influence of the Manchester school. The most complete statement of all financial science under the influence of Manchester school and main provisions of the classical school were presented by Pierre Paul Leroy Beaulieu. In his book «The course of the financial science» (1876) he somewhat narrows the subject of this science. He was not interested in the financial institution and the financial law. Pierre Beaulieu affects the legal component of financial institutions very rarely. The objectives of financial science, according to Pierre Paul Leroy Beaulieu is only to indicate the way in which the state may get the means it needs sparing as far as possible the interests of individuals and maintaining fairness. Here he gives the shortest definition of science: «Financial science is simply the science of the government revenues and their application to business.»²

Chariness according Leroy Beaulieu is the foundation of an effective financial system. You cannot create a good financial system on a different basis, in addition to thrift, just as a man cannot have good health under adverse circumstances. He is one of the first who raises the question of possible fraud in the financial sector. He is mostly impressed by academic taxes and loan abuse that take place in modern nations. However Leroy Beaulieu indicates that the European nations overcome the difficult financial situation in the early and mid nineteenth century due to two circumstances: on one hand — the development of industry, on the other — a fall in purchasing power of money. The first intensified the flow of money, the second — reduced the burden of old debts, which were easier to pay.³

¹ Jean-Baptiste Say. A treatise on political economy. — P. 33.

² Pushkaryova V. Financial history of thought and politics of taxes / Pushkaryova V. — M.: Finance and Statistics, 2003. — 119 pp.

³ Ibid.

The famous English economist Thomas Malthus (1766–1834) divided the science of financial management into two parts: the theory of finance, i.e. the doctrine of the principles on which public revenue can be obtained in a fair way that does not bleed white the sources of the economy and for whom «the subordinated are the least exposed to achieving their goals»¹ and the theory of financial management, or «theory of the best ways to get that income, and keeping it» in time of issuance, control and justify it because it may be the responsibility of financial management.»² Under the financial management in this case was meant the structure of financial institutions, state assembly, reporting, treasury system and others.

Malthus, in contrast to the above-stated academic economists was a supporter of wasteful taxes spending. According to him taxes spent unproductively stimulate demand and increase production and national wealth. In his book «Principles of Political Economy» Malthus said: «There are practical examples of when the growth of national wealth greatly stimulates the consumption of those whose existence is supported by taxes.»³

Ideas of the classical school supporters had a significant effect on economic and financial life of the European countries. Thanks to them the science of finance had become so self-important that scientific advice became of use in legislative politics. Finally, the exaggerated value of practice was overcome which prevailed in the financial sector. It was Adam Smith and David Ricardo who taught to evaluate financial practices only as a means of expression and testing of general legal principles.

The famous Ukrainian economist M. Bunhe writes about significant impact of jobs and part-time teaching of Adam Smith and his supporters on economic transformations. These changes in the spirit of the doctrine of free enterprise had a special nature. Adam Smith did not offer ready-made economic and financial system. His goal was to free the economy from monopoly and oppression. Therefore the reforms that defined the principles of his theoretical system required the study of reality public awareness of the need for reforms and rigorous diligence in their implementation from the side of the reformers. (We'll add on our own: neither of these provisions has lost its relevance in the light of the current market economy changes of post-socialist countries). Almost all European countries can point out the figures, brought by Smith school: Russia, which included the lands of Ukraine one can name Speransky whose views were shaped by M. Baludyanskij and by Count Guriev; Germany — by L. Stein; France — by de Molien. But

¹ Essays on the history of financial science. — P. 68.

² Gorlov I. Theory of Finance / Gorlov I. — 2nd ed., Rev. and multiply. — SPb. : Tipogr. Glazunov and K. 1845. — S. 3-4.

³ Malthus T. R. Principles of Political Economy / Malthus T. R. — London, 1820. — P. 480.

nowhere were laid the grounds for reforms in the spirit of the Adam Smith teachings but in England. As aptly noted Schumpeter roughly from 1790's A. Smith became a mentor not only for beginners, but for professionals, especially university lecturers.¹

It was Adam Smith who distinguishes the financial science as a part of political economy. Political economy is considered as a branch of knowledge necessary for statesman or legislator, notes Adam Smith who sets himself two different tasks: first — to provide people with great income or livelihood, but rather to provide them with the opportunity to get it on their own; second — delivering state or public income sufficient for public use. In modern terminology, this is essentially the division of economic theory into positive and normative, which became generally accepted in the twentieth century.

In close connection with this approach A. Smith practically distinguishes the science of finance and science of economic management. Actually the architectonics of his work reinforces this division, especially the fifth book «Wealth of Nations», which is dedicated to revenues, expenditures and state functions in the mode of natural liberty (normative theory, finance, and management). In the economic literature (including financial) this fact was not mentioned for a long time. Even today in many textbooks on «Economics» in order to explain the nature and differences of positive and normative economics there is no mention of Adam Smith's contribution to the analysis of the problem. The famous historian of economic studies professor of the University of Paris A. Espinas (1844–1922) in the late nineteenth century wrote that it «was maintained by the followers of Adam Smith ... They did not very clearly sought to distinguish between theory and practice, as did their teacher, and economics again falls to empiricism from which the scientist tried to pick it up.»²

Famous German scientists (K. Rau, K. Eyebergand etc.) considered the position of Adam Smith from the perspective of its importance on the formation and development of financial science. In the second half of the nineteenth century they believed Smith's interpretation as an obstacle to a deeper development of financial science. This idea was based on the fact that Adam Smith considered financial institution only as part of the national economy, and the tax system he analyzed mainly in terms of its economic impact. According to German researchers and those of British, French and American followers of the great classic, financial science was transformed into dependent part of political economy in which it «dissolved». «For the

¹ Schumpeter J. History of Economic Analysis. — Vol 1 — P. 249.

² Theory of Finance / under the general editorship of Vasylyk O. — P. 39.

further progress of financial science — wrote K. Eyeberg — it was necessary, first, to separate it from too close association with political economy, the way Adam Smith put, and, secondly, to adapt it for the views, that were changing to the state and its activities.»¹

In the spirit of this approach in the late nineteenth century Russian economist-financier Vladimir Lebedev (1833–1909) wrote about the impact on the development of new financial science at the time of views on the economic role of the state and social issues. He noted that the desire to present financial science to reflect these views have largely occurred in the last third of the nineteenth century in Germany. In other countries, according to the scientist, political economy is just beginning to go beyond that way put by Adam Smith. New views on the state and self-government had yet to be established itself. Therefore, almost nothing new is included in teaching of finance.

Marx was critical of the methodology of Smith, viewing it as «quite a controversial method of representation» when «one view more or less correctly expresses the intimate connection, and the other acts the same way legally and without any internal communications with it expresses the relationship that manifests externally.»²

As to the followers of Adam Smith who, according to Marx, «can directly move forward in their studies and special considerations and always regard Adam Smith as their basis, regardless of whether they joined the esoteric or exoteric part of his work or as it almost always happens confuse the former and the latter one.»³

But the so-called direct practical forms, according to Marx's terminology, have relatively independent nature of movement and directly determine economic activity. This happens regardless of whether generally their relationship is clarified with the essence and the inner meaning or not. To understand the complex set of interacting phenomena and processes of economic life requires special economic knowledge, that particular science, including finance and management. The economic mechanism of society with its inherent economic, financial, administrative relations — as well as a legitimate object of study of political economy and other economic sciences, as well as the problems of ownership, value, money, and more. So Marx's opposition of research of «deep» and «superficial» economic forms as scientific and non-scientific respectively is in our opinion groundless and false. One should quote the words of Russian professor I.K. Babst (1823–1881), who made the translation of famous works of Roscher «Fundamentals of the

¹ Theory of Finance / under the general editorship of O. Vasylyk. — P. 39.

² Ibid. — P. 40.

³ Ibid. — P. 40-41.

economy» and underscored in a preface: «Problems raised by Adam Smith, were so closely related with his contemporary events and his theory responded to the needs of the national economy so that school thrilled with the winning and did not want to look deeper into its bases. Everyone then seemed to find the philosopher's stone to solve difficult and great task augmenting the national wealth.»¹ Note that this is indeed a correct statement of existence of a classical situation in the literature between 40–60 years of the nineteenth century.

However, it should be kept in mind that not even Marx and his supporters considered the political economy of Adam Smith as a science in general, and thought it as a theoretical source of his economic doctrine.

In the economic literature one can find supporters and admirers of Smith's differentiations. As stated earlier, A. Espinance valued the position of Adam Smith on the delimitation of theoretical and practical parts of political economy and repeatedly resorted to his own interpretation. The scientist believed Smith's division (differentiation) as clear, consistent and very important. Obviously A. Espinance even slightly exaggerated its importance when he wrote that through this division A. Smith reasonably attributed the title of the founder of political economy. Developing this idea, professor of Warsaw University G. Symonenko emphasizes that Adam Smith is the father not only of political economy, but also of the doctrine of finance in relation to management teachings.²

The original was an explanation of G. Symonenko of the reasons including those by Adam Smith and by many of his followers the doctrine of public finance of political economy. According to G. Symonenko this is due to the heterogeneity of the economy divided into two slightly different parts in their essence. The structure of economy includes, firstly, the collection of all private holdings that are within a certain state, and, secondly, public sector separate from them, though it also derives its revenues primarily from the income of private households. Hence, according to Greek etymology of the word «political economy», this science should be understood both as the theory of the laws that governs a set of private farms, and as the doctrine of the state economy or finance. Therefore, in Adam Smith's theory the public finances or financial science were not separated from the doctrine of the economy in general, that of political economy. It was only part of the latter. In his famous work Adam Smith laid the first foundation of the science of economics in the narrow sense of the word (i.e., political economy), and the

¹ Roscher B. *Fundamentals of the economy* / W. Roscher, [translated from German by I. Babst]. — Moscow: Publishing House of Grachev, 1860. — Vol I — P. VI.

² *The theory of Finance* / under the general editorship of O. Vasylyk. — P. 44.

science of the state economy, or finance that was only later separated from the former and created a science.

An important contribution of Smith to the history of financial thought, in particular, to his use of means of comparative analysis was noted by Ukrainian economists and financiers Tugan-Baranowski and I. Yanzhul etc. According to the latter, «Smith's main merit of our financial science is that he developed the economic basis of the financial industry and paved the way for organic processing this field of knowledge.»¹ I. Yanzhul recognized that in the English classist financial science which is not yet isolated from the general system of political economy, the terms «finance» and «finance economy» are not used alone. However, as aptly noted the scholar of different sections of the work of Smith's «Wealth of Nations» is not difficult to draw a general picture of his financial theory: all sources of government revenue merge into one, which is subject to a larger whole — the national economy.

Adam Smith's ideas on the changing role of science towards the practice had extremely fruitful influence on further development of financial science. Adam Smith taught to see in practice only the way, the tool for development and validation of the general principles, the scientific principles were made as legislators of practice. The famous Russian economist-financier Ivan Ozerov (1869–1942) pointed out that due to his work «Wealth of Nations» Adam Smith opened a new era in financial science. Until the emergence of the classical political economy, the surrounding reality made a strong influence on the content of financial science. For example, domains that long played a significant role in the budgets and financial science subtracted the lion's share of attention. Financial science often only described the existed and provided «recipes» for this or that occasion.

«The classical school of political economy — of Adam Smith and of David Ricardo in particular theorized financial science as I. Ozerov emphasized. It defined as its mission to restore the natural order of destruction through the shackles and barriers which delayed economic life; hence the doctrine of fair taxation. «On this basis, «grows the view on tax as an instrument for economic and social reforms, and particularly someone emphasizes the role of the tax as a social reformer to redistribute property, as support of some forms of industry and the development of others.»²

2.3. Historical school

¹ Yanzhul I. Basic Principles of financial science. — P. 253.

² Ozerov I. Fundamentals of financial science / Ozerov I. — London, 1923. — P. 71

The historic school can be attributed a large number of economists, mostly German. There is no uniformity of opinion among its representatives, but they are united with historical method of study of economic phenomena and processes launched in the work the «Das Nationale System der Politischen Ökonomie»¹ (1841) by Friedrich List (1789–1846). Substantive provisions of List's work can be reduced to three interrelated propositions: theory of productive forces; phasic concept of economic development; position of the active economic role of the state. His theory of productive forces is permeated with the idea according to which the creation of social wealth is achieved not only through the diverse activities of individuals only connected with the division of labor and exchange. This is one, but not the last condition. To achieve thorough results, it is necessary that different individuals have been merged mentally, financially and interactively. The increase of the productive forces «begins with a single factory and then is distributed to the national association»². A nation that unites people makes up the whole. It is the result of previous development, discoveries, improvements, tradition, experience and knowledge. Each separate nation is productive insofar as it is able to learn this inheritance from previous generations and make it its own property and as far as natural sources, space and geographical location of its territory, population and political power allow it to develop harmoniously all areas of work and to spread its moral, mental, industrial, commercial and political influence on other nations and the world in general.

According to F. List, the increase of the productive forces is due to investments aimed at educating future generations. In order to achieve the status of an economically developed nation there is needed a system of encouragement and patronage; it is designed to preserve young processing industry. Germany and several other countries need protection. In the future free trade will be common practice and there can appear global alliance of industrially developed nations. F. List substantiated the necessity of rapid economic growth (no wonder he is called a theorist of development) and break into foreign markets; he defined the policy of «catching up development». He introduces such categories as national independence and power into the scientific use.

In the above-mentioned work F. List drew particular attention to the role of the state. He wrote that we cannot understand the national economy, which is continuously and directly affects the rest of the economies. List

¹ It was translated in English as «The National System of Political Economy», translator's note.

² See for more det. Liszt F. The National System of Political Economy / Liszt F.; ed. K.V. Trubnikova. — SPb. A. E. Martens, 1891. — P. 347.

identifies the state economy, meaning thereby state funds of the Government (Finance), the consumption of these resources and their management. People's savings become national savings in the case when the state or a federation covers the whole nation that has autonomy and the ability to acquire political significance.

When the strong influence of the classical school was felt the most striking figure in the early stages of the historical school was Karl Rau. Being a supporter of Adam Smith and classical scientists at the same time, especially in finance, he shared some of the ideas of cameralists and advocated state intervention in economic life. However, K. Rau is close to the historical school in general philosophy and scientific approach. Returning to the philosophical principles of cameralists, he allocates financial science out of political economy. Formally his «Grundsätze der Finanzwissenschaft»¹ (1832) was the third part of his textbook of political economy, but the content of his course of finances has very few points of intersection with political economy. The fact that it survived six editions and later, after 1868, was reprinted by A. Wagner and served as the basic manual of financial science for half a century in almost all European countries, not just Germany, is explained by, first, very clear, and sometimes simplified presentation; secondly, by its systemacy; thirdly, by completeness of content (all the issues of financial management were represented); and fourth, by wealth, relative accuracy and freshness of all the material presented to the era of the 1830s. Tutorial was constructed as follows: introduction, general theoretical principles of financial science; chapters were government spending, government revenues (from state property, state regalia, and forests, industrial enterprises of capitalists, duties and taxes), public credit, budget and financial management organization. The financial science course was taught in higher education establishments in Germany, England, Italy, Russia and Ukraine using this scheme. This pattern is largely preserved today.

Russian translation, followed by a long period of studying in universities of Ukraine, was released in 1867 under the editorship of K. Rau's student of who shared his views — V. Lebedev. In the preface to the edition this Russian economist-financier, who, according to contemporaries, had a great encyclopedic knowledge in all areas of financial science and financial management, noted that «it is the only work in all European literatures submitting a new presentation of the science in all its parts»². University of

¹ «Basic principles of financial science», translator's note.

² Rau K. G. Basic Principles of Fiscal Science / Rau K.G.; transl., ed. and foreword. A. Korsak, Lebedev. — SPb.: Tipogr. Maikova, 1867. — Vol. 1-2. — P. 5.

Vienna professor, L. Stein thought the book by K. Rau «Treasury of German literature, the glory of the German people»¹. I. Patlaievskyi reviewed the textbook «Grundsätze der Finanzwissenschaft» as a very successful due to the «extraordinary number of historical and statistical material»².

The high rating of this work by L. Stein had a very big importance for Ukrainian economists of the XIXth century as he was already known in Ukraine as the author of a multivolume work «Die Verwaltungslehre» where he suggested the need to develop the theory of European financial science that encompass knowledge of finance law also of other countries, including Russia and Ukraine. If truth be told we note that a more modest estimate of K. Rau's work gave J. Schumpeter: «As a lecturer Rau deserves a high place in the history of economics although little can be said in favor of his books except that he had carefully sorted wealth of factual material»³.

The textbook by K. Rau cemented the idea of necessary separation of political economy and financial science. The same student of K. Rau, professor V. Lebedev, said on this occasion that every science had its objectives: «Political economy studies the general laws, the laws of the national economy; financial science, based on it, studies of state financial management system, its means and ways to meet public needs»⁴. It was his example for financial science to begin to be separated from finance law.

V. Lebedev described the difference between subjects of «Financial Law» and «Financial science» as «Legal and dogmatic study of legal laws is finance law and learning the rules of the financial management of the economic and political side is a financial science»⁵. In Ukraine this division was secured in courses by I. Patlaievskyi «Курс фінансового права»⁶ (1885), I. Tarasov, «Нарис науки фінансового права»⁷ (1889), S. Ilvayskyi «Короткий підручник фінансового права»⁸ (1893). The same separation started in foreign financial literature, particularly in the work so fl. Cossa (1831–1896) «Scienza delle Finanze»⁹ (1875) and F. Nitti (1868–1953) «Principi di scienza delle finanze»¹⁰ (1903) et al.

However, after publication of Karl Rau's financial science course textbooks began to devote much space to the current legislation. The

¹ Essays on the history of financial science. — P. 72.

² Patlaievsky I. The course of science of financial law. — P. 14.

³ Schumpeter J. A. History of Economic Analysis. — Vol. 2. — P. 658.

⁴ Lebedev V. A. Financial Law. — Vol. 1. — P. 86.

⁵ Lebedev V. A. Financial Law. — Vol. 1. — P. 10.

⁶ «Finance Law Course», translator's note.

⁷ «Essay on Finance Science», translator's note.

⁸ «A Short Tutorial on Finance Law», translator's note.

⁹ English translation 1888 under title «Taxation, its Principles and Methods», translator's note.

¹⁰ «Basic Principles of Financial Science», translator's note.

financial literature has begun to resort to extremes: work in finance began to turn in the collection of the current fiscal legislation with some historical and statistical information. Generalizations were gone and replaced with a simple account of the applicable law that was quickly changing. That became the reason that vast literature on finance quickly lost relevance and importance.

Up to the 1870s historical school had been divided into three main groups: the old historic school— W. Wagner (1817–1894), B. Hildenbrand (1812–1878) and Karl Knies (1821–1898); the new historic school — G. Schmoller (1838–1917), A. Wagner (1835–1917), Max Weber (1864–1920) et al. and radical and realistic — L. Brentano (1844–1931) et al. The greatest influence on the development of financial science made new historical school, which supporting the idea of F. List, argued the need of state intervention, development and complication of economic state functions. In the field of finance there was put forward the demand of accurate and reliable knowledge of specific conditions. Statistical observations (what is now) and historical study (what was) are the only legitimate scientific methods for the school. The problem of capital accumulation, which determines economic development, according to representatives of this trend, can be best solved only by the state, which concentrates a share of the annual income of the state budget and investing in those sectors of the economy that determine economic growth. Government subsidies and other support of exports of goods, services and capital are an essential element of government financial policy. According to G. Schmoller, which develops this idea through all his work «Die Volkswirtschaft, die Volkswirtschaftslehre und ihre Methode»¹ and justifies that it is not just justification of government intervention, but the only condition for effective management of economy.

One of the first, who tried in his course of financial science to give a systematic presentation of the financial sector, was the representative of the old historical school W. Roscher. However, the stated views on financial institutions in his course «System der Finanzwissenschaft»², 1886, had no complete systematic character. He could find a proper place neither for local nor for union or federal finances. The reason for this was the absence of any certainty of opinion on the financial institutions. W. Roscher considered a good tax system such a combination of them in which none of the sources of income are not exempted from taxation while it is not overloaded. In his view, any tax system is good itself, but the inconvenience of some taxes should be compensated with other amenities. The best system of taxation he

¹ "The science of the economy, its object and method", translator's note.

² "System of Finance Science", translator's note.

considered to be the one, which would include personal income taxes, real taxes, consumption taxes and turnover taxes.

Some conflicting views on the activities of financial institutions did not give him an opportunity to explain their causation. For example, W. Roscher requires the elasticity of the tax system and at the same time indicates that most of the elasticity of the tax system will lead to excessive costs and to budget increase. Regarding the ethics of taxation he supports Adam Smith and bases taxation policies on the principles of solvency and equivalence of services provided. Concerning the tax system W. Roscher wishes to use the first and the second principles. However, there is collected enough interesting material in his work, so here he can be described more as a skilled logger of financial institutions that are approved or condemned without a theoretical understanding of their role in the financial system.

Works in field of economic history of the Roman Empire by K. Rodbertus (1805–1875) and studies of indirect taxation by Ferdinand Lassalle (1825–1864) had significant impact on the views of representatives of the new historical school.

«Untersuchungen auf dem Gebiet der Nationalökonomie des klassischen Altertums»¹ (1879) made K. Rodbertus possible to establish that «the financial system is a reflection of economic relations», i.e., distinguishing between revenue sources and differentiates taxation system. It was generally accepted and it is relevant today. The conclusion of German scholar put it on the right ground historical research in the field of financial management and financial institutions began to be explored from this point of view. The question of establishing patterns of financial phenomena comes to the forefront of financial research. According to K. Rodbertus, the financial system of any state reflects not only economic conditions (they are determinant), but also state-legal relations — political system and the state of public administration. The financial systems of the ancient world in comparison with existing in the middle of the nineteenth century systems of European countries have some differences that appear, according to K. Rodbertus, in the organization of production, the organization of state power, conditions of capital and the system of legal relations.

Criticizing members of the Manchester school, who believed that any tax is a restriction of capital accumulation, and hence the increase in the total national wealth, K. Rodbertus expressed his views on issues related to taxation. According to him, «tax is not robbing society, and vice versa, no tax can be harmful to the life of society». «Not every tax is a plunder of capital accumulation». «Also, not every new capital accumulation leads to the

¹ «Research in the national economy of classical antiquity», translator's note.

general welfare». «Growing capitalization increasingly contributes to the difference in wealth between social classes. Also, primarily there should rest firm hand of the state»¹.

K. Rodbertus advocated the abolition of indirect taxes on consumer goods, the introduction of high taxation of money capital and the organization of fiscal monopolies. He stressed that «existing in different countries tobacco monopoly proves that the state is completely able to act as a big manufacturer, merchant and small trader»². F. Lassalle supporting the idea of injustice of shifting taxes in «Die Indirekten Steuern und die Lage der Arbeitenden Klassen»³ (1863) argued that the ruling classes are trying to throw the burden of public spending on the poor classes. Proclaiming his principle that everyone should pay taxes in proportion to their income, the bourgeoisie, to the extent possible, does this by shifting with a disguised method — «after installing the differences between direct and indirect taxes»⁴. Indirect taxes, instead of falling on people in proportion to their capital and income, go for the most part to those lower-income. «Though not the bourgeoisie invented indirect taxes — they existed before — said F. Lassalle — but the bourgeoisie developed them to the unprecedented system and piled almost all government spending on them»⁵. Problems of fair taxation and reasonable ratio of direct and indirect taxes are not resolved today.

Social and political trends were developed in the works of Lorenz Stein (1815–1890), who was at the origins of new school. In his famous «Lehrbuch der Finanzwissenschaft»⁶ (1885–1886) he shows it in close relationship with the social sciences and the doctrine of the national economy. L. Stein similar to K. Rodbertus formulated position on the relationship between financial management and economic conditions. He believes that the divisions of property and capital, labor organization and legal structure affect financial institutions.

L. Stein has new approach to the issue of finance law. Financial institutions were studied only from their economic side because of influence of classics. K. Rau and historical school again began to study financial legislation, but only as a certain amount of background material. Financial

¹ Research in the field of the national economy of classical antiquity of Rodbertus. On the history of taxes tributa since August; [trans. from English by Boevskaya]; ed. Ivan T. Tarasova // Vremennik Demidov Juridical Lyceum. — Yaroslavl: Tipogr. Falk, 1887. — P. 405-406 (163-185).

² *Ibid.*, p. 187.

³ «Indirect taxes and the Workingman», English version.

⁴ Lassalle F. Indirect taxes / Lasalle F. // Works: in 2 Vol. — St. Petersburg. Bell, 1870. — Vol. 1. — P. 144.

⁵ *Ibid.*, p. 145.

⁶ «Textbook of Financial Science», translator's note.

and legal issues were raised to a scientific level for the first time in L. Stein works. The scientist did much to create administrative law and he was the first to show the basis of the administrative and financial law. He originated the idea to study and finances of the ally and federal states along with the study of finance of centralized states. L. Stein pays great attention to the elucidation of the political and legal nature of self-government, and in this regard he pays great attention to the analysis of local self-government finance.

L. Stein made an important contribution to the theory of tax and determination of the level of taxation. In his judgment the measurement of the tax amount should be done not only in absolute terms, and «not even limited to the ratio of tax to income of citizens and indicate an important determinant condition — the taxes expenditure, the extent of their effectiveness»¹. L. Stein insisted on tax assessment in respect of a particular taxpayer and the amount of his taxes paid and on determination of the efficiency of spending taxes.

Analyzing the achievements of other representatives of the new historical school a special attention should be paid to the work of one of its last founder, professor of University of Berlin, Adolf Wagner. His specific provisions on the theory of finance stated in the course «Finanzwissenschaft»² (1877–1901) retain relevance and are displayed in modern financial literature especially with regard to sources of state finance. A. Wagner's ideas had an impact not only in German but also in English and American literature in the late nineteenth — early twentieth century. Since the 70s of the nineteenth century Ukrainian financial literature had been also affected. From M. Bunge to M. Sobolev all Ukrainian financiers were to varying degrees disciples of A. Wagner.

German scientist more clearly defined problems of financial science: the organization of effective and independent oversight, the observance of principles of ecology, establishing a proper balance between public needs and national product taxation and so on. State (financial) economy, in his opinion, is the highest form of public law union. Revenues and expenses of the financial sector are not useless growths but organic spending of the resources of public economy. Tangible benefits of private enterprises in the financial services sector are transformed into state services (economy of consumption) and state services enable private households to generate the same or bigger amount of material assets. This process he calls «financial economy», which refers to the state budget. According to A. Wagner, the

¹ Isaev A.A. *Essay on tax theory and policy* / A.A. Isaev — Yaroslavl: Tipogr. G. Falk, 1887. — P. 96.

² «The Science of Finance», English version.

executive and administrative authority in financial economics is the government, which is a separate unit.

Analyzing the impact on the production and distribution of the means of production in state ownership (land, forest, capital) A. Wagner defends «state monopoly» as an important source of budget forming. He supports the idea of municipal government justifying the transfer to local authorities utility enterprises. However, the German researcher clearly defines the boundaries of the state and on this basis justifying such principles of financial policy: 1) the limits of state activity should be clearly defined; 2) it is irrational in all cases seek to substitute private sector with that belonging to state; 3) production must be harmoniously divided between the state and private enterprises (evolutionary approach to the effective enterprise); 4) thrift in the public sector is not mandatory ideal; 5) government revenues cannot remain stable as the scope of state activity is constantly changing. Supporting market-based economy A. Wagner proves that government intervention in economic life is determined by the specific conditions of time and place. This idea was confirmed in practice as the «size» of government intervention during the stable development of the economy and during the crisis is different.

The development of these ideas led A. Wagner to the discovery of the law of «expansion of state activity». Using the language of public finances it means nothing else than the increase in state spending, growth of which outpaces the growth of the national product. Production growth in national income per capita as a result of industrial development of Germany meant increase of government spending. A. Wagner proves the main factors for this growth: 1) expansion of a purely administrative and preventive state functions such as the division of labor caused by industrialization; 2) increase in public social spending, especially on education, which stemmed directly from the development of the productive forces; 3) an increase of state investments caused by technical changes in areas where private investment is not desirable due to low efficiency. The most often he relied on the railroad to prove it. This reinforces his basic concept that the state with its financial system, which is expanding rapidly, is the most important part of the economic system, its activator and a major investor.

A. Wagner expresses more radical views on tax policy, which he bases on the idea of government intervention in the allocation process.

Revealing the principles of «public economy» he presents taxes as a dynamic link between the public (state) sector, an individual taxpayer and taxation as a vital social institution. The development of this system of the specified component and its reproduction occurs due to taxation. In economic terms the purpose of the tax is its reproduction and the formation

of the revenue volume that supports the state's activity. A. Wagner introduces the concept of «tax capacity», which creates a system of relationships: tax — administration — tax potential. All elements follow each other, and if one of the components of the system disappears then it is followed by all the others and the system collapses.

A. Wagner identifies the most important factors that influence the development of tax systems: 1) the organization of the economy and industry, ownership right; 2) the political system; 3) economic groups; 4) social groups, especially differentiation among owners and non-owners, and organization of military protection.

A. Wagner denies the possibility of the existence of the tax system with one tax and suggests the tax system with four types of taxes in the discussion about the optimal state tax systems. «One tax, no matter what kind it is, is not able to cover the enormous cost of advanced social system, especially the state according to today's complex relations of possession and acquisition»¹. A. Wagner's basic rules of taxation are well-known in the financial literature. He develops the ideas of Adam Smith on the basic principles of taxation and practical axioms of tax policy. A. Wagner offers nine basic rules that are classified in four groups:

I. Financial principles of taxation: 1) compliance with received income (adequacy of taxation); 2) flexibility (elasticity) of taxation.

II. Economic (national economic) principles: 3) proper selection of taxation source, including sociological research on the question: what should be taxed— personal income or capital of an individual or of population; 4) the right combination of various taxes in a system that takes into accounts the effects and conditions of tax shifting.

III. Ethical principles (concepts of justice): 5) universality of taxation; 6) uniformity in taxation.

IV. Principles of efficiency of the tax system (administrative and technical rules): 7) determining factor of taxes; 8) ease of collecting taxes; 9) the maximum reduction of the costs of levying taxes.

As Adam Smith the German scientist places importance on the «fairness» in taxation. Certain social justice, in his opinion, can be achieved through state finance. Therefore, almost all the work «The Science of Finance» A. Wagner riddled with the idea of the need for social reforms and growth in government social spending. Here he supported the ideas of the classical school representative J.S. Mill, who noted that it was necessary to eliminate the imperfections of natural relations using taxes and the ideas of British public and political activist W. Gladstone (1809–1898), who proposed

¹ Isaev A.A. Essay on tax theory and policy — p. 106.

through increased taxation of the rich alleviate situation of the poor and thus contribute to a more equitable distribution of wealth. The first part of A. Wagner's work provides an overview of the financial system, the doctrine of expenses and the doctrine of private loyal incomes, the second concentrates on the doctrine of customs duty and the general part of the doctrine of taxes. The third is a special part on taxes (history, law and statistics). Appendix to this in form of a separate book presents a detailed study of English and French taxation in the XIXth century.

The fourth book is devoted to tax in Germany in the XIXth century. A. Wagner himself called this work a guide to financial science. It may well be viewed as a systemic encyclopedia. The relevance of matters raised in it, despite its incompleteness, persists to this day. Almost in a modern way A. Wagner approaches to the characteristics of taxes functions. He identifies the purely fiscal function (cover of state needs) and the function of social welfare (redistribution of national wealth). The first provides the funds necessary to finance public services therefore it requires the distribution of taxes in proportion to taxpayers' incomes. The second is an adjustment to the first function. To achieve fairness principle A. Wagner offers not only introduce a progressive income tax, but a progressive form of taxation of inheritance and capital.

The objective conditions of development of European countries in the late nineteenth century when they needed more government spending (almost all the countries of Western Europe waged wars), required theoretical generalization of government loans. The latter accounted for a significant proportion of the full amount of government spending from 27.9% in France to 41.7% in Austria. The rapid growth of public debt indicated the need for research of this category and, to a certain degree, called for justification of their growth¹.

One of the first who contradicted the classical concept of using government debt to capital movements was K. Ditzel (1829–1884) who suggested the creation of capital through public credit.

In his book «Das System der StaatsanleihenimZusammenhang der Volkswirtschaftbetrachtet»² (1855) he argues that people are the more affluent and the economy is prosperous and progressive the more of the public expenditure is absorbed with interest payments. Substantiating the economic substance of public credit he notes that the state credit, firstly, puts state on higher stage of economic development; secondly, it creates for the state «inexhaustible and unchanging foundation» from which nation daily

¹Theory of finances/ ed. V.M. Fedosov, S. I. Yuriy. — P. 123.

²«The system of government loans», translator's note.

and hourly receives benefits; thirdly, through a loan («inexhaustible fund») nation meets their needs; fourthly, government loans available to creditors are of the free surplus capital, while capital investment are not diverted from any company. The real sector of the economy consisting of private households does not feel the impact of government credit.

K. Ditzel's concept was supported by other members of the new historical school. According to A. Wagner all the wars in Western Europe in the nineteenth century for the acquisition of territories, markets and sources of raw materials were funded by government loans, which contributed to the transformation of material in intangible capital of the country. L. Stein examined repayment in terms of investment, arguing that it «is the formation of new capital out of engaged» (i.e. invested). Marxist theory considers state credit as one of the forms of movement of loan capital and interest on the loan — as part of lending capital in additional cost.

The focus of researchers had been mainly public financial management up to the second half of the XIXth century. Local unions and the system of their income were occasionally mentioned. This problem in the 60s of the XIXth century initiated by R. Gneist blended into the agenda of the congress of German economists. In the late 70s the problem of local finance was one of the major for the new historical school economists to analyze. The issue of local finances is beginning to enter into the framework of financial science courses. L. Stein was one of the first among the new historical school who did it. He believed that the state economy takes only one part of the economic life of human society. The second half of the economy is self-government authorities. According to the scientist it is difficult to identify the boundary, to which their economic development may run in the future.

A. Wagner considers the question of local finances as the indispensable part of the subject of financial science in his book «Finanzwissenschaft»¹. According to him there should be the same financial institutions in the community as well as in the state. Special attention is drawn to the finance of major cities because of their special economic and social conditions, which makes it possible to have specifics of their own and differ from the finance of other public law unions. He particularly urges for the large cities local estate tax and annual estimates of value and levying undeserved growth value of urban real estates. In his view, «financial science should become the science of the financial management of all forced households out of the science of the financial sector; i.e. to accept the doctrine of the local economy, especially in communities, districts and provinces». According to the German scholar only good organization of local finances is able to

¹«The course of financial science», translator's note.

implement the main objective of financial policy — to ensure appropriate use of funds and distribution of the financial burden between different areas.

Since that time the issue of local finance had been discussed in the French and English literature under the influence of the growing interest to the organization of local self-governance. «Father» of the science of local finances among Ukrainian economists-financiers called V. Tverdokhlebov, who will attribute «finances of local governments that are opposed to central government bodies and directly subordinate to them local governments» to the local finances.

Thus, the German historical school created quite a coherent theory of state finance under the terms of «catching up» development; the country itself led a policy to stimulate economic development having weak national capital and the need with the help of the state to concentrate financial efforts forward. However, as the experience of Germany shows, it is important not to go beyond the human values and not be carried away by the national idea of economic development.

Historical school achievements should include the launch and science of local finances. Under the influence of these ideas in the late XIXth century there began a study of municipal services and utilities. This was preceded as usual in practice, when major cities due to lack of private (capitalist enterprise) were forced to take into their hands the organization of vital urban utilities. Generalization of scientific developments on these issues more fully was made by Englishman C. Hugo (pseudonym of Lindeman) in the book «Municipal socialism in England»¹ (1897). With the introduction of this paper thoughts of economists-financiers divided into supporters and opponents of municipalization. Discussions on this issue are being conducted in the financial literature even today.

Historical direction of financial literature also showed financial science that financial institutions are not mechanical layering of individual acts and that they are developing highly geared to economic, political, legal and other conditions and that we can rightly speak of «financial flora». Its ethical direction forced financiers to pay attention mainly to the key questions of practice, although there were also aspects of the moralization of some of its consequences.

New historical school represented by G. Knapp (1842–1926) has made a significant contribution to the theory of money.) He justifies the advantages of paper money over the metal in his book «Staatliche Theorie des Geldes»² (1895). The main criterion of these advantages G. Knapp believes their

¹«Municipal Socialism in England», translator's note.

²«The State Theory of Money», English version.

value, which, in contrast to metallic money, is not determined by the value of the metal, but such a powerful institution as a state. According to him, the state may conduct monetary policy according to its real economic needs. These ideas will find supporters and critics. The latter believed that the theory of G. Knapp contradicts the objective nature of economic laws, but the idea of coercive value of paper money will remain unchallenged.

It is worth noting that modern German and mostly global financial science are still under the influence of W. Roscher, L. Stein and A. Wagner. If English literature due to G. Jese there can be found only a reflection of ideas of A. Wagner in each study, in modern German literature it is difficult to find an author who would not be more or less a direct successor of the scientist. The influence of the latter in German literature is not mitigated by legal trends of G. Jese and economic excursions of E. Seligman. E. Sachs' triesto go the Austrian school way in terms of the theory of marginal utility did not find a large number of supporters. A. Wagner was and still is an inspirer of most German researchers of financial issues.

2.4 Marginalism

Considerable shifts and changes in the economies of Western countries in the second half of the XIX century as the result of transition to monopoly capitalism laid a foundation for the development of the new school in economics that is called marginalism. In accordance with the changes in evolution of the industrial production essential changes take place in nature of the market: gradually the seller's market turned into the buyer's market. This led to an objective need for explanation of economic processes from a buyer's perspective. In the last third of the XIX century, this question was studied independently by a solid number of researchers. Amongst them: from Austria — Carl Menger (1840–1926), Eugen Böhm von Bawerk (1851–1913), Friedrich von Wieser (1851–1926) ; from England — William Stanley Jevons (1835–1882); from Switzerland — French economist Léon Walras (1834–1910) who was invited to Switzerland; from Netherlands — Arnold Jacob Cohen Stuart (1855–1921) and others. What they all had in common was the theory of marginal utility, marginal efficiency, the analysis of marginal values in the economy. The fundamentals of this school were developed by E. Condillac (1715–1780) in France, P. Verri (1728–1797) in Italy, H. Gossen (1810–1858) in Germany. They brought up a lot of issues of financial nature, in particular their original ideas regarding the transference

of direct customer taxation to the taxation of landowners, merchants and manufacturers.

H. Gossen in his work *The Development of the Laws of Human Intercourse and the Consequent Rules of Human Action* (1854) outlined the principles that in modern economic literature are known as the first and the second «Gossen's laws». In 1870-ies Englishman W. Jevons in the work *Principles of Science* (1874), Swiss L. Walras in his work *Elements of Pure Economics* (1874) and Austrian C. Menger in the work *Principles of Economics* (1871) almost simultaneously summarized the main ideas of this school systematically.

The most important achievements of this school were: the change in the subject of the research (**turnover sector**); the inclusion of marginal values (marginal efficiency, marginal unity, marginal utility); the change in the interpretation of value — [value] is defined by marginal utility; the transfer of the analysis to the macro level — economic and financial transactions of the business sector of the economy; the inclusion of mathematical analysis, which enabled the scientists to bring up the problem of maximization of company's economic and financial activity: its profit, prices, production costs, investments in the long-term and short-term assets; the application of differential calculus as well as economic and statistical method enabled the scientists to better substantiate several principles, to quantify the categories of wealth, value, savings, investment, capital, interest rate.

Based on the theory of the marginal utility, a new independent school was established in the financial economics. The key representatives of this school were: E. Sachs (Czech Republic), L. Walras (Switzerland), W. Jevons (England), S. Rick-Salerno, A. Graziani (Italy), E. Seligman (USA) and others. Their main field of scientific research lay in the theory of taxes and their delegation.

The financial economics became more precise and systematic because of this school. After Adam Smith divided economics into two parts (positive and normative economics), his followers from Germany made a considerable step forward and outlined the third component — the financial economics. C. Menger distinctly defines the fundamentals of economic methodology and distinguishes 3 groups of sciences that are components of the aggregate economic knowledge: 1) historical; 2) theoretical; 3) practical in his work *Investigations into the Method of the Social Sciences with Special Reference to Economics* (1882). According to the researcher, the phenomena that are amenable to study are either specific events in space and time and with their mutual concrete correlation, or various forms of the phenomena, being repeated. According to this, 2 groups of sciences were distinguished, that were different from one another: the sciences about individual phenomena

and sciences of generic knowledge. The first group includes historical sciences (economic history and statistics), and the second one includes theoretical and practical sciences.

In the classification of Carl Menger and his followers (L. Koss, E. Fillipovych, V. Levytyski, K. Vobluy etc.) practical sciences about economy are divided into: 1) economic policy and 2) the practical science about a singular business. «The latter consists of: a) financial economics, the science about fundamentals of running appropriate (that meets present condition for administration of the largest singular business in the national economy) economy by the government and other entities that have financial power; b) practical teaching about the private sector, the science about the fundamentals, which enable individuals to run their business in the most expedient way».¹

This classification was not critically acclaimed even by some members of Austrian school. In particular, E. Sachs, who supported the idea of distinguishing the financial science as an independent discipline, considered the views of C. Menger on financial science as applied science to be incorrect. In his opinion, economics and financial science belonged to the category of exact sciences. The latter should have been rebuilt — as political economy had once been — on principles of marginalism (marginal utility basis). Scientist pointed out that collective needs were the same as individual needs, because the individuals experienced them and those needs could only be met through the consumption of material goods. Therefore, according to E. Sachs, financial industry was the consumption of resources to meet specific needs; hence its laws were determined by subjective value. Each person considering his or her own situation (current wealth, intensity of needs) estimated the same social needs differently, and whole aggregate of these various estimates formed that general average estimate, which determined government revenues and expenditures. This meant that nothing definite could be said about the absolute amount of taxes, except that the relative amount of the taxes correlated with the marginal utility of wealth, which the payers had in their hands.

The penetration of marginalist concepts into financial researches caused the emergence of new trends in the theory of finance, in particular the theory of corporate finance. New marginalist concepts started being used: the marginal efficiency of investment, marginal efficiency of capital, the marginal cost of losses, the marginal tax rate and others. To maximize the

¹ See for more det.: Menger K. Studies on the methods of social science and political economy in particular / Menger K.; transl. ed. A. Guriev. — SPb.: Bk. mag. A.F. Zinserling, formerly. Mellier and K°, 1894. — P. 246-247.

financial indicators a new analytical machine was formed. It was widely used in researches, in particular the concept of «marginal efficiency of investment» was used in the corporate analysis of capital investment to describe the return on investment per a marginal unit (for example UAH, USD, Euro etc.) and determines the holding period.

New research method was introduced into financial science — method of formalization, which means the utilization of mathematical formulae and mathematical economic methods to help to evaluate financial processes. For example, when analyzing the performance of an investment in tangible or financial assets, the following methods of evaluation are used: net present value (NPV), internal rate of return (IRR) etc. Both indices are determined by using the theory of discounted (present) cash flows, which is the starting and the most basic principle of the corporate financial management. Financial and economic substance of this theory is that cash flows are estimated using the discount rate to give their present value. Such discounting is based on the fact that future cash flows contain more risk (the uncertainty of the cash flow materializing) than current cash flows. To assess the investment project, the formula of net present value is used. If calculated net present value is equal to zero or greater than zero, the sum of discounted cash flows is bigger than the investment tax and the project is considered to be successful. For the evaluation of the investment project the formula IRR (internal rate of return) is also used. Its value represents the discount rate at which the present (discounted) value of cash flows is equal to current value of expenses on the project.

In modern financial literature the indicator of the marginal efficiency of capital is also extensively used. This indicator shows the annual profitability of investing the last marginal unit of investment. It is defined as the discount rate at which the discounted future net revenue from investing in capital assets is equal to the supply price, given that the price is stable. The present time global economic challenges determine ecological relations not only as a factor of a civilized society, but also as a factor needed for new approaches to evaluation of losses caused by natural disasters. This was the basis for the introduction of the indicator, called marginal cost of pollution. Its economic and financial substance is showed in the value of the additional environmental cost that results due to the production of one additional unit, although it is difficult to estimate it in cash, because pollution of the environment considered as an external effect.

Term «marginal tax rate» was introduced to the modern theory of taxation and is now widely used in the tax practice.

Progressive taxation implies graduated personal income taxation, so each individual is taxed according to his or her personal taxation rate.

This means that increased taxation rates are applied only to one «grade» of the whole system. The tax rate of the highest level of taxpayer's income, or in other words tax rate for an additional unit of income, is called marginal tax rate.

In 1896 independently from his colleagues from other countries Dutch economist and mathematician Arnold Jacob Cohen Stuart proposed his system of progressive personal income taxation. A. Stuart was by then familiar with the key ideas of the marginalist concept regarding the statement that marginal utility of income is decreasing when the income is growing. In his opinion, this statement provides the ideal conditions to build a progressive taxation scale. Financial literature attests that he started to develop it's simulator at the end of XIX century. Many economists, from A. Smith to K. Marx and European social democrats, talked about the need or opportunity for introducing of progression to the income taxation in their works. Originality of the Dutch scientist Arnold Jacob Cohen Stuart lies in the fact that he not only supported the idea, but also created the modern system of taxation, taking into account personal tax privileges. He suggested a mathematical formula for calculating the interest rate based on income, which is now well known in modern financial literature:

$$p = 100 \left[1 - \left(\frac{M}{X} \right)^{\frac{\alpha}{100}} \right], \text{ where}$$

p — tax rate, %;

α — employment, %;

M — poverty line;

X — income of taxpayer.

In accordance to the formula, the bigger an income of a tax payer gets:

1. the smaller the ratio $\frac{M}{X}$ gets;
2. the bigger the difference;
3. the bigger the taxation rate p .

Aforementioned formula clearly shows that p can't be equal to 100. Regardless of how X is growing, expression stays positive, so this way p is always 100 times smaller than the integer. The author stated that this formula was easy to understand and to use and showed an example of tax rate estimation. This gave an opportunity to make up a scale of personal income taxation, where M is equal to 500 monetary units and α — 2%.

Personal income taxation rates

Income (in monetary units)	Tax	
	In % of Income	Amount of Tax in monetary units
500	0,00	0,00
600	0,36	2,16
700	0,67	4,69
800	0,94	7,52
1000	1,38	13,80
1500	2,17	32,55
2000	2,73	54,60
2500	3,17	79,25
3000	3,52	105,60
4000	4,07	162,80

Progression in taxation is called:

1. Regressive, when the percent of increase in the tax rate and amount of tax is reducing accordingly to the increase in taxed income in equal amounts.
2. Monotonous, when the percent of increase remains the same throughout all the levels of increase in income.
3. Progressive, when the percent of increase is growing accordingly to the increase in taxed income at equal amount.

In the following example we observe regressive taxation scale:

Income, monetary units	Tax rate, %	Growth in tax rate
500	0,00	0,00
1000	1,38	1,38
1500	2,17	0,79
2000	2,73	0,56
2500	3,17	0,44
3000	3,52	0,35

In tax practice they use graduated (compound) progressivity of rates, which means that the income levels are divided into sub-levels and each of

them is taxed accordingly to its advanced rate. So the advanced rates affect not the whole income (or property in case of property tax), but only that part of income, which is considered the next level that is bigger than the previous one. Taxation rate for the top level is called the boundary (marginal) tax rate¹.

It is noteworthy that the work of Cohen Stuart on the theory of taxation was published in 1889. This work was actually ahead of its time if compared to the tax policy. By 1889 income tax has been introduced in England (1842) and in Italy (1865). In other countries of Western Europe it was introduced much later than the study of A. Stuart was published: in Prussia — in 1891, in Germany — in 1920, in France — in 1916.

Significant step towards the financial analysis in its modern sense was made in studying the problem of correlation between savings and investment. For the first time in the economic literature the problem of breach in dichotomy as the result of steady imbalance of savings and investment was raised by Swedish researcher Knut Wicksell (1851–1926). For a clearer understanding of his arguments we should look into the equation. In case of full employment it would look like:

$$(T^d - T^s) + (M^d - M^s) = 0, \text{ where}$$

$T^d - T^s$ — aggregate demand and aggregate supply on the market of goods;

$M^d - M^s$ — adequate demand and supply of money.

An important conclusion that comes from this equation is that the deposits have to be equal to the investments, given that there is full employment and equilibrium in the financial market. This is, in fact, true, if the aggregate demand is detailed as $T^d = C + S + B$, and the aggregate supply as $T^s = C + S + N$, where C — household consumption; I — investments; B — government expenditures, S — deposits and N — taxes. Returning to the equation (1.1), we can draw the conclusion that investments are equal to aggregate deposits, i.e. the sum of the deposits of the private and public sectors: $I = S + B - N$. If a balanced budget is passed in the country, which is usually what the national governments aspire to do ($B = N$), the investments will be equal to the deposits of the households $I = S$. Hence we can conclude that when the deposits are lower than the investments, that this condition is caused by a much higher money supply over the money demand.

Important innovations in the banking systems of all countries with developed market economies, as well as in the functions and policies of central banks, that were typical for the end of the 19th Century, affected the development of monetary theory. If we turn to the idea of K. Wicksell, then

¹ Theory of Finance / by ed. V.M. Fedosov, S.I. Yuriy — P.128-129.

for the first time the center of his analysis will be technologies and practical problems of banking. In his opinion, the essential part of the money supply is «inside money» — bank loans. Granting «excessive» loans to entrepreneurs, banks actually guarantee that investments overbalance deposits. In Wickseil's model there is no cash per se, but at the center of his analysis is the influence of these excessive loans on the state of real economic changes¹. Meanwhile, in modern economic theory, a question concerning the relevance of similar economy model arose in the late 1960's of the 20th Century. The development of computer and communication technologies and their use in banking has provided for an opportunity to purchase not by means of transferring a visible medium of exchange (e.g., hryvnias or checks), but fortransmitting through an appropriate electronic signal channel, which increases, and accordingly, reduces, bank accounts of sellers and buyers.²

Defining the problem of interest and economic cycles as the center of his theory and the subject of his detailed analysis, K. Wickseil laid the foundations of monetary theory on interest. His conception of cumulative process gave, in perspective, a better understanding of the interdependence of a bank credit policy and the real economy that became the focus of the theory of John Keynes. In his model, he examined two types of the effect — static and dynamic. The gist of the former is that with the emergence of so-called credit economy, where all goods are sold under the obligation to pay after a certain period of time (e.g., a month), the owner of the goods (the seller) having received such an obligation may take it into account in a bank at a certain interest. In this case, the amount received by the seller is equal to the sum defined in the obligation, taking into consideration a certain interest (discount rate that we assume is equal to the interest rate). Any reduction of the interest rate means additional profit for the seller, which is equivalent to the price increase of goods. This change in the price patterns is static. The price no longer changes. If the interest rate remains unchanged, and returns to the previous value, the interest rate assumes its original level. K. Wickseil himself noted that the logic of the interaction between interest rates and prices was not confirmed by statistics of the time: high prices in the wholesale markets of France and England corresponded to the high interest rates; the low level of prices existed simultaneously with a low level of interest rates.³

¹ Lindsay D. E. Monetary policy / D.E. Lindsey, G.S. Uollig // Economic theory / ed. J. Eatwell, M. Milgeyta, P. Newman; ed. corr. RAS B. S. Avtonomov. — M: INFRA-M, 2004. — P. 579.

² See for more det.: Chukhno A. A. Postindustrial economy: theory and practice and their value for Ukraine / Chukhno A.A. — K.: Logos, 2003. — P. 533-546.

³ Holychenko O.G. Money Theory: Main ideas, problems and trends of development. — P. 8.

The dynamic effect is more inherent to the real sector of the economy, where a so-called natural interest rate r is equal to, for example, the marginal product of new capital. In the conditions of credit economy, with the banking sector playing an important role, there is another loan interest rate — credit, sometimes also called «monetary or banking»¹. If we consider the situation where the investments are equal to the deposits and the two rates coincide, the cost of the new units of capital will come short of the expected income and investment demand will exceed deposits. Financial deficit forces the entrepreneur to go to a bank where the loan interest rate (loan charge) is lower than the natural rate (charge for capital): $i < r$. Banks provide «new money» (deposits) for borrowers that they take in the form of loans and invest them in the real sector. «The money illusion» occurring ensures that investments are larger than deposits. Additional investments are flowing into the market of capital goods. The growth of the gap between the return rate on capital and the level of interest rates of bank loans makes investing in capital extremely beneficial. In conditions of physical capital deficit, these deposits cause price increase for investment goods. The corresponding upward price change in the market of capital goods involves the increase in the market of consumer goods which gives rise to inflation. Ideas to be considered would become a subject of a more detailed analysis of the concept of economic equilibrium of L. Walras.² Thus, the dynamic process of K. Wicksell is that any change in the balance between natural and money interest rates (caused by the inconsistency of actions of monetary authorities or sudden fluctuations in the natural interest rate) leads to corresponding price changes. «Uniformity... of price of net profit (return rate) on the market of capital goods ... [is] the condition that drives the world's economic interests, «stated L. Walras.³ One of the conditions of this causal link is the lack of available production capacity of the economy (i.e. full employment).

Let us analyze the situation from when the central bank maintains the nominal interest rate for a long period at a level which has ensured stimulating real interest rate from the beginning. In this case, economic activity would go beyond production capacity. But as inflation expectations are rising, according to the actual rate of inflation, the real interest rate falls still more, giving new incentives to nominal costs and inflation. Thus the

¹ Economic Encyclopedia: in 3 vol.; ed. S.V. Mocherny. — K., ed. center «Academy», 2000. — Vol. 1. — P. 88.

² More det. see L. Walras Elements: The elements of pure political economy / L. Walras // 25 key books on Economics. — Chelyabinsk: Publishing House «Ural-LTD», 1999. — P. 210-212.

³ Mylhey M. Equilibrium: the concept development / Mylhey M. // Economic theory / ed. J. Ituela M. Mylhey P. Newman; scientific. ed. V. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 288.

increase of reserves and of the money supply has to continually accelerate to maintain the target level of the nominal interest rate. Under such conditions, while maintaining low (relative to natural) interest rates for a long period of time, prices will grow, and bank reserves will decline, causing threat to the banking capital. Therefore, those central banks, which use the market interest rate as a guide for monetary policy, consider that in order to prevent such situations, they need to monitor the overall development of the monetary sector and the entire economy constantly and eventually adjust the set target levels of market interest rates.

The limited ability to give out credits will encourage the increase of the monetary rate (at least at the natural rate.) This may also be caused by the inflation process, as the money demand from agents will increase to conduct the transactions.

The need to increase money supply for computation due to the price increase under inflationary conditions for the purchased product makes them go to the bank — where deposit outflow begins. Price increase on investment goods is an additional stabilizing factor that lowers investment profitability and therefore initiates the decline of natural interest rate. The question is when this time will come and whether it will come at all. In any case, as the practice proves, even with the balance of monetary and natural interest rates and the return to the previous level, the prices will still remain higher than those of the previous level.

The generalized theoretical and practical implications of the scheme proposed by K. Wicksell can be summarized as follows:

- the above-presented model of K. Wicksell is a simplified description of a non-equilibrium process and can be considered as a step in the financial theory from static toward dynamic analysis; the fact of unidirectional price and interest changes could be explained because of it; in his scheme K. Wicksell came close to the problem of lags and expectations;

- unlike his predecessors, K. Wicksell tried to integrate the theory of money and the theory of prices; for the first time within the framework of dynamic approach, primarily exploring the relations between changes of relative and absolute prices. Capital asset prices during the activation of economic processes change faster than consumer prices, and therefore relative prices are changing. The change of general price level completes the construction of the price system to the original impulse, caused by the differences between the natural and market interest rates;

- the monetary theory modified by K. Wicksell has become an integral part of the production theory. Abandoning the old ideas about the exogeneity of the money supply, Wicksell related the banks' policy to general economic conjuncture;

• K. Wicksell, as one of the first researchers of dynamic process, made practical conclusions about the interest rate as an important stabilization policy tool. He connected the effectiveness of this tool with the degree of validity of the assumption about the stability of considered relations and with the independence of the variable models.

K. Wicksell was one of the first economists who started working on monetary analysis of the economic process as a whole, wherein the problem of price level takes second place. First of all, the scientist paid attention to how much one could rely on the stability of real — natural — interest rate in accordance with the change of the market, or money interest rate, in other words, how much one could neglect the possible direct and indirect effects, such as stimulating influence of income price increase, and because of them — the natural interest rate. Practice has proven that if the market and natural interest rates, due to various reasons, undergo unidirectional change, the efficiency of the interest rate of economic policy is reduced. The experience of the war economy (WWI) and the recent period of transformational economy of Ukraine have evidenced it.

The incredible diligence of the author in the research and the validity of his conclusions should be noted. However, under the conditions of the transition periods, the processes that are difficult to cover in full are brought into action. K. Wicksell left several of them beyond consideration. For example, how increasing income and forecasts of their actual improving influence the behavior of consumers and investors, etc. These factors define the trend of the rising real interest rate and reduce the effectiveness of raising it as a remedy against «overheating» of the economy.

Taking into consideration another historical situation, contrary tendencies may occur: a decline of natural interest rate, for example, due to the pessimistic expectations of investors, and then the decrease of market interest rate is no longer a remedy against production decline and reduction of prices. This situation was analyzed in more detail by I. M. Keynes.

So, K. Wicksell took an important step toward creating a dynamic model of the monetary economy, surpassed to a great extent by not only the macroeconomic approach of Keynes, but some areas of Keynesian theory. The monetary theory of the cycle in a new interpretation was later proposed by von Mises, who, although recognizing the achievements of K. Wicksell (not without some criticism), presented his theory as an outcome of the development of the monetary school ideas. Professor von Hayek developed it into his own, more elaborated analytical framework, which, after submission to the Anglo-American Society of Economists, had great success and is considered unsurpassed by any purely theoretical book.

The next original researches, which were based on Valras principles, were related to the name of Fisher Irving (1867–1947). He was one of the first researchers who attempted to formalize the verbal description of D. Hume concerning the correlation of money supply increase and the increase in production. It was I. Fisher who revived the quantity theory of money, though in general, he mostly contributed to the growing use of mathematics, development of econometrics, quantitative analysis and statistical methods. Active participation in the American Econometric Association and Journal «Econometrics» enabled him to spread his ideas. The scientist made a significant contribution to the development of statistical indices, trying to derive the «best» formula for the price index P and quantity index Q , in particular:

$$P_1 Q_1 / P_0 Q_0 = \sum (p'_1 q'_1) / (p'_0 q'_0) \quad (1.2)$$

where P_1 , Q_1 , P_0 , Q_0 are price indices and quantity indices in period $t = 1$ and $t = 0$;

p'_1 , q'_1 , p'_0 , q'_0 are price values and quantity values in the corresponding period¹.

Thanks to the attempts of I. Fisher to test the theory with the use of correlation and regression analysis of achievements in the field of statistics, including the method of distributed lags, a reliable tool for quantitative analysis was established, and the line of further research of currency circulation and inflation, deposit cycle, interdependence between inflation and unemployment, known today as the Phillips Curve, and also the relationship between price behaviour and interest rate were defined.

I. Fisher has devoted some of his works exclusively to interest rate: «Appreciation and interest» (1896), «The rate of interest» (1907), «Theory of interest» (1930), where he connected interest as one of the most important instruments of monetary policy; first of all, with the psychological factor, the «impatience.» In scientist's opinion, its value depended on the preference of the modern commodities, in comparison to the future ones. This found an expression in the «agio» — the difference in usefulness of commodities that belong to different moments in time. Economic interest is an equally important factor that influences the interest rate — the marginal profitability of investment that characterizes investment opportunities.² The theory of

¹ History of economic science: manual / ed. Avtonomov B., O. Onanyina, N. Makashevoy. — Moscow: INFRA-M, 2000. — P. 281.

² Fisher I. Pokupatel'naya power of money: EE and Attitude Determination for the loan, interest and kryzysam / J. Fisher — Moscow: Fynyzdat NKf USSR, 1926. — P. 44

intertemporal utility maximization is developed in more detail by M. Friedman, as «the hypothesis of permanent» income.¹ For Friedman, it has become a footing in the formulization of regulations of monetary policy and cycle analysis.

In comparison to the achievements in the development of the quantity theory, the interest theory was more significant, in the centre of which is Fisher's well-known inflation equation:

$$i = r + p, \quad (1, 3)$$

where i — a nominal (market, money) interest; r — a real interest; p — the rate of price increase or inflation value.²

A theory of interest as a premium, or «agio», foresaw a very different concept. As a rate of discount, which extended to income production services of all kinds, interest «saturated» through them all — return income from capital goods is no less, than it is from the other services. I. Fisher was the first person who distinguished the notion of income from capital goods as opposed to income from interest. Therefore, this equation can be interpreted as a definition. According to this definition, the real interest rate is defined as the difference between the current market rate of interest and the rate of inflation. Causal relationship in the condition of equilibrium shows that in steady conditions or long-term periods, nominal interest fully adapts to price changes. Considering the balance of the financial market in the unsteady state, when the expected price increase coincides with the actual increase, the equation must have some variable, which reflects not the actual but the expected price level. The existence of these two variables requires the introduction of additional assumptions, such as, for example, assumptions about the formation of inflation expectations. If a significant amount of time is needed for adaptation, the effect of inflation on the real interest rate is possible. Namely, the interest rate is a mechanism, which restores the equilibrium of the market after so called «price shocks», note the researchers.³ But in such cases, a question about the full-fledged variables of the system arises. First of all, the question concerns the volume of production and employment; moreover, this approach allows us to analyze not only the state of inflation, but also deflation, extremely important for a period such as the 1930's, as well as the modern period of transformation.

¹ More det. see.: Yukhymenko P.I. History of Economic Thought. : navch.posib. / P.I. Yukhimenko, P.M. Leonenko. — K.: Znanntya Press, 2000. — P. 302-308.

² More det. see.: Fisher I. The purchasing power of money: its definition and related to the loan, interest and crises. — P. 142-144

³ Naydenov B.C. Inflation and monetarism. The lessons of the anti-crisis policy / B.C. Naydenov, A.J. Smenkovskaya. — «Belotserkov. Book Factory», 2003. — P. 18.

In the analysis of the current economic situation, this conclusion is extremely important in terms of finding out the ineffectiveness of some monetary measures in non-market economy. Ukraine, during the transition, might be such an example: in conditions of high inflation with limited monetary policy and insolvency of many businesses, adjusting interest rates did not work as a regulation mechanism. The main reasons for this were the lack of a free flow of money, and high interest rates, which paralyzed the credit. This is why credit resources did not become the main financial resource of management subjects.

The scientist accentuated on the discussions about the theory of money either, the center of which was the equation of exchange and the quantity theory; thereby the «pros» and «cons» got «a new life». I. Fisher outlined his views on the theory of money in a series of works: «Purchasing power of money: its determination and relation to credit, interest and crises» (1911), «100-percent money» (1935) etc.

His theory, which was based on the fundamentals of the American system of marginalism, is a modified version of the quantity theory of money and, in some sense, a precursor of modern monetarism. The importance of monetary factors impacting the price change has been confirmed by empirical studies of American monetary circulation, as well as data analysis of institutional and functional changes in the banking sphere and the financial sector.

The theory of purchasing power, which has been embodied in these studies (with the addition of the studies of D. Creps, W.S. Jevons and G. Cassel) suffered from limited data. Spreading incorrect interpretations of the impact of monetary factors during the Great Depression in the 1930's reinforced the doubts about the importance of these factors in business cycles, which in turn caused the spread of alternative monetary interpretations of economic cycles — Keynesian one.

The conceptual scheme of I. Fisher, as well as modern monetarists, has focused on the problem of the changes in the purchasing power of currency, which Fisher defined as the inverse value of the overall price level. At the center of attention was the analysis of the ratio between the aggregate of money demand and supply. Questions related to changes in supply and demand of goods and the movement of relative prices, questions that consider the theory of general equilibrium, Fisher brought beyond the scope of the theory of money. The conclusions give grounds to state that I. Fisher, like his predecessors, has accepted the «classic dichotomy» of the real and monetary sectors of economy.

Known in modern literature, the equation of exchange describes the connection between the volume of deals, legal payments and mediums of

exchange, velocity of money circulation and the general level of prices [$PQ = MV$, where P — price level; Q — volume of deals (amount of transactions); M — mass of money in circulation; V — velocity of money circulation]. This equation was the foundation of I. Fisher's monetary theory. This correlation suggests that the level of transactions Q and velocity of circulation V are determined by the institutional structure of the economy and thus remain constant for quite some time (the hypothesis of the immutability of money velocity and volume of transactions in relation to the supply of money was adhered to even by D. Ricardo). Therefore, in I. Fisher's opinion, increasing the money volume leads to a proportional increase in the price level. In other words, I. Fisher tried to justify the main hypothesis of the quantity theory of money, according to which the price level changes directly proportionate to the change in the quantity of money in circulation, provided that the velocity of money and the volume of trade remain unchanged.

Most authors during the period of I. Fischer's creative activity refused to recognize check deposits as money — at best acknowledging them with relevant precautions. In their writings, they emphasized the difference between money and «credit», or between «primary» and «fiduciary» money. In the given equation under the mass of money, I. Fischer meant also «commodity» money, i.e. metal coins and banknotes. However, he put check deposits (M^1) with their velocity of circulation (V^1) in his equation separately. Then Fischer's equation looked as follows:

$$MV + M^1V^1 = PQ, \quad (1.4)$$

where V^1 — velocity of circulation of bank money; M^1 — aggregate stock of bank money.

That is, in an equation of exchange, I. Fisher M meant coins, paper money, banknotes and deposits. Unlike his predecessors, the scientist considered credit money in circulation also, improving his equation to registered,¹ but in his work, it was not original. In his work «Purchasing power of money» I. Fischer used it for determining the factors that influence the price level P , proving that the velocity of money circulation (V) and the quantity of goods (Q) does not depend on the volume of money in the circulation (M) and price level (P).

Researchers considered it more rational to introduce and use another factor — C (the ratio of the volume M^1 to «commodity prices») instead of M^1 (for bank deposits).

¹ Yukhimenko P. I. Monetarism: theory and practice. — P. 47-48

Improving the equation of exchange, Fisher was among the first of the economists who included the most important in quantitative terms types of «credit instruments» — check deposits in the mass of money. In his basic equation, the elasticity of transactional money demand by volume of transactions is equal to one. With the development of the theory of transactional demand, this ratio was specified. However, it is worth noting that Fisher's idea gave him the impetus for considering the possibility of combining the motive of saving money for the purchasing goods with the motive of receiving income from this money by the conversion of relevant cash balances in a «safe» asset that generates income.

The idea of optimizing the income from transactional cash balances was first proposed in his works by W. Baumol and later perfected by J. Tobin.¹

This idea does not cease to be the center of attention of modern economic literature. In particular, M. Miller, H. de Angel, R. Masyulis, J. Warner and others point out that the higher the interest rate and the lower the transaction costs, the more that money is exchanged for bonds (or placed on a deposit account that generates income).²

1. Fisher examined the circulation of money within the macro approach; however, we see another attitude to the function of money from representatives of the so-called Cambridge approach to monetary balances, considering the circulation of money from the position of the individual, which solved the problem of optimal distribution of the portfolio, and thus determined the desired value of cash balances, i.e. money demand. Its authors were such economists as A. Pigou, A. Marshall, D. Robertson, F. Lavinhton, and J. Keynes.

According to A. Marshall, money had a direct utility and deferred utility. The former meant that money was needed as a tool for transactions. Everyone was trying to possess «such amount of money, which it [strength of human motives — Auth.] is ready to give in return for the desired satisfaction, or, alternatively, the amount, which is necessary to induce it to spend a certain amount of exhausting work». The latter meant that money was a temporary repository of wealth (purchasing power), that is, allowed to ensure the purchase of goods shortly after earning the income. As for direct utility, Marshall understood this utility as the fulfillment of the counting function of money. He saw the meaning of deferred benefit in the fact that money was a standard when limiting debts. Developing upon this idea, F. Lavinhton and A. Pigou considered that money could be saved out of a

¹ Golichenko O. G. Monetary Theory: basic ideas, problems and trends / O. G. Golichenko // Economic science of modern Russia. — 2003. — № 2. — P. 49.

² See for more det Yukhimenko P.I. Transaction costs in banking payments / P.I. Yukhimenko // Banking. — 2003. — № 1. — P. 55-59.

sense of warning, as a protection against uncertainty (for example, if for some reasons debt would not be repaid). They offered to consider the impact on the motives of economic entities of the desire to save some money as a reserve in the form of bank deposits. Money, according to Marshall, could be stored, in order not to miss the opportunities to make a profitable deal in time. Their value depended, as considered by authors, on real income and other factors, among which accumulated wealth and the alternative value of money played the significant role.

An innovative approach to rethinking the quantity theory of money was typical for M. Tugan-Baranovskyi, who J. Schumpeter called the most prominent critic of Marx.

Two important factors of economic development influenced the formation of Tugan-Baranovskyi's views: firstly — the growth of state intervention into economic life in the conditions of a high level of state-monopoly capitalism and deepening of the general crisis (especially etatization of the economy during the World War I), required scientific substantiation of the most effective ways and methods of such intervention; secondly — the nature of the monetary economy of capitalism, when money from the simple exchange agent turned into a key form of capital, and banks and other financial institutions have become powerful regulators of mass production (connection of the monetary system with production cyclicality). Therefore «the study of the laws of free play of economic forces,» — noted M. Tugan-Baranovskyi — which is the core meaning of political economy — led to the recognition of the necessity of systematic regulation of this game by public authorities».¹

Under these circumstances, the classical quantity theory raises doubts and requires new approaches and rationale. M. Tugan-Baranovskyi was one of the first who recognized discrepancies in the old system of a monetary economy. This system was based on the price of gold, the new demands of social life, and the narrowness of the old ideas about the nature and principles of monetary mechanisms. He outlined his views on major monetary problems in his work, «Paper Money and Metal» (1916), in which he analyzed the classic version of the quantity theory of money as proposed by I. Fischer. Recognizing the formula of the «equation of exchange» as being correct, Tugan-Baranovskyi emphasized that I. Fisher did not bring anything new to the quantity theory of money, but only «successfully completed [it] and gave accurate and brief expression of the quantity theory in mathematical form».²

¹ Tugan-Baranowski M. Paper money and metal / Tugan-Baranovsky, M.I. — [posthumous ed., Rev. and add. auth.]. — Odessa: Eng. Culture, 1919. — P. 13.

² Ibid — P.13.

Methodological aspects of the works of M. Tugan-Baranovskyi are particularly interesting. The scientist made a lot of historical research of high quality, but at the same time remained a «theoretician.» Having combined the two principles, he created a brand new alloy. As a result, his theoretical investigations became a «critical synthesis.»

Some critical comments of M. Tugan-Baranovskyi concerning the classic theory of money can be summarized as follows: 1) recognizing the fundamental nature of the classic quantity theory of money, the scientist is considered to be in the wrong position regarding the dependence of price (and the value of money) on one factor only — the amount of money and the ignorance of the rest of the factors, even those that were defined in the «equation of exchange», even as they were just as legitimate and objective, as the amount of money; 2) in his opinion, the conclusion about the proportional dependence of prices on the amount of money, which was not confirmed either theoretically or practically, was misguided.

In the aforementioned conclusions, M. Tugan-Baranovskyi's awareness of a necessity of approaching the analysis of the cycle as though it were a unit shines through. For complete awareness of this fact, more time was needed. The first steps in this direction were made M. Tugan-Baranovskyi, as evidenced by his contribution to the development of the classic quantity theory of money, which is recounted below.

Firstly, the Ukrainian scientist proved the impact of the approach on the level of prices due to other factors as presented in the «equation of exchange»: the quantity of goods delivered to the market, and the amount of money, their turnover rate; as well as the number of loan instruments and their rate of turnover. In his opinion, the transience and change in the different directions due to these factors did not give the right to confirm the proportionality of changes of price and the amount of money. Such conclusions had not only theoretical significance, but also practical value, because it expanded the search field in the study of such phenomena as correlation, financial policy, instruments of price influence, etc.

Secondly, M. Tugan-Baranovskyi proved that the change of the quantity of money affected prices, but this effect was not unambiguous, straightforward and implemented not by one but by many different by their nature directions through the change of:

- aggregate demand for goods;
- discount rate;
- social understanding of the value of money (later known as the factor of inflation of expectations).¹

¹ Zlupko S.M. Ukraine Economic thought: manual. / Zlupko S.M. — Lviv: LNU I.M. Ivana Frank, 2000. — P. 343-344.

In the first case, a significant increase in the amount of money directly caused an increase in prices due to rising incomes and a demand for goods. Thus, the price of one type of goods was rising less than others, according to real changes in aggregate demand for every single product. In the second case, the increase in the quantity of money led to an increase in the amount of cash at banks, accompanied by a decrease in the discount rate on short-term loans first, and later — on the long-term, which caused a decrease in the market interest rate, an expansion of crediting of the economy and an increase in the demand on the markets. As a result, the prices rose, but at the same time entrepreneurship and expansion of production are stimulated. It is advantageous for the owner to increase goods manufacturing. In the third case, the decrease in the value of money for their owners due to increase in its number leads to growth in commodity prices, which makes the storage not of money and its equivalent commodity more profitable, but of the products, which accordingly contributed to the growth of their demand. These three specified factors could act simultaneously, but the power of their impact on prices was not the same. Therefore, the price changes would not be proportional to the change in the quantity of money. Tugan-Baranovskyi's conclusion shows his understanding of the complexity of the implementation mechanism of this relationship, as opposed to a simple statement by the representatives of the classic school about the dependence of prices on the amount of money in circulation.

Thirdly, Tugan-Baranovskyi proved that the change in the quantity of money lead to an immediate increase in commodity prices only if it was a result of changes in monetary unit by the state, for example, through a denomination of money. In other cases, the amount of money affected prices differently, depending on the duration and volume of the increase of the quantity of money. Thus, a short-term or minor increase in its number would not have a noticeable influence on prices and value of money, while if the increase was significant, the effects would be implemented during a long time and irregularly (disproportionately) distributed for each type of goods. This conclusion refuted the postulate of the proportionality of the quantity theory of money and proved that money was not the direct intermediary of exchange; that put into question the postulate of the neutrality of money.

Fourthly, Tugan-Baranovskyi revealed the mechanism of interdependence between the aggregate amount of money in the country, the amount of money beyond circulation in savings, and the velocity of money. He proved that the factor of speed could influence prices in the direction relatively opposite to that of the factor of amount, neutralizing its effects.

The research and conclusions of M. Tugan-Baranovskyi became the basis for future research on methods of the influence of money on the economy

and the conscious regulation mechanism of this effect. They became the basis of the so-called theory of controlled money that prepared public opinion to reject commodity (gold) money and to replace it with fiat money, the value of which would be systematically supported by the state. In this, Tugan-Baranovskiy laid the foundations of modern monetary theory, especially its Keynesian direction. «The main ideas of the theory of money, — indicates V. Vlasenko — were expressed by Tugan-Baranovskiy almost a decade earlier in his work, «Paper, Money, and Metal».

Keynesian economics and Tugan's theory are not only similar at the core, but at times use the same wording and terminology.¹

Having overcome the simplicity and straightforwardness of the Quantity theory of money, M. Tugan-Baranovsky significantly improved and developed this approach, taking into consideration new historical conditions. To disassociate himself from his predecessors, the Ukrainian economist formulated his own theory of the value of money by creating the Tugan-Baranovskiy «conjuncture» theory of money. The gist of this theory is that the general price level, and therefore the value of money, is dependent not on the amount of money, but on the general conditions of the commodity and the money market and overall based on the conjuncture of the trade market and business cycles. M. Tugan-Baranovskiy concluded that the value of money can change absolutely independently of the changes in the amount of money circulating through the national economy, as in under the influence of non-monetary factors, for example, using such factors as business cycles. «The changes of the general price level reflect the general condition of the business cycle. During the phase of economic growth, the general price level increases and the value of money decreases.»²

Demand growth, provided the amount of money stays the same, can happen if:

- the velocity of money circulation increases (the same sum of money is circulating with faster velocity, increasing the purchasing power);
- credit significantly increases, which is independent from money purchasing power.

These factors manifest conversely during ascending and descending phases of the business cycle. Thus, according to Tugan-Baranovskiy, the value of money is an unconscious or even an instinctive spontaneous product of the general conjuncture of the commodity market. The change in the value of money (namely coins) is hardly ever the result of the change of the

¹ Vlasenko V.E. Theory of Money in Russia. The end of XIX — the pre-October period of the twentieth century. / V.E. Vlasenko — K. Univ. Kiev. University Press, 1963. — 213 p.

² Tugan-Baranovsky M. Paper money and metal. — P. 38

amount of money in the economy. This conclusion is based on a critique of the quantity theory. Since that time, none of the economists defended its classic version which was subsequently called «old-fashioned» by Keynes. Moreover, the »conjuncture theory» began a new stage in the development of quantity theory — the neoclassical stage.

Tugan-Baranovskiy's conjuncture of the changing of price and the value of money is a set of all the factors determined by this economist on the basis of the formula «equation of exchange,» in the process of critical evaluation of I. Fisher's supply. The change of the market conjuncture is instigated by the factors related to demand (amount of money and income, the velocity of money circulation) and related to supply (production capacity, the levels of production costs and price).

M. I. Tugan-Baranovskiy took into account the main conclusion of the «conjuncture theory» regarding the change of the value of money — it is caused by the changes in the conditions of the general conjuncture of the commodity market and stated that: «Before now the state authority mostly didn't make it a target to influence on the value of money. It concerns the value of goods too: in the sphere as well the authorities are usually passive, leaving the formation of commodity prices to the free game of economic forces. But... there is a deep fundamental difference between the value of goods and the value of money: the value of money is formed based on the conscious evaluation of separate individuals that the authority cannot control; conversely the value of money is a natural product of unconscious social interaction, which fully allows state regulation. Therefore, the task of systematic monetary policy that aims to regulate the value of money does not contain anything impossible... For economics a new task with huge practical significance comes to the forefront — developing the fundamentals of a rational monetary policy».

These lines are testimony to that fact, that Tugan-Baranovskiy is the first economist who recognized the necessity of the formation of rational state monetary policy. He considered the Central Bank of a country as its main executant, which has a huge amount of money and is motivated not by seeking benefits for itself, but by national interests, through implementing the country's monetary policy.¹

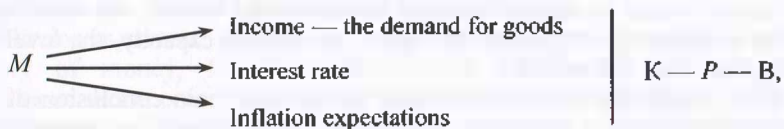
In Tugan-Baranovskiy's opinion, the active governmental policy and that of local authorities should be a part of the economic program, aimed at creating a monetary system and using the government regulation to stimulate an effective demand and an effective investing process. At the same time, the authorities should be limited by the market forces.

¹ Tugan-Baranovsky M. Paper money and metal. — P. 40.

Long before J. Keynes, M. Tugan-Baranovskyi proved that money had an independent value and that it must be somewhat regulated.

Among its tasks, he defined a regulation function: the state cannot expect to change the average rate of exchange significantly without changing the quantity of money in return, but it can aspire to greater stability and levelling the amplitude of changes. Thus, achieving stability of the rate of exchange has to become a major objective of bill policy.

The mechanism of the influence of money on the real economy based on Tugan-Baranovsky's «conjuncture theory» can be represented in such form:



M — amount of money, K — trade conjuncture, P — prices, B — manufacturing.¹

Thus, M. Tugan-Baranovskyi made a significant contribution to the development of the quantity theory of money. Despite the deliberate changing of the name of his theory, the quantitative factor in his theory of money was not a typical factor, equal to all the others, but a key one, because the change in the quantity of money to some extent affected other factors such as: velocity of money, interest rate, investments, output etc. That is why the «conjuncture theory» was inherently a quantitative one, but one step ahead of all the similar ones, when disproportionate dependence of prices and value of money on the change of its amount was figured out. Almost 50 years later, American economists M. Friedman and A. Schwartz proved the existence of fluctuations of the phases of the economic cycle based on the cyclical changes in the quantity of money in circulation, which proves the quantitative nature of the «conjuncture theory» of money.

The introduction of the concept of «money demand» into scientific research of by M. Tugan-Baranovskyi meant a radical change in the direction of the quantity theory. Instead of a purely macroeconomic analysis of the link (money-price), economists turned to the microeconomic aspects of creating a demand for money, which gradually became the key object. The modern quantity theory, by Friedman's definition, is primarily a study of the money demand.²

¹ Money and credit: textbook. / ed. M.I. Savluk. — 3rd ed., Rev. and add. — Kyiv: Kyiv National Economic University, 2002. — P. 332.

² Friedman M. If money could talk ... / Friedman M.; [trans. from English. A. Semenov, L.S. Myksh]; Ed., joined. stat. M.K. Bunkin. — M: Business, 1999. — P. 19.

Section 3

MACROECONOMIC THEORIES OF FINANCE

3.1. Keynesian scientific school

Interest in public finance significantly increased under the influence of economic disasters of the first quarter of the nineteenth century. The global economic crisis of 1929–1933 proved the impossibility of implementing the principles of the classical theory in practice. The general price level and wages substantially declined during the crisis, but the same happened with the volume of production and level of employment, so as a result the collapse of the financial markets occurred. In many countries the real national income fell by 25–30% on average from 1929 to 1933, and unemployment reached 17% of working population in the most difficult times of crisis. The decline in production and trade, falling prices added to the great strain on the world's monetary and financial systems.

In peacetime these events again assisted in furthering state interference in a capitalist market economy through the system of public finances. Most developed countries also did not recede from the financial etatism in the post-crisis period. The reasons for this phenomenon were: firstly, extremely unstable post-crisis state of financial systems and national economies of Western countries; secondly, the strengthening of clearly expressed trends towards militarization in preparation of leading Western countries for the Second World War; thirdly, the impact of central planning and management of public finances and the economy of the USSR, which was an overall successful experience at that time. Theoretically it was grounded in Keynesian theory, the ideas of which in different ways were supported by doctrines of Italian corporatism, German National Socialism, and numerous socialist concepts that were popular at the time¹. It was predetermined by undermining of the Laissez faire concept and intensifying belief that scientific theses could be used to solve important financial and economic problems.

Classical theory depicts society functioning in ways we want it to, but to assume that it really functions so, means to ignore the real difficulties,

¹ Yukhimenko P. I. Monetarism: theory and practice: [monograph] / Yukhimenko P. I. — K.: Condor, 2006. — P. 63.

British economist John Keynes noted¹. His book «The General Theory of Employment, Interest and Money» (1936) had a huge influence on the formation of economic thought and the development of appropriate public financial policy. Among the problems raised by John Keynes, a special place belonged to the problem of cyclical fluctuations. Most economists consider that cyclical fluctuations, regardless of the cause, can be balanced through public finance affecting the money supply. According to Keynes, regulating the latter makes it possible to generate effective demand 'which will be the basis for revitalization of the economy'². Summarizing this principle much later, researchers would note that a distinctive feature of Keynesianism in financial theory is a tendency not to give much importance to price effects in determining the total value of output and employment, and to give priority to the income effect. 'In the field of economic policy,' J. Eatwell says, 'Keynesian approach tends to emphasise the interventional role of the state, especially in defining and achieving a satisfactory level of aggregate demand, as well as its responsibility for economic growth'³. The fact that during the above-mentioned period banks' control on money circulation increased, providing wide possibilities for the implementation of countercyclical fiscal policy, was the reason for establishing and spreading of such point of view.

Unlike his predecessors, J. Keynes made the whole complex of economic relations the subject of his scientific research. He approached his study from the perspective of demand, which ensures the realization of the resources, rather than the resource supply perspective. Thus J. Keynes drew the conclusion that market economy couldn't be self-regulated efficiently because of the psychological predispositions, motivations and impulses of production agents, making state interference necessary. Economic crises are manifested on the surface of phenomena as lack of demand, so the problem of equilibrium in the economy should be considered in terms of demand. As a result J. Keynes introduced the category of «effective demand», which expresses the balance between consumption and production, income and employment.

The term «interference» primarily means to enhance the role and significance of public finance. However, J. Keynes did not use such a term, but devoted only a few pages in his excellent book to taxation policy, the so-called «social investments» and «costs, financed through loans». Nevertheless, his

¹ Keynes J. *General theory of employment, interest and money* / J. Keynes. M.; [trans. from English. N.N. Lyubimova]; ed. A.P. Kurakova. — Moscow: Gelios ARV, 2002. — P. 38.

² *Ibid.* — P. 31.

³ Eatwell J. *Keynesianism* / J. Eatwell. // *Economic theory* / ed. J. Eatwell, M. Milgroya, P. Newman; scientific. ed. B. C. Avtonomov — Moscow: INFRA-M, 2004. — P. 454.

main idea about the necessity of state interference in order to achieve «effective demand» directly relates to public finance and fiscal policy. This direction of the market economy research defined the development of the entire world financial science for many years.

In order to somehow go round the problem of fluctuations in production, that could not be justified by a quantity theory of money, as it was the theory of the determination of the price level, J. Keynes and his followers resorted to the following logic: the change in prices affects the distribution of income and wealth, and it, in turn, affects the production volume; that is, unlike the classics, who argued that «supply gives rise to demand», they linked the growth of production volume to effective demand. In this regard, J. Keynes remarked, 'If the law that binds the function of aggregate demand and supply, is not really so, then it means that the vital part of economic theory still has to be written'¹.

Relative price variability did not fit into the model of quantity theory of money as well. The fundamental difference between fixed and variable prices was already discovered and theoretically described before the First World War. The very fact of basic inflexibility in prices was perceived not as evidence of theoretic failure, but as an argument in favour of adjusting mechanisms of adaptation, which the theory insisted upon.

In the analysis of fluctuations of economic conditions J. Keynes relied on quantity theory of money. However, eventually he gradually revised both instrument of analysis and formulation of problems, moving from quantity theory of money to the liquidity preference theory.

J. Keynes outlined the analysis of the effects of lowering prices in 1920–1921 in terms of standard quantity theory in 'A Tract on Monetary Reform' (1923). In the analysis he used the Cambridge version of the theory, which establishes the relationship between cash, the general level of prices, portions of assets that the population tries to save in the form of cash and deposits, as well as the reserve requirements of banks. Quantity theory, in his opinion, retains relevance in the long term, that is, there is a strong correlation between the mass of money in circulation and prices.

This means that the control of the bank over the monetary mass can provide long-term price stability. However, as J. Keynes wrote, «But this long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is past the ocean is flat again.»² This expression became as famous as the law of Say.

¹ Keynes J. *General Theory of employment, Interest and Money*. — P. 32.

² *History of economic thought: Textbook. Collec. / Ed. Avtonomov B., O. Onanin, N. Makushev*. — Moscow: INFRA-M, 2000. — P. 491.

Nowadays this famous phrase of J. Keynes can be interpreted in the following way: in the short term the speed of money circulation will change and affect the level of prices depending on the ratio of deposits and cash in possession of economic agents, and not depending on the mass of money. He continued to develop the liquidity preference theory through analysing the nature of the saving motive. It should be noted that the possibility of a formal description of the portfolio assets formation was introduced for the first time in the works of E. Ualena and M. Miller and D. Ora. The formation came from cash balances and bonds, and, according to the words of Hicks, «money is one of the cash elements in the set (or portfolio) of various assets»¹ — motive, which is associated with insufficient organization of the market. Further development of the approach to the analysis of saving motive as means of protection against unexpected and adverse changes in the economic situation for economic agent can be found in the works of K. Karolla, A. Ditona².

The speculative and saving motives were primary in J. Keynes's model. He, in fact, suggested considering cash balances corresponding to each of the motives as an element of the portfolio assets. The latter in addition to money includes fixed-income securities, for example government bonds. The speculative motive encourages the economic agent, not only to retain the value, but also to increase it. Thus this motive is an active 'player' on the securities market in Keynes's model. Smart use of bond price fluctuations enables the economic agent to maximize the income from the portfolio. Moreover, in the case of state regulation it would make an effective mechanism for 'using' or 'extracting' money out of the economy through a policy of 'cheap' and 'tight' money.

This mechanism works as an economic agent retains all his savings in the form of cash, selling all bonds when the price drop is expected, and he exempts from cash balances buying the bonds if the price increase is expected.

Therefore, J. Keynes proved that the choice would depend on the level of interest rate. Disagreeing with his predecessors and contemporaries — D. Ricardo, A. Marshall, A. Pigou, L. Mises, F. Hayek, A. Hansen and others, he explained the new meaning of interest as purely a monetary

¹ Economic Encyclopedia: in 3 vol. / Ed. S.V. Mocherny. — K., ed. center «Academy», 2000. — Vol. 3, 2002. — P. 870.

² For more det. See: Holychenko O.G. Money theory: Main ideas, problems and trends of development / O.G. Holychenko // Economic science Modern Russia. — 2003. — № 2. — P. 51.; Carroll C. Buffer-Stock Saving and the Life Cycle. Permanent Income Hypothesis / C. Carroll // Quarterly Journal of Economics. — 1997. — V. 112. — № 1. — P. 1-56; Deaton A. Understanding Consumption / A. Deaton. — Oxford: Oxford University Press, 1992. — 312 p.

phenomenon that shows the variation of market forces' influence on the money market. In his opinion, the interest rate is an autonomous factor. Spontaneous interaction of the demand for money, which is regulated by the liquidity preference law, and supply, which is regulated by the amount of money in circulation, determines its value. The concept of interest rate, if taken as the cost of liquidity abandonment, that is the refusal to keep savings in the cash form is «the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash»¹, according to J. Keynes.

It should be noted that the motives for which the economic agent tries to hold liquid money, was the focus of J. Hicks studies. Taking the important, though not very clearly articulated, theses of J. Keynes's scientific work as the basis, he considered the demand for money to be a result of the individual's choice between the ability to keep the cash or securities. J. Hicks basically analysed the portfolio in which the demand for money was determined mainly by the interest rate and planned future expenditures, including the purchase of new securities. He emphasized the value of money, depending on the specific services it may provide in the overall structure of assets and the portfolio. In particular, investing in securities makes transaction costs unattractive in the short term if the economic agent has a need in liquid money in the nearest perspective. J. Hicks selected two reasons for which this asset could be considered one of 'low liquidity': 1) imperfect organization or absence of securities market; 2) presence of risk (as a consequence of the random variations of prices) that at the right moment the asset wouldn't be sold at the 'normal' price².

In contrast to the neoclassical notion of a representative agent, J. Keynes offered heterogeneity of agents expectations that (true to the traditions of the Cambridge approach) was the basis for construction of decreasing dependence of speculative cash balances on the bonds interest rate in the old-Keynes models.

However, Keynes himself stressed that this dependence did not always occur, as there was a possibility of a 'liquidity trap', when at a rather low level of interest rate the excess money supply, more than the amount required for transaction balances, would be absorbed by speculative stocks without causing further falling of the interest rate. J. Hicks showed the mathematical expression and graphical illustration of this concept very meaningfully in his research called «Mr. Keynes and the 'Classics':

¹ J. Keynes. *A. M. General theory of employment, interest and money.* — P. 159.

² Yukhimenko P. I. *Monetarism: theory and practice.* — P. 66.

A Suggested Interpretation»¹. To avoid this 'trap', J. Keynes considered the state policy of stimulation the propensity to consumption and investment as «the only practically feasible mean to prevent the total destruction of existing economic forms and as a condition for the successful functioning of individual initiative»².

M. Friedman, analysing the 'liquidity trap' of J. Keynes, pointed to the possibility of interest rate independence as a result of the heterogeneity of agents expectations and examined two groups of economic agents. The first group, in his opinion, includei those who having somehow received an extra amount of money and expecting the continuation of interest rate falling trend on the bonds, as in bonds prices increasing, produce additional demand for bonds. The second group, in his opinion, consists of those who are actively engaged in speculation on the securities market and believe that the trend has reached its lowest level, so the interest rate on the bonds should increase. In this case, waiting for bonds prices reduction, they sell them to those agents who wait for prolongation of the previous tendencies³.

The liquidity function of J. Keynes is connected to similar concepts of his predecessors. According to A. Pigou, it mostly coincides with the function of liquidity described by A. Marshall⁴. This idea, at first glance, is correct, because the inclusion of the time factor in the economic analysis, the differentiation of long-term and short-term periods, according to M. Blaug, enabled the creation of the «general system in which all previous theories found their place.»⁵

However, in the A. Marshall model, economic agents hold money as an alternative to the production capital, balancing between the advantages of today's benefits of managing money and getting future income from capital⁶. In the Keynesian model, as we've noted, the economic agents are driven by speculative and saving motives.

These motives have different bases in A. Marshall's and J. Keynes's models. The first one is based on the balance of current and future benefits, the second one — on the desire to benefit from price fluctuations and profitability of securities, dependence of which on efficiency of production

¹ Det. see G. Hicks. Hostess Keynes and «Classic»: attempt interpretation / J. Hicks // Ystoky. — Moscow: VSHЭ, 1998. — Vol. 3. — P. 3-178.

² Keynes J. M. General theory of employment, interest and money. — P. 348.

³ Det. See Frydmen M. If money could talk ... / Frydmen M.; [transl. from English. A. Semenov, L.S. Myksh] ed., Introduction. stat. M.K. Bunkynoy. — Moscow: Delo, 1999. — P. 23-25.

⁴ Holychenko O.G. Money theory: main ideas, problems and trends of development. — P. 53.

⁵ Blaug M. Economic theory in retrospect / Blaug M.; [Lane. from English. Dzyuba]. — K.: Izdatel'stvo Solomiyi Pavlichko «Fundamentals», 2001. — P. 380.

⁶ Marshall A. Principles of economic science: in 3 vol. / A. Marshall. — Moscow: Progress, 1993. — Vol. 1. — P. 311.

capital actually exists, but is not the only factor. Unlike A. Marshall, J. Keynes noted that the liquidity function also depends on the price of bonds (the inverse value of the interest rate on the bonds), which can be regulated by monetary institutions — the Central Bank. «Our end goal,» J. Keynes wrote, «is to select those variables that can be consciously controlled or managed by central authority in the real system we live in.»¹

It is worth to evaluate the second important feature of J. Keynes postulates, which is that the market of goods determines the aggregate demand, and not vice versa, as reflected in neoclassical theory. The components of aggregate demand, by J. Keynes, are the consumer and investment demand, the latter of which reflects the interests of production. Demand for investment in both comparable models (theories) is determined by the rate of interest, the definition of which J. Keynes binds to the prominent role of households and state (monetary authorities)². They, making decisions about the placement of their assets on the securities market (households) or conducting operations on the open market (monetary authorities), have a crucial influence on the bonds interest rate, and therefore, on the interest rate itself, which, in turn, determines the demand for investment. Unless the 'liquidity trap' is adjusted, the value of aggregate demand (through the price of the bonds and then through the rate of interest on the amount of investment) is obviously affected by the equilibrium on the financial market. This state J. Keynes called the 'effective demand'³. Unlike the neoclassical system, in the Keynesian one the value of income is not stable. Therefore, the parameters of equilibrium on the market of goods are significantly influenced by the parameters of equilibrium on the financial market.

«On this basis, I conclude,» wrote J. Keynes, «that it is dangerous to leave the volume of current investments regulation in private hands»⁴.

Therefore, the task of general price level stabilization requires appropriate reactions to these changes by the Central Bank in the form of the change in the amount of cash or reserve requirements. Hence the task of financial policy is widening or narrowing the Bank loan, depending on the increase or decrease in cash balances due to changes in interest rates.

In terms of economic rationality of market economy a similar task can be performed, but the possibility of the Central Bank to pursue a policy of stabilization is significantly limited in an open economy generally, and

¹ Keynes J. M. *General Theory of employment, interest and money.* — P. 231.

² *Ibid.* — P. 31, 259.

³ *Ibid.* — P. C. 32.

⁴ Keynes. J. M *General Theory of employment, interest and money.* — P. 295.

particularly in the time of the gold standard. It was the cause for the critical attitude of J. Keynes to the monetary policy of Great Britain in that time.

In his book «A Treatise on Money» (1930) J. Keynes develops his ideas and analyses the correlation between the changes in the amount of money and prices somewhat differently. The causes of short-term deviations of prices from long-term equilibrium are at the heart of research. J. Keynes explained the causes of imbalance as a primarily price phenomenon. The basis of his analysis was the modified quantity theory: in contrast to I. Fisher he changed the demand for money equation, highlighting the demand for money for speculation. He also extended the equation model of price flow of consumer and investment goods, by associating it with the income obtained in various sectors of the economy. Thus he focused on the problem of equality of deposits and investments¹. It meant that in the modified model J. Keynes actually took into consideration the real conditions of the market economy, where the changes in the most important economic indicators depends on the behaviour of entrepreneurs, their expectations of future earnings and economic predictions. E. Phelps noted that J. Keynes «considered balance in terms of expectations. However, he does not reveal what he means under balance, so the nature and reasoning of his statement remains unclear.»²

J. Keynes substantiated his own concept in the following way: when the economy reaches equilibrium, the revenue produced in various sectors equals demand for consumer and investment goods, so certain correlations between prices of these commodities are in line with such equality.

In the centre of his special attention was the issue of how such correlation changes (deviates from equilibrium level) in the case of a modification of consumed and saved income portions.

We can assume that at some point recipients of income in both sectors spend less on consumer goods than the income received in the sector, which produces them, so the consumer price level will decline and manufacturers will suffer losses.

This situation can be caused by deposits exceeding investments. This disparity reflects a situation when the deposits made in the economy exceed income made in the production of investment goods. At first glance with such disproportion one can assume that the prices for investment goods would increase. However, J. Keynes, analysing these concepts, emphasized that the increase in deposits and demand for investment goods are different

¹See for det.: *Ibid.* — P. 130–131.

²E. Phelps S. *Equilibrium: concept from the point of view expectations* / E. Phelps S. // *Economic theory* / ed. J. Ytuell, M. Mylhey, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 281.

things. The latter is determined by the decision of the investors who are primarily guided by the prospect of profit. And the decision of people to save more comes from the so-called 'psychological law', but it does not specify what form their savings would obtain¹. The important thing here is the profitability value and reliability assessment of the fixed financial assets. This approach of J. Keynes gave the opportunity to avoid the tautology regarding equality of deposits and investments in the future.

In the real economy any decrease in consumer goods prices does not give grounds for optimistic forecasts of investors. At the same time, in this situation for various reasons consumers can prefer investing part of the income that they save, not in corporate bonds, but in more liquid assets, including money. J. Keynes connects the latter with the rate of interest that is a 'reward for parting with liquidity'². As a result the investment assets prices may decline, weakening investment activity.

In this regard it is worth to note that consumers manage their money more freely than entrepreneurs. The entrepreneurs in the case of reducing profits cannot quickly get rid of extra capital assets and will try to reduce the wages expenses, so that will mean reduction in employment. From the entrepreneur's point of view such an activity is reasonable and economically grounded; from the standpoint of society it is harmful as salary is not only an expense, but also a type of income.

J. Keynes in «General Theory» revealed that «expectations of falling wages and prices intensify decline of business activity,» says E. Phelps³. Thus, if it became a mass phenomenon, to lower it would lead to a reduction in aggregate effective demand for consumer goods. As a result, the situation for entrepreneurs can get worse. Therefore, the state should «take more responsibility for direct organization of investments»⁴. Under such circumstances it would be possible to implement an innovative investment project in order to activate 'passive' deposits, but in the situation of pessimistic expectations its practical implementation is dubious.

Appropriate actions of the Central Bank, according to Keynes, can contribute to furthering the production reduction. If the first signs of excess deposits appear it has to reduce interest significantly making investors believe in the possibility of obtaining additional profit. This can still be achieved in a closed economy, however, in an open economy, with free flow of capital and gold, it is futile to hope for such a situation.

¹ See for more det. Keynes J. M. General Theory of employment, interest and money. — P. 96-97.

² Ibid. — P. 159.

³ Phelps E. S. Equilibrium: concept from the point of view expectations. — P. 281.

⁴ Keynes J. M. General Theory of employment, interest and money. — P. 159.

J. Tobin indicates the existence of interest rates 'limits' for banks and other financial intermediaries in terms of state regulation. The system of financial intermediaries, where interest rates on deposits of various types, as well as loans are established under the conditions of free competition, operates quite differently. For example, under the conditions of free market economy when interest rates rise and interests on deposits are regulated in administrative order, funds 'flow out' of financial institutions. In the contrary situation (declining interest on the free market) monetary resources are returned to the financial intermediaries. «Such processes 'disintermediation' and 're-intermediation'», according to John. Tobin, «are less expressed in cases where the interest rates on transactions of financial intermediaries are free to change with the rates of the free market.»¹

The scale of funds reallocation between financial intermediaries, caused by administrative differences in interest rates for their operations, is reduced similarly in cases where such organization is free to enter into competition for fundraising.

Two systems, in which cash substitutes are involved, can have significantly different macroeconomic characteristics. In one of them interest rates on monetary liabilities and operations are set by the market, while in the second one there are administrative restrictions on the size of interest rates paid on deposits. Therefore, in times of an unregulated regime «both the operations of the Central Bank and the exogenous monetary shocks should have a relatively greater impact on the flow of nominal income, whereas fiscal measures and other shock changes in aggregate demand for goods and services should be relatively less influential,» said J. Tobin².

At that time it was a truly revolutionary idea. The importance of it was in the fact that for the first time the correlation between the process of deposits and investments equalization and the change in income was questioned. That could be considered as the first step in creating a new theory of production and employment. «There was a need in a theory,» said G. Worswick, «which could explain why unemployment rate could remain high for a long time, and the theory appeared. The author of it was John Maynard Keynes who wrote the famous book 'The General Theory of Employment, Interest and Money', the content of which he defined as 'my theory of full employment'.»³

¹ Tobin D. Financial intermediaries / Tobin J. // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 347.

² Tobin J. Financial intermediaries. — P. 347.

³ Uorsuyk G. Indent employment / Uorsuyk AG // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — M. INFRA-M, 2004. — P. 360.

The mechanisms described by classics that push economy back into equilibrium, did not always operate effectively. This led to the idea that high unemployment rate would always be characteristic for countries with market economy. According to the classical approach, the mechanisms of self-regulation should solve the problem of unemployment: in the case of high unemployment rate the wages are reduced, the demand for labour increases, thus everyone can get it. Likewise, loan interest rates are to fall and as a result the investment climate restores. Wages, according to J. Keynes, can reveal inflexibility when considering reduction. If we assume that they can fall freely, their reduction in nominal terms can't be accompanied by the same strong falling of real wages because prices would fall as well. The same can be said about interest rates. After all, there is no guarantee that their fall, if it happened, would be achieved by a strong stimulus for economic growth.

«The idea is clearly traced in these considerations,» wrote G. Worswick, «and later J. Keynes will express it directly, that state fiscal policy or regulation of the budgetary income and expenditure ratio can become a more powerful factor for achieving full employment than the mechanisms of economic self-tuning»¹. In fact, the scientist considered the budgetary policy the most effective tool of state economic regulation.²

Thus, the post-Depression period economists, proponents of J. Keynes theory, attempted to establish a new school of economic thought, which studied the functioning and role of monetary policy, what affects the GDP, employment, spending and prices.

According to the principles of the new school, the market economy was not self-regulated. Instead, as J. Keynes and his followers thought, the market economy faced problems associated with insufficient elasticity of prices and wages, as well as imperfectly informed about inflation firms and employees. Therefore, it was doubtful that the economy would reach a positive level of production at full employment. Solving these problems required active intervention of the state, its stabilizing actions to guarantee achieving a certain level of employment. As for the extremes of this new economic school, it, unlike classical, argued that «demand for goods generates supply».

Unlike his predecessors J. Keynes approached the labour force analysis differently. He did not support the idea of neoclassicism that the employment rate is determined at the labour market and its adaptation to the equilibrium level of production is carried out through change in real wage; that the level

¹ Uorsuyk G. Indent employment. — P. 360-361.

² Keynes. J. M. General Theory of employment, interest and money. — P. 295.

of employment rate is defined as the point where the marginal productivity equals its limit of marginal severity; finally, given a sufficient real wage mobility, only voluntary unemployment is possible¹. The reasons for this can be explained as following: firstly, the employment agreement defines the level of money, rather than real wages, but the latter is to some extent the pinnacle point of the entire economy functioning. Secondly, reducing money wages would have a positive impact on the employment rate, if the aggregate demand remained at the previous level at the least.

Workers, according to J. Keynes, resist «the reductions of money wages, but do not always stop working, when prices for goods purchased on wages rise»².

It can be assumed (it is quite likely for an individual entrepreneur) that reduction of wages, and therefore costs, will have a positive effect on the volume of sales and profits. However, this is possible for the economy only if the marginal propensity to consumption or marginal efficiency of capital increases, or the rate of interest does not grow. So J. Keynes concludes, «for a closed system the smartest policy is to maintain a sustainable overall monetary wage»³. In this situation, rising prices can have a positive impact on investment demand. For this to happen, increasing money demand for circulation should not cause an overly large growth of interest rate. Hence, he makes a practical proposal: measures for employment stimulation must be accompanied by a liberal monetary policy⁴.

The problem of overcoming crisis tendencies is one of the key principles in the theory of J. Keynes. The selection of ways and methods is defined by the theoretical considerations relating to the characteristics of their respective functions, by practical ones like effectiveness of existing instruments, and even by political ones. Several ways can be seen here: impact on the interest rate, on propensity to consumption, on expectations of entrepreneurs and finally — directly on the size of the total investment.

J. Keynes considered that it is possible to influence the interest rate, but in some cases (liquidity trap) it is an ineffective method of changing investment expectations. Therefore, he also proposed direct measures for affecting investment demand: direct public investment, which are financed from the state budget — this is the practical implication of J. Keynes's theory; indirect investment — the creation of investment climate of confidence, which he believed to be the main task of the government. Keynes considered

¹ Naydenov B.C. Inflation and monetarism. Lessons of anticrisis policy / B.C. Naydenov, A.Y. Smenkovskyy. — K.: Belaya Tserkov: Belotserkov. book factory, 2003. — P. 31.

² Keynes J. M. Favourites Works / J. Keynes. Moscow — Moscow: Economics, 1993. — P. 228.

³ Ibid. — P. 341.

⁴ Ibid. — P. 317.

direct public investment, not as an alternative to private, but as a mean of enhancing stability of the capital market, regardless of the scale of public investment. «If partial mobilization of production factors takes place, level of their use will be in the same proportion as the amount of money; if their full mobilization exists, then prices will fluctuate in the same proportion as the amount of money»¹.

This J. Keynes's principle was different from the vulgar quantity theory. However, let's remember the anti-inflation policy of Ukraine, which was built on limiting the amount of money, which led to reduction in employment and production. And only with the increased monetization of the economy in 2000, capacities of production and workforce increased and signs of recovery and growth in production emerged.

Analysing J. Keynes's economic concept, R. Mini stressed that «J. Keynes's theory is a paradoxical one, the economic theory of inverted world. Good is bad and bad is good. Thesis leads to antithesis; people themselves give rise to economic problems»².

That «inversion» and anomaly of the theoretical approach allowed Keynes to not recognize the fact of forced unemployment, and make it an economic problem, the solution to which must be found within the framework of economic theory. However, his theoretical concept rediscovered the mechanism of change in money supply influence on other economic variables. According to the afore-mentioned we can conclude that changes in money supply associated with the monetary government policies affect the real equilibrium income in two ways. Firstly, a change of the nominal money supply leads to a liquidity effect (in inverse), which affects the nominal equilibrium interest rate. Secondly, a change of interest rate leads to an inverse change of expected real investment and expected total costs. Generally, this sequence of actions causes changes in the real equilibrium income in the same direction as changes in the nominal money supply (Fig. 3.1).

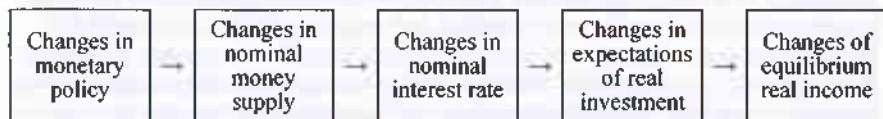


Figure 3.1. Transmitting mechanism of Keynesian monetary policy

¹ Keynes J. M. *Favourites Works* / J. Keynes. Moscow — Moscow: Economics, 1993. — P. 453.

² Yukhimenko P.I. *Monetarism: theory and practice*. — P. 74.

J. Keynes's theory had methodological and practical innovations. It was not just a proof of technical errors existing in the analysis of factors that determined employment, but an attempt to offer a new perspective on the new economy — to adapt theoretical tools with the new reality.

At the same time returning to reality means recognising the importance of psychological factors, the uncertainty of future and impossibility of predicting long-term consequences of economic subjects actions, which, at first glance, seem to be rational. Recognition that rational at the individual level can be irrational at the social level opens possibility of a new approach to the economic science, to understanding its content and objectives.

Therefore, disabling the «price stabilizers» and destroying in this way the logic behind the neoclassical arguments on compulsory equilibrium of market demand and supply, J. Keynes proposed a new scheme of cause and effect relations in market economy. According to Keynes, the key factors of economic activity are adequate solvent demand on commodity markets. Lack of demand leads to a reduction in output and rising unemployment, and what is, according to Keynesian theory, the main cause of economic crisis of capitalism in the 30s of the last century.

J. Keynes's scheme was built on the program of market demand permanent growth through the usage of monetary and budgetary levers. Due to this great expectations were given to the deficit financing from the budget, which was refunded by issuing and placing large government loans on the market. The role of the main stimulator and coordinator of economic activity was assigned to the state. The state machine must 'create' deficit purchasing power and 'introduce' it into the economic circulation using the financial system, the budget and the Central Bank. A similar method of demand deficit elimination was considered to be the most radical to activate the production process and counteract its propensity to stagnation and decline.

In less than ten years after the publishing of J. Keynes's most important scientific work «The General Theory of Employment, Interest and Money» (1936), which P. Samuelson called a «work of a genius», and R. Skidelsky, a biographer of Keynes, emphasized that «the book both attracts and repels because personal qualities, weaknesses, interests and passions of the man appear in it perfectly», the governments of Britain, Austria, Sweden and Canada recognized the support of high and stable level of employment as one of their main targeted responsibilities. And in Article 55 of the UN Charter there is an appeal to countries that become members to provide «higher standards of living, full employment, and conditions of economic and social progress and development»¹.

¹ The United Nations Charter and the Statute of the International Court of Justice. — M., 1989. — P. 55.

Such a sharp turn in the government policy was not a sign of victory of Keynesianism because the issue of correlation of economic growth in the post-war period with the principles of state regulation is controversial even today. However, history shows that during the 25 years after 1945 the productivity growth in European countries was the highest, while the average unemployment rate was the lowest in peacetime; herewith the fluctuations in productivity and employment were smaller than ever before¹. In 1968 the report of the experts team, which noted that although some indicators had to be better the results of financial regulation in order to maintain economic balance proved to be more reliable, was released. It also dispelled the sceptical approach to new ideas in the United States, where from the 1960s government regulation was conducted in the Keynesian fashion. However, as G. Worswick noted, «in most countries, the end of the high growth and full employment era occurred at the beginning of the 70s and afterwards long periods of high unemployment began to happen again»².

Therefore, J. Keynes's financial concept comes from the key principles of his general theory and can be summed up as the following:

1) the substantiation of the 'effective demand' concept, which gave the opportunity to return to the analysis of macroeconomic indicators (gross domestic product and national income); to examine the economic system functioning in general; to form a number of tasks associated with the movement of the entire generated, distributed and consumptive value flow; to determine what part of said value it is necessary to remove by financial means and focus on solving the main economic problems. The J. Keynes macroeconomic theory contributed to the improvement of public finance analysis methods and fiscal policy techniques based on econometrics and mathematics;

2) Macroeconomic theory of 'effective demand' prompted the rethinking of the entire financial concept. In particular, the theory of public finance was now considered as a part of the theory of employment, interest and money, while fiscal policy — as an integral part of economic policy. The place and role of public finance categories (public expenditures, taxes, loans in economic development) was determined on this basis;

3) Fiscal (budget) policy as per J. Keynes was the main instrument of economic regulation. The task of providing workforce employment and effective economic development was delegated to the state budget and fiscal policy wholly because of escalating costs (increasing in public investment and public procurement of goods).

¹ Yukhimenko P. I. *Economic history: pidruch.* / P. I. Yukhimenko, P.M. Leonenko. — K.: Znannya-Press, 2009. — P. 463

² Uorsuik G. *Full-time employment.* — P. 361.

Increasing of the state budget expenses, according to J. Keynes, would be compensated by new tax revenues, which would form due to the increasing production volume and rising employment rate. J. Keynes gave a minor role to monetary and credit regulation in his concept of 'effective demand';

4) Keynes considered public expenditures as the main tool of government interference and overcoming the depression. He considered their formation, structure, and growth an essential factor in achieving 'effective demand'. Government demand, which is financed by taxes and loans, according to J. Keynes, should revive entrepreneurial activity, boosting employment and income.

J. Keynes did not exclude the possibility of solving this problem at the expense of additional money printing. This tool is discredited, he says, but its efficiency within certain limits is undeniable. Government can function using it, if it can no longer exist otherwise. The additional printing of money is the form of tax levy, which is the most difficult to evade and which at the same time, is affordable for the weakest government, even if it is no longer capable of anything else. Depreciation as a result of inflation caused by the release of the additional amount of money is negated through the tax for all the money owners according to their liquidity position. Tax burden is distributed, J. Keynes writes, it is impossible to avoid, as it is not associated with levy costs and it strikes its victim according to his or her wealth. That is why it is so attractive for the Ministers of Finance. But they must realize «that the tax may be unprofitable, even if it is not prohibitive, and that moderate taxation will be more beneficial than excessive one»¹. It is also true for taxation due to inflation. Inflation tax initially is extremely profitable for the financial sector, but further growth of inflation makes a devastating effect on the national currency as a calculating unit which reduces its use in circulation (people resort to foreign currency or barter) and thus tax revenues decrease. It is usually believed that financing through inflation exempts population from paying taxes. It is not true.

In this regard, J. Keynes remarks, «What is raised by printing notes is just as much taken from the public as is a beer-duty or an income-tax. What a Government spends the public pay for. There is no such thing as an uncovered deficit»²;

5) In J. Keynes theoretical works there is a new principle of financial theory. It is the concept of state capital investments growth (with state as an investor), which complement government efforts for stimulating «propensity

¹ J. Keynes. M. Selected works. — P. 112-113.

See for more det. Kim V.M. Keynes inflation as a means of imposing / V.M. Kim // *Finances*. — 2009. — № 6. — P. 53

² Keynes. J. M. Selected works. — P. 120.

to investments». To some extent this idea corresponded to the theory of historical school in Germany. According to J. Keynes, the regulation of current investments can't be left in private hands; only «broad socialization of investment» will prove to be the sole way to provide approximation to full employment, although this should not exclude any kind of compromises and ways of cooperation with private initiative. Investments increasing and the growth of national income and employment caused by it can be considered a desirable economic effect. The latter received the name of multiplier effect in the financial literature. It means that increasing of investments leads to national income growth of the society, at actually a bigger magnitude than the initial investment growth.

The essence of the multiplier is that government measures for economy stimulation through expansion of demand have multiple effects.

J. Keynes used the notion of 'multiplier' to analyse the impact of investment on demand. He derived a rule — the increase of aggregate demand equals investment growth multiplied on the multiplier value, which determines marginal 'propensity to consumption'. From this J. Keynes makes a conclusion about the necessity of government measures for demand stimulation in order to make sure that a rather smaller proportion of increment income was directed to savings. 'The propensity to consumption' in the process of increment income fades and 'the propensity to saving' becomes more prominent, which ultimately ensures the financing of capital investments.

In determining the magnitude of the multiplier J. Keynes's followers take into account taxes that reduce the magnitude of the multiplier. In terms of internationalization and globalization of economic life in the 70–80s they began to take into account the impact of imports as well. The range of these factors continues to expand and models are improved even today.

Multiplier method development allowed economists to investigate the quantity dependence between the growth of government expenditures, taxes and national debt, between the flow of accumulation, consumption and employment funds, between budget (including its components) and foreign trade, between public finances, macro-financial stabilization and economic growth.

The famous American economist W. Heller notes that the improvement of the multiplier analysis allowed moving it from the sphere of theory into large computer models of economy and finance. Tax reforms in the US in the mid-1960–1990-ies were prepared on the basis of such models. Improvement of the quantity analysis methods is certainly a step forward in studying the real phenomena of economic and financial life. However, it is notable that these methods of analysis, as well as many other methods of abstraction, are quite vulnerable for pragmatic use, that is in case of transition from theory to practice;

6) In application of the macroeconomic analysis J. Keynes 'writes in' taxes in the movement of macro indicators, assuming that changes in the tax policy can affect the 'propensity to consumption'. The concept 'taxes — built-in stabilizers' is introduced into the scientific usage and is based on the functional dependence between the national income and taxes. This means that the amount of collected taxes (under same other conditions) depends on the amount of national income. The higher the level of national income, the bigger the amount of taxes that goes to the budget. And vice versa, when national income decreases in case of crisis, production declines and the amount of tax reduces. This nature of taxes, according to J. Keynes, provides a certain automatic flexibility of the economic system. The given principle he primarily refers to the individual income tax. Its collection with progressive rates leads to greater fluctuations in the level of tax than income. They get higher with the rising of the tax rates curve and the bigger fluctuations in the amount of national income are. This is how adjustment capabilities of income tax are determined. During the crisis production falling and unemployment rising taxes, reducing automatically, prompt income growth that awakens 'propensity to consumption' and stimulates demand.

Substantiating his main psychological law, J. Keynes pointed out that people tend to increase their consumption with increasing income, but 'propensity to savings' grows more. The economic effect is achieved when savings equal investments ($I = S$), that's why he emphasizes the need to develop tax policy regarding mobilization of excessive savings. From this perspective, preference is given to such scale of rates on personal income tax, which would promote redistribution of income from those with savings to persons who invest funds.

J. Keynes believed that excessive savings collected by means of taxes via the state budget, should be transformed into investments. He noted that similar views were often considered as an infringement on the capital required for expanded reproduction. However, according to the scientist's opinion, there was a need to mobilize parts of financial funds which were not involved in investments. Excessive savings could stimulate economic growth only at full employment (under full-time employment Western economists understand its rate at 97%), in the crisis years they prevent the growth;

7) J. Keynes surmised that increasing investment costs could be «financed through loans». The idea is not new, it is known from ancient times. From the standpoint of J. Keynes, public investment and current public expenditure can be financed on credit. Government investments financed through loans will cause the expansion of 'propensity to investment', and financing of current public expenditure will lead to increasing 'propensity to

consumption'. The rising debts of state and local authorities, he regarded as an integral part of the 'effective demand' state regulation. Since J. Keynes mandatory compliance of budget expenditures and revenues was considered an anachronism, while fear of budget deficits and growth of public debt — a harmful superstition; the concept of 'healthy finances' was obsolete. Loan market becomes the most important source to achieve 'effective demand' and the state budget deficit turns into a way of regulating the economy. Followers of J. Keynes develop the concept of 'deficit financing'.

Researchers in economics perceived J. Keynes's ideas differently. Many scientists evaluated his thoughts positively, seeing in them scientific innovation. Among them were Nobel Prize winners P. Samuelson, J. Tobin, F. Modigliani and R. Solow. There are all grounds to believe that economic and financial policy in the period after the World War II, especially from the beginning of the 1960s until the end of the 1970s, basically could be characterized as a social experiment in the management of search. It consisted of using the budgetary and monetary credit instruments to achieve the optimal level of expected expenditures in the economy and it checked the correctness of the provisions of the new school, developed by J. Keynes and his followers.

Another group of economists — G. Haberler, A. Pigou, J. Wiener, D. Robertson, L. von Mises and Friedrich von Hayek — criticized Keynes sharply. F. von Hayek in his 1931 review of «A Treatise on Money» wrote: «Mr. Keynes's assertion that there is no automatic mechanism in the economic system to keep the rate of saving and the rate of investing equal...might with equal justification be extended to the more general contention that there is no automatic mechanism in the economic system to adapt production to any shift in demand»¹. And L. von Mises stated more flatly that «the market economy is the only system of economic organization of society that can function and proved it in practice»².

Those weren't debates of outstanding scientists, but confrontation of the Anglo-Saxon and Austrian traditions in financial theory. The stumbling block was the Austrian theory of capital and interest, fundamentals of which were laid by E. Bohm-Bawerk. According to it, the market system provides optimal allocation of resources over time due to time structure changes of the capital. For Austrians the desire to save was much the same as desire to give up a certain amount of goods for consumption today for the sake of increased consumption in the future. Thus, saving, people give a signal to 'change' the

¹ Yukhimenko P. I. *Monetarism: theory and practice*. — P. 76.

² Mises L. *Socialism. Economic and socialist analysis* / Mises L. // 25 key books on economics. — Chelyabinsk: Publishing House «Ural-LTD», 1999. — P. 338.

structure of production towards investment goods. This adaptation of the production structure to intertemporal preferences of people can be planned, natural, and if so, the interest rate will reflect the advantages of modern welfare over the future ones — a discount. However, the smoothness of the process can be broken. The theoretical possibility of such disruptions is caused by the fact that economic transactions are conducted in money, the amount of which is controlled by the banks. They can set the rate at a level which does not reflect the real intertemporal preferences of people and therefore gives wrong (distorted) information. If banks reduce interest rates the blockage of investment goods in the production will be the result.

Inconsistencies in the structure of production sooner or later will be displayed in the form of a crisis, which is a lever of balance restoration: many investment projects are suspended, the share of consumer goods increases in the structure of production. Based on the analysis of the crisis causes, the Austrians call for prudent and conservative bank policy and preservation of the gold standard. All these ideas are the basis of modern 'new paradigm' of monetarism.

J. Keynes's monetary approach in the concentrated form was formulated by L. Harris: «The fact that there is dependence between money and level of prices for goods ... It may seem obvious. But it is not clear that this relationship represents that the change in the quantity of money causes a change in price level or determines the rate of change of this level»¹. He, pointing to some differences between Keynes's theory with the quantity theory, in particular emphasized that some Keynesian models include: firstly, that rate of interest does not necessarily increase under the influence of increased prices; secondly, that the demand for nominal cash balances is not necessarily positively associated with the level of prices and the interest rate, and too variable a function². So he rejects key provisions of the neutrality of money and proportional dependence of price dynamics from change in quantity of money.

However, Keynes's version of the quantity theory also ignores some important obstacles of the real economy, as indicated by modern scholars: the level of effective demand does not necessarily change exactly in proportion to the growth of money supply; with the increasing degree of resource utilization profitability will decrease, rather than stay at the same level; resources are not equally effective, so the supply of some goods will lose elasticity, when the potential of production of other goods is not be fully used; nominal wages will continue to rise even before the full mobilization

¹ Harris L. *Monetary Theory* / Harris L. ed. V.M. Usoskin. — Moscow: Progress, 1990. — P. 595.

² *Ibid.* — P. 601.

of resources; remuneration of component factors of marginal cost will not change proportionally¹.

Reaction of economic agents to the increase in the amount of money in circulation varies in different economic environments with varying degrees of competition. The adequate response, which corresponds to the quantity money theory both in the classical and Keynes's wording, is more likely under perfect competition conditions. In monopolistic economy with its inertia and the predominance of large enterprises the reaction of price rising is more probable regardless of the production factors usage degree. This phenomenon is also characteristic for the transitioning economy.

The so-called 'ratchet effect' i.e. resistance to price reduction, which C. McConnell and S. Brue describe is not consistent with the quantity theory of money either².

The main reason for resistance to lowering prices at the micro level is an appropriate reduction of income and expenses, including wages and relatively fixed costs.

Therefore, the most important conclusions of Keynes on economic transition can be considered the following:

1) establishing the equilibrium of paying supply and demand, which is, according to Keynes, the 'effective demand', does not necessarily ensure a high level of employment and usage of production capacity, that requires non-standard approaches;

2) increasing in prices associated with the use of resources, resulting in growth of effective demand for these conditions will promote a better use of economic potential;

3) in the process of monetizing of the economy Keynes's 'basic psychological law' should be considered. It means that with the increase or decrease in real income, the level of consumption will change in the same direction, but with a lower speed, slowly. The amount of deposits and investments, on the contrary, will increase along with the growth of income, at faster pace;

4) investing with its multiplier effect is more efficient in economies with large domestic market and a high level of consumption, but increasing investments through consumption is inadmissible as growing propensity to consumption leads to higher prices because of increased demand for capital goods;

5) interest rate primarily influences the state of the economy, not the amount of money in circulation, so in terms of stagnation, indicators of

¹ Naydenov B.C. Inflation and monetarism. The lessons of the anti-crisis policy. — P. 38.

² McConnell K. Economics: Principles, Problems and Policies: in 2 vol. / K. McConnell, S. Bru. — Moscow: Republic, 1992. — Vol. 1. — P. 188.

income and use of production capacity must be the most important. They need the revitalization of state financial policy and its re-orientation from restrictive measures to measures that stimulate demand and production.

3.2. Post Keynesianism

The ideas outlined by J. Keynes in *The General Theory* had an impact not only on macroeconomic analysis, statistics of national income and applied economics, but on the theory of finance as a whole. 'Keynesianism' became one of the recognized approaches to financial problems. In economic theory its distinguishing idea was not to put emphasis on price effects when determining the aggregate value of production and employment, but to give preference to the effective income. Concerning fiscal policy, according to John Keynes the interventionist role of the state, especially in defining and achieving a satisfactory level of aggregate demand, as well as a responsibility for its economic growth must be a priority.

The Keynesian principle of effective demand does not depend on the price mechanism at all, but is rather a ratio between investments ('autonomous' expenditures) and output.¹ Therefore, according to John Eatwell, 'it was not difficult to extend the idea of multiplier from a simple model, in which the balance between the desired level of savings and investments is achieved by output fluctuations, to a more general analysis of injections and «channels», including budget and trade balance and it gave rise to a family of «Keynesian income-expenditure models»'.²

The above-mentioned conclusion of J. Keynes that there was no automatic mechanism in a market economy that would maintain output rate and full employment implied that the state itself for ensuring part-time employment must take responsibility for managing the gross expenditure rate. J. Keynes stated that 'the wide socialization of investment will be the only way to ensure approximation to full employment, although it does not exclude any kind of compromises and the ways of the state and private initiative cooperation'.³

In fact, if to deny the fundamental idea of economic theory of welfare, according to which the market mechanism provides an efficient allocation of resources, the conclusion of J. Keynes acquires scientific significance. However, since it is based on the recognition of the shortcomings in the

¹ J. M. Keynes. *General theory of Employment, Interest and Money*. — P. 31.

² J. Eatwell. *Keynesianism*. — P. 454.

³ J. M. Keynes. *General theory of Employment, Interest and Money*. — P. 453.

current market mechanism and because even in the ideal case market economy could not provide an efficient allocation of resources, the acceptance of Keynes' arguments should automatically mean a denial of neoclassical theory of prices and distribution.

J. Keynes himself slightly smoothed this interpretation of 'General theory' in the way of 'effective income' and 'government interventions in the economy', claiming that 'if our system of centralized control leads to the establishment of the gross production rate as close to complete employment as possible, the classical theory will gain relevance again'¹. With this phrase it was as if he rehabilitated price mechanism as an effective resources allocation tool, while denying its efficiency as a means to ensure full utilization of existing production and financial factors, despite of the fact that these were two aspects of the same phenomenon.

This idea became the basis of Keynes' theory in the spirit of neoclassical synthesis. At the first stage of the neoclassical synthesis, the most important achievements were the works of J. Hicks, E. Hansen (1887–1975) and R. Harrod (1890–1978), in which there was an attempt to formalize the basic elements of informal Keynesian model. This led to the creation of the IS–LM model, which started the investigation of the real and financial markets interaction and was the most common version of Keynesianism. It was also the basis for macroeconomic analysis and was included in many textbooks on the history of economic thought, macroeconomic theory and theory of finance². 'A new topic of intertemporal equilibrium and the approach to equilibrium in terms of expectations was first introduced in English literature in 1939 by Hicks in his book *Value and Capital*', said E. Phelps.³

Armed with a new concept of equilibrium, Keynesian economists got the macroeconomic theory with enough equations to determine the variables they were interested in. The new theory, as opposed to mandatory consideration of output and employment fluctuation as a deviation from equilibrium and usage of the available bulky and perilous dynamic methods, gave an opportunity to, firstly, create simpler methods of comparative statistics and, secondly, to begin the aggregate demand analysis based on the theory of rational choice. Starting with Hicks' work and up to the 1960s, the main achievements in macro theory were in the rationalization and modification of interest rate and price correlation.

¹ J. M. Keynes. *General theory of Employment, Interest and Money*. — P. 453.

² Detailed in: *History of economic thought: textbook* / ed. V. D. Bazylevych. — K.: Znannya, 2004. — P. 908–910; *History of economic thought: (modern stage): textbook* / ed. A. G. Hudokornov. — M.: INFRA-M, 1998. — P. 49–53.

³ E. S. Phelps *Stabilizing Powers of Monetary Policy under Rational Expectations*. — P. 281

Analyzing the mechanisms of money quantity, interest and price interplay, J. Hicks formulated the thesis on the interest rate as a natural stabilizer of market equilibrium.

‘The instability associated with the increasing prices may be lessened by changing the rate of interest, but the instability associated with the decreasing prices cannot be lessened like that. The only reliable constraints within the system are, in this sense, the rigid wage rates’¹. F. Modigliani clarified the role of nominal wage rigidity in Keynesian model. As the idea that the wage rate in the short-term period was inflexible spread, short-term fluctuations were considered to be the scope of Keynesian theory application, while long-term aspects in which the adaptation could apparently be ignored were considered to be the scope of general equilibrium theory.

One of the first to point out the inconsistency of such division was R. Clower. He noted that Keynesian consumer function — a key concept in the Keynesian multiplier process of establishing the equilibrium output — was incompatible with Walras analysis of general equilibrium. The first approach is based on the notion that typical households consider their income (current or expected) as a set amount, whereas the latter predicts that the household determines its income by choosing which amount of labor services to offer for sale. ‘Clower raised the question,’ — said P. Howitt, — ‘about in what way a theory that includes consumption equation of this kind may be associated with a standard microeconomic theory’².

It should be noted that Keynesian ‘effective demand’ approached the Walras system that was out of balance. If demand or supply on the market does not give all participants the possibility to successfully implement trading plans, which were formed by them on the basis of only one budget constraint, then the economic agents take into account not only their own budget constraints, but the quantitative limits set by non-price rationing as well as. The unemployed will base their demand not on the amount of work, they would like to sell at a proper price, but on the amount they actually sell or expect to sell.

New Keynesian theorists proposed a new approach — they created the theory of counter-cyclical government intervention. They considered not only the phase of the crisis, but the whole economic cycle, since the national product was influenced not only by the crisis, but the booms, sluggish recovery and long-term depression. Thus, the Keynesian ideas incorporated a dynamic element, which gave the chance to create a theory of economic growth.

¹ J. R. Hicks *Value and Capital*. — P. 402.

² P. Howitt *Macroeconomics: Relations with Microeconomics* / P. Howitt // *Economic theory* / John Eatwell, Murray Milgate and Peter Newman (editors); — M.: INFRA-M, 2004. — P. 488.

Financial and dominant concept is its starting point. As John Hicks noted, Keynesianism became a purely fiscal theory once it recognized the inability to stimulate the investment by lowering the interest rate.

In orthodox Keynesianism E. Hansen and R. Harrod introduced the macroeconomic dynamic theory and anti-cyclical regulations theory. The essence of their theories is that changing government revenues and expenditures it is possible to achieve a balance in economic development. This conclusion is based on the position that the public finances are an integral and crucial structural part of the macroeconomic model.

In his book *Towards a Dynamic Economics: Some Recent Developments of Economic Theory and Their Application to Policy* (1948) R. Harrod affirmed the main conclusion of Keynes that the market economy is functionally unstable in its inner meaning and requires additions in the form of state intervention. In fact, he practically repeated A. Wagner's idea about the expansion of government functions and the need to increase public expenditures, but in different historical, economic and social conditions.

In 1950–1960s Keynesian model was the generally accepted reasoning behind stabilization, counter-cyclical government policy. It provided for active government actions at expanding aggregate demand in the period of crisis recession and its limitations in phases of economic growth and price increases. The main instruments of such regulation were fiscal policy — taxes and government expenditures; budget deficit and its instruments of monetary policy used by the central bank (regulation of interest rates and bank reserves, open market operations). In this model, monetary policy had to adapt to budgetary mechanism of regulation and to complement it. (It should be noted that this model was developed in terms of the minimum economic openness, fixed exchange rates and tight restrictions.)

Explaining the similar structure of financial policies instruments, P. Krugman and M. Obstfeld wrote: 'By fixing the exchange rate, the central bank withdraws its ability to influence the economy through monetary credit policy. However, fiscal and budgetary policy becomes a more powerful tool of impact on output and employment'¹.

The idea expressed by John Keynes that the economic system reacts to changes in cash flow rather by changes in actual level of production rather than by changes in prices, included a full concept of regulation. There were the following suggestions: 1) rejection of the idea of a balanced budget as the main government financial policy goal; 2) development of the theory of

¹P. Krugman. *International Economics: Theory and Policy*. [textbook] / P. Krugman, M. Obstfeld ; ed. V. P. Kolesov, M. V. Kulakov. — M.: MGU; UNITY, 1997. — P. 492.

budget deficits impact on the production dynamics; 3) new understanding of monetary policy role as a tool for supporting the budgetary policy.

According to the Keynesian policy the budget deficit is caused by two types of factors — the short-term and long-term ones. In the short-term period it can cause the production growth (real effect) or the rising prices (inflation effect). Based on the fact that deficit financing is conducted under the conditions of partial use of resources Keynesians believed that the real (production) effect prevailed over the inflation one. They gave an important role to 'soft' monetary policy. This construction has been successful for some time. However, there was an underestimated threat of inflation. Post-Keynesians tried to take into account this experience.

In his full model R. Harrod introduced the 'warranted growth rate' concept — g_w into the economic analysis. It represents expected, long-term rate around which actual growth rates are cyclically generated — g . R. Harrod explained depression in another way. For this purpose he introduced the concept of 'natural growth rate — g_n ', which was secured by labor, natural and technical resources. When a warranted growth rate exceeds the natural, the actual growth rate — g will be delayed, hampered by limited resources. In this case sluggish rises and downturns will be observed in economic cycle. There is a special dependence of indicators: $g_w > g_n > g$. Conversely, if the warranted growth is below the natural one, the actual rate is characterized by prolonged rise, short and superficial recession. Hence the inverse dependence: $g_w < g_n < g$.

In Harrod's model the issue of changes in g_w , g_n and g are directly linked to the problems of capital investments. Required capital goods, as noted by R. Harrod, depend not only on the rate of output growth, but also, to some extent, the general level of production. At the early stages of the crisis, it can be reduced to zero, but gradually the need for capital starts increasing. One of the reasons causing this can be government stimulatory fiscal measures such as tax concessions: depreciation, investment and others. R. Harrod makes a conclusion about the problems both for theoretical analysis and the policy making, namely: 1) the deviation between g_w and g_n 2) tendency of g to depart from g_w .

The first issue deals with the problems of chronic unemployment, the second one — with the problems of an industrial cycle. Thus, as R. Harrod remarked, 'ratio of g_n to g_w has decision value for determining whether there is a recovery or depression in economic life in a few years'.

In his practical program R. Harrod suggested 'counter-cyclical policy' that is directed against the 'departing of the actual growth rate from the warranted'. He noted that changes in interest rates were not the big guns in the arsenal of our counter-cyclic measures. In his opinion, the policy

concerning short-term loans interest could play in some way useful, but secondary role, such as a means to stop the speculation. However, it was impossible to effectively influence the long-term interest within the cycle. He argued that such policy immediately failed and begged the question: who would register the quotation of securities at an exchange rate of 150 if the financial authorities' intention to reduce their rate within the industrial cycle by 100% was well-known? Even J. Keynes wrote that 'money cannot be produced on a whim.'¹ Thus, 'the own rate of interest' of money could be higher than the same rate of industrial assets, which potentially lead to slower economic growth in a long-term prospect.

In the struggle with short-term cyclical recession R. Harrod gave a great importance to public works. Their expansion, including all kinds of capital investments, he subordinated directly or indirectly to the influence of the central government. However, R. Harrod proposed such specific 'counter cyclic measure' as the creation of buffer reserves as 'the most powerful weapon of battling' with world crisis for England. In order for these reserves to facilitate the state of the British economy, the assortment of commodities had to include the products of manufacturing industry. It was particularly stressed that the production of such goods should be extensive, and should primarily concentrate in the industries, which lose foreign markets in crisis years.

A prominent theorist of US President Roosevelt administration A. Hansen developed the theory of cycles of the economy and basic elements of countercyclical state policy. In the book *Business Cycles and National Income* (1951), which consists of four parts, A. Hansen set out the mechanism of the economic cycle and causes of cyclical fluctuations. He gives an overview of historic development of business cycle theories, stressing that economic study of Keynes marks a certain revolution in economics, but is deeply connected with the development of macroeconomic theory.

The fourth chapter of the book is dedicated to the issues of countercyclical policies. It should be noted that all measures of countercyclical policy are directly linked to public finance. It would be more accurate to say that countercyclical policy is financial countercyclical policy.

On the base of his theoretical conclusions A. Hansen proposed a number of financial concepts: built-in stabilizers (or flexibility mechanisms); automatic compensatory measures; compensation cycle programmes.

Built-in mechanisms of flexibility, as A. Hansen remarks, are the autonomic system that is able to suppress economic fluctuations, but cannot

¹ J. M. Keynes. *General Theory of Employment, Interest and Money* — P. 216.

facilitate the transition from the level of depression to the real expansion. This system automatically responds to the changes in the economic situation and does not need systematic, conscious control. First the concept of built-in stabilizers was introduced by John Keynes on personal income tax. According to him, taxes automatically respond to cyclical fluctuations, softening them and thus providing flexibility of the economic system. The term 'built-in budget stabilizer' is examined by A. Hansen, R. Harrod, winner of Nobel Memorial Prize in Economic sciences Paul Samuelson as the main factor of mitigating cyclical fluctuations. However, the state budget combines a group of stabilizers — especially taxes and government expenditures that simultaneously affect the economic cycle in different ways. In the American financial literature there is a concept called 'fiscal stabilizer'.

In the opinion of new Keynesian economists, budgetary expenditures, taxes, payment of benefits due to the unemployment, and social security automatically react to any change in the economic situation and can reduce the amplitude of cyclic fluctuations, softening the contraction and somewhat delaying the peak. The impact of the state budget during the peak must be restrictive, and during the recession it must be extensive. All the while both government expenditures and revenues are to have automatic stabilizing influence. Supporters of this theory consider that sustainability of tax rates leads to automatic changes in tax revenue in different phases of the cycle. During the expansion — it leads to their growth, which should deter excessive demand; in the period of recession and crisis — to decrease, leading to the creation of new demand and eventually — to budget surplus, or to budget deficit. Public spending during the economic boom must be decreased, creating a budget reserve, and in the period of recession — they must be increased, creating additional demand that promotes production development.

In fact, it turned out that the reduction in tax revenues in the crisis years does not compensate decrease in consumer demand, and during the expansion the growth of taxes cannot prevent either increase in extra investment or growth in excess demand. As for government expenditure, maneuvering them often leads to aggravation of contradictions between production and demand, rather than to their mitigation. As a result, the supporters of 'built-in budget stabilizer' theory finally had to admit its poor efficacy. There was an opinion that 'built-in stabilizers' did not work because they could not cause 'a real rise of income and employment' alone, could not support the complete stability of the economy and they were 'only first line of defense'. Thus, in the late 50's — early 60's comes the second stage of the 'built-in budget stabilizer' theory. According to the theory of

A. Hansen the influence of internal, automatically operating forces must be supplemented by a system of deliberately envisioned and designed external discretionary budgetary measures.

According to A. Hansen, the 'built-in stabilizers' system should be supplemented with 'automatic measures of compensative nature'. The difference between the two measures mentioned above is that the introduction of the first measure is associated with the adoption of law approved by the parliament (changes in tax rates, the introduction or increase of government expenditures, etc.), while for the second measure coordination with the parliament is not required. Policy of decrease (or increase) in rate of interest, buying the government bonds on the open market, reducing the amount of required reserves that commercial banks must keep in FRS are the automatic measures of compensative nature. According to the third type of regulation of A. Hansen the programmes of cycle compensation are implemented and run given coordinated action in parliament and the executive branch of government. In this case we are talking about the budget management. In American literature, the whole mechanism of regulation is called 'a combination of built-in stabilizers and willful action'.

American economists W. Schultz and C. Harris additionally introduced the term 'tax rates flexibility formula', according to which their structure should be based on the change in prices, employment and production. There is a thesis in the economic literature on the basis of research that the effect of using the budget as a built-in stabilizer in the economy can be achieved only on the basis of clear coordination of monetary and fiscal policy.

In 'built-in stabilizer budget' theory there is a tendency of achieving a compromise between opposing ideas, creating 'synthetic' concepts: belief, on the one hand, in the spontaneous self regulation of capitalist economy, and on the other hand, in state intervention.

The ideas of new Keynesian economists acquired further development in the works of R. Barro and H. Grossman. They showed how one can combine the change in demand for the produced goods and in demand for labor to generalize the notion of Keynes' equilibrium, which is achieved due to changes in output.

When fixing prices at a level that creates excess labor supply and output, equilibrium is a set of demand values from participants taking into account the sales limitations arising from these indicators.¹

¹ Detailed: Champ B. *Modeling Monetary Economies* / B. Champ, S. Freeman. — New York : John Wiley & Sons, 1994. — P. 53-67; Barro R. J. A general disequilibrium model of income and employment / J. Barro, H. J. Grossman // *American Economic Review*. — 1971. — № 61. — P. 82-93.

R. Barro and H. Grossman called their theory the analysis of 'general equilibrium inequality', stressing that it gave the Keynesian results only when prices differed from their equilibrium values, according to the theory of Walras. The problem of such integration was analyzed by K. Arrow, who said the following: as a general equilibrium theory assumes that all participants take existing prices as set, no one can change prices which differ from equilibrium prices. This heuristic design, according to P. Howitt, gave the auctioneers a possibility to avoid this problem rather than to solve it¹. Later, this problem forced researchers to seek the micro basis for economic information theory.

L. Metzler examined the importance of wealth effects and the role of public debt. D. Patinkin explained the structure of the macroeconomic model and the connection between the demand for goods, money and bonds in the case of flexible prices and wages.²

Assumptions made by J. Keynes that went into the early Keynesian models of fixed nominal wages were weakened and replaced by gradual adjustment of prices and wages to market conditions. These ideas were not considered as significant changes to J. Keynes' ideas. A. Pigou perfected the idea of the such social costs possibility, that were economically efficient for the society, but not effective for private business entities ('Pigou effect').

According to A. Pigou, 'free interaction of self-interests' leads to maximal 'national dividend'. His idea (that low prices lead to increasing real money and wealth) was not considered as an important practical discovery. Only active state intervention policy gave the possibility to prevent larger economic activity fluctuations.³

The modern interpretation of 'general welfare' is usually associated with optimality according to Pareto, but not the maximization of gross domestic product. The models, which deal with end-users, indicate that the situation is optimal if there is no acceptable alternative that would be better for each of them. Thus optimality by Pareto characterizes the dominant vector of comparable utility vectors. This concept rejects the possibility to compare utilities of different individuals or their summation, so that two alternative situations cannot be compared on the basis of generalizing utilities. If the model does not address end users, as in a purely production model, it is noted that the situation is optimal if there is no alternative that provides increased production of any product or use of smaller amount of resources

¹ Ibidem.

² See: O. G. Blanchard Neoclassical synthesis / O. G. Blanchard // *Economic Theory* / John Eatwell, Murray Milgate and Peter Newman (editors); — M.: INFRA-M, 2004. — P. 621.

³ Detailed: A. Pigou *The Economics of Welfare*: in 2 V. / A. Pigou, [translation A. H. Fonotov, M. S. Sterngartz]; ed. remarks H. B. Ilromushyn. — M.: Progress, 1985. — V. 1. — P. 66–67.

under the same conditions. 'It is clear that the situation optimal by Pareto,' — indicates A. Feldman, — 'does not necessarily imply maximization of GNP and is not the best one in some absolute sense'.¹

Therefore, the first stage of new Keynesian synthesis of improvement did not change the overall conclusion of Keynes' theory about the necessity of public finances in the revitalization of the economy. The support of this basic Keynesian thesis was based in two reasons: first, as prices and wages did not come to equilibrium quickly enough, an active countercyclical policy for the support of full employment was needed; secondly, as prices and wages (or economical policy itself) compel an economy to remain in growth path, it is necessary to use standard microeconomic principles of fiscal policy for selecting the required in each time combination of fiscal measures.

The question of effectiveness of these measures in terms of regulation of aggregate demand and its impact on allocative efficiency remained controversial.

Modern supporters of active government policy in response to the criticism of neoliberals admit that Keynesian econometric conformities of laws are approximate, inconstant and may vary as a result of major changes in political regime. However, such 'structural' changes usually occur rarely or gradually, or both rarely and gradually — in any case coefficients are sufficiently stable to be considered suitable for cautious use. According to new Keynesian economists, significant government intervention is justified only when the gap between aggregate demand and its desired level has already become large (for example as in Ukraine), or if the probability that such a gap can grow, is quite high. If a gap is small or the equilibrium is slightly impaired, 'then the state also must take insignificant measures or even refrain from interfering'².

In the next 20 years, the development of J. Keynes' ideas was determined by previous synthesis and leaning on behavioral components of the IS-LM and its agnostic approach to adaptation of prices and wages. On this topic, F. Modigliani noted that 'Keynesian system is based on four main blocks: consumption function, investment function, demand and supply on the money market, as well as the mechanisms that determine prices and wages'³.

Not confirmed forecasts of excess deposits after World War II led to the revision of the theory of consumption function. The theory of intertemporal utility maximization, known as the hypothesis of a permanent income of M.

¹ A. M. Feldman *Welfare Economics* / A. M. Feldman // *Economic Theory* / John Eatwell, Murray Milgate and Peter Newman (editors); — M.: INFRA-M, 2004. — P. 872.

² F. M. Bator *Fine Tuning* / F. M. Bator // *Economic Theory* / John Eatwell, Murray Milgate and Peter Newman (editors); — M.: INFRA-M, 2004. — C. 352.

³ Modigliani F. *Essays in Macroeconomics*. — Cambridge, Mass.: MIT Press, 1980. — Vol. 1. — P. XII.

Friedman¹ and 'life-cycle hypothesis' of F. Modigliani and R. Brumberg² gradually pushed it out. A modified concept of life cycle was used in most empirical studies of the finance theory. It gave an opportunity to consider imperfect financial markets and restrictions that were created by liquidity. This concept more clearly defined the role of wealth in consumption, and through wealth — the role of interest rates that were not analysed in the initial stage of the synthesis.

Much more success has been achieved in the analysis of supply and demand on the financial market, than in investment functions research.

The difficulties of study were explained by the complexity of empirical task, heterogeneity of capital and the possibility of replacing factors *ex ante* (expected results), but not *ex post* (actual results). Despite the fact that many theoretical issues were clarified in the studies of economic growth, their consideration at the empirical level was made difficult, in particular, by the ambiguity of neoclassical theory of price behavior. On this topic, O. Blanchard wrote that 'it is unclear whether we can assume that the firms themselves set the prices or price adjustment means that firms are limited by output volume. *Neoclassical Theory of Investment*, developed by Jorgenson and his co-authors is controversial on this point. It indirectly implies that the price equals marginal costs, but at the same time it includes output volume in empirical investment function as a variable, but not real wages.'³

As for the study of supply and demand on the financial market, it was extended to all assets.⁴ Among its researchers the founders of money demand theory H. Markowitz, John Tobin, William Baumol, William Sharpe, and John Lintner should be noted. In models of their composite portfolio both motives of Keynes (speculative and savings) were formalised.⁵ John Tobin played an important role and his theory of finance was behind the theory of demand for all assets.⁶ Expectations hypothesis, due to which it is not required to assess the full models of supply and demand on the financial market, has been thoroughly verified and widely recognised as close to the reality.

Speaking about the work of the given above Keynesians, it should be emphasized that their aggregate departments of total portfolio are: in the risk free part — cash or highly liquid financial instruments, and in high-risk part — a set of risky assets. The development of Keynes' ideas in this sphere

¹ Detailed: History of economic thought / ed A. H. Hudokormov — C. 124–129.

² Detailed: Kazmierczak A. Polityka pieniezna w gospodarce rynkowej / Kazmierczak A. — Warszawa: Wydawnictwo Naukowe PWN, 2000. — P. 97–100.

³ O. J. Neoclassical synthesis. — P. 622–623

⁴ Kazmierczak A. Polityka pieniezna w gospodarce rynkowej. — P. 133–134.

⁵ O. H. Holychenko Money Theory: main ideas, problems and development tendencies. — P. 55.

⁶ Detailed: Tobin J. Liquidity preference as behavior towards risk / J. Tobin // Review of Economic Studies. — 1958. — 25 February. — P. 65–86.

was somewhat formalized and streamlined the liquidity preference, but this approach was based not on the heterogeneous, but on homogeneous (in the spirit of neoclassical representative agent) economic agents' understanding of the change possibility in return on assets.

Unlike John Keynes, who believed the money supply to be exogenous (controlled by central bank) new Keynesian economists believed that the money supply in the modern market economy is formed endogenously, as in is created within the economy by interaction of the private sector agents, especially industrial corporations and commercial banks.

Banks, like industrial firms, are seeking to gain profit, so when the industrial sector puts high demand for bank loans; banks are trying as much as possible to meet this demand. In the case of the central bank intervention, they resort to financial innovation.

The main types of financial innovation in the economy of the developed countries in the last third of the twentieth century were: 1) liabilities management strategy, in which the liabilities are formed (and increased) by the banks themselves by means of loans on the deposits market, while bank liabilities are usually created regardless of the banks actions by the depositors; 2) securitization, that is converting of issued bank loans into securities that allow banks to sell them for money and issue new loans; 3) lines of credit between financial institutions — a commitment of one institution to give a credit to another one upon request. To create money by issuing new loans in the absence of surplus reserves (because of tight monetary policy of the central bank) helps the role of the central bank as a lender of last resort — issuing loans to commercial banks, which are at risk of bankruptcy due to their insolvency.

Endogeneity of money supply plays an important role in the functioning of the national economy, because it reduces the effectiveness of monetary policy and increases the capacity of the industrial sector on debt financing their investments. In practice it means that the potential amplitude of business cycles grows in the economy with endogenous money. This fact was refined in the development of one of the most famous new Keynesian theories of financial thought by one of the leading new Keynesian economists H. Minsky (1919–1996). He justified the so-called hypothesis of financial fragility. Its main meaning is that the cause of periodic economic crises is not only the economic agents' reducing confidence in the future (the demand for non-productive liquid assets increases, but for the production illiquid motives falls). They are also caused by the failure of the business sector, which systematically occurs, to repay their debts to the financial sector.¹

¹ Deatailed: J. V. Rozmainski Post-Keynesianism macroeconomics: the main aspects / J. V. Rozmainski // Economic Issues. — 2006. — № 5. — P. 21–25.

H. Minsky stressed that in the economy of developed financial system behind the 'veil of funding' there are many more financial instruments, than any narrow orthodox concept of money can include.

Therefore, the most important task of financial policy is to ensure control over all these channels of endogenous credit expansion.

Modern scholars of global finance system consider debt component of the economy the most essential element in the model of H. Minsky. In his opinion, the monetary system is the basis for the mechanism of debt and payments forming. Therefore, its change is the result, and not the cause (as monetarists believe) of the certain type of economy existence and monetary system remains stable only until the profit flow allows businesses to repay debts to banks. Indeed, in a capitalist economy that is functioning properly, money is primarily a debt to the bank; it is constantly being created and destroyed. On the contrary, according to the Keynesian approach, money is considered as a 'veil' that masks the final distribution of wealth; the main subject of monetary theory is the expected profit, which stimulates the emergence of debt, and realized profit that justifies it.¹

Here we can see that H. Minsky defines money as the product of financial relations. In his opinion, in the neoclassical synthesis the elements of 'veil of funding' that are inherent to money are ignored, and they are strongly considered as a 'veil of exchange' that prevents the explanation on why instability is characteristic of the normal market economy development.

Theoretical analysis of endogenous tendencies, generating crisis of the financial system, carried out by H. Minsky is particularly relevant in the study of the financial 'fragility' phenomenon and crises of the beginning of 21st century.

A vital part of a modern market economy is private sector debt, cash flow — the result of previous contracts, where there is an exchange of today's money for the future one to substantiate indebtedness of the private sector. Prices and production results should be sufficient for all the firms getting such profit, minus the cost of labor and materials, which would be enough to pay the debt or refinancing. The latter is conducted provided that the expected gross profit makes it possible to borrow again or to provide refinancing of the previous debt. This understanding of the debt structure role as a method of financing investments makes H. Minsky research highly relevant even nowadays.

Theoretically H. Minsky identified three possible forms of investment financing: 1) hedge (secured) financing; 2) speculative financing; 3) Ponzi-

¹ A. Nesvetailova Economic Legacy of Hyman Minsky / A. Nesvetailova // Economic Issues. — 2005. — № 3. — P. 101–102.

financing (cash-money obligation to pay interest are not covered by income). Total economic stability depends on the combination of these three forms of financing. In his opinion, high level of obligation in the economy and a significant proportion of speculative financing and Ponzi-financing is a prerequisite for the emergence of the financial crisis. The most important reason for these changes is financial innovation. New financial institutions that arise in the process of transformation disrupt the stability of the economy. Since the debt in the economy is in the hands of financial intermediaries, a significant breach in any sector can be transmitted through the financial sector to other areas, which will negatively affect the economy functioning.

The role of investment as a 'locomotive' of economic growth is emphasized in Minsky's model. In general supporting John Keynes, he argued that traditional measures of monetary policy were not able to provide a way out of the financial crisis. In the period of crisis and deflation endogenous market processes are inefficient. Market economy requires strict financial structure, strong institutions and policies to guide the evolution of the financial sector because unregulated decision-making process stimulates the sharp increase in asset prices. In response, the central bank must be ready to act as lender of last resort and divest the economy of inefficient outstanding loans to prevent the financial crisis.

Thus, according to H. Minsky when financial operators are more motivated by short-term interests and motives of profit gain than by long-term strategy of productive manufacture, imbalance between the financial and real sectors of the economy leads to a financial crisis and economic recessions.

The ideas expressed by H. Minsky, were developed in the works of other new Keynesians. In modern economic literature, this trend is called 'monetary Keynesianism'. Besides H. Minsky there are the following representatives of it: S. Weintraub, R. Clower, P. Davidson, A. Leijonhufvud, A. Lerner, R. Wells and others.¹ Supporters of post-Keynesianism favor further improving the mechanism of state regulation of market economy with a help of not only short-term, but also long-term indicative planning.

The necessity of growth in its application is explained by the scarcity of basic resources (energy, raw materials, food), problems of transportation, information and communication, environmental protection.

Monetary Keynesianism puts into the center of the research, first of all, the issue of financial factors in the economy, and secondly, the problem of

¹ History of economic thought: textbook / ed. V. D. Bazylevych. — K. : Znannya, 2004. — P. 926–927.

uncertainty about the future and expected economic development process direction. Its representatives stressed the importance of considering the financial aspects of the economy functioning and uncertainty factor. In terms of uncertainty finances are a connecting link between the current and future state of the economy. The very financial instability through monetary and financial institutions affects the economy and the financial crisis underlie the basis of economic crisis, says H. Minsky.¹

Modern scholars of dynamic portfolio theory are trying to link the definition of consumption expenditures (the transactions demand for money) and the formation of an assets portfolio within a single task — the distribution of the present and future assets by the economic agent. In their opinion, when an economic agent tries to divide the available financial resources between the consumption expenditures and ensuring his future, his optimal portfolio must consist of three aggregated branches. The first branch — cash, except cash balances it includes highly liquid assets; the second one is assets hedging the fluctuation rate of monetary income from the portfolio; and the third one is remaining assets of the market portfolio. The practical meaning of this theory is very important because prospects of in-depth study of the monetary policy impact on the behavior of economic agents through the redistribution of wealth among alternative assets are opened. However, this is only perspective. Despite significant advances in the development of portfolio theory in the mentioned period, it is too early to consider that it provides an effective tool of analysis and decision making for optimizing the state of monetary policy.

In new Keynesian approaches the theory of budget formation was changed most significantly. Classical political economy advocated the principle of mandatory budget balance, which was also supported by Ukrainian economists and financiers of the late 19th — early 20th century. The rapid economic development required an active financial market.

Arguing the need for growth of public spending, economists have concluded that in exceptional circumstances the state may allow a budget deficit that they considered as temporary phenomenon. Practice of 1930s, when the global economic crisis presented the financial thought with the fact of huge budget deficits, which got chronic, became the foundation of the revolution in the beliefs. There was an array of new concepts, where the basis for new economic conditions was summed up. Some economists started to abandon the policy of 'healthy-term finance', the annual balancing of state budgets. C. Foster, V. Katching, S. Slighter and others started to prove

¹ Modern Economic Thought / ed. V. S. Afanasiev, R. M. Antov. — M.: Progress, 1981. — P. 447–448.

the need for 'spending more', not being afraid of public debt and budget deficit. However, over the public finances theory of that period loomed the burden of 'classical traditions'. Many supporters of deficits believed that after the crisis, public finances should bounce back. In these circumstances, the idea of 'cyclical balance' of the state budget appeared.

Monetary post-Keynesians consider the cash nature of production and uncertainty as the crucial factors, tying the reasons for imbalance in the economy and unemployment to them. Any economic system model, in their opinion, should include the following elements:

1) decision making by firms and consumers, that are fully aware of the fallacy of human opinions;

2) transactions, which are executed in accordance with the legal procedures, make it possible share the burden of uncertainty between the participants of an agreement to some extent;

3) markets that require immediate delivery of various goods (and financial assets) or their transfer to another period are characterized by various degrees of organization. Under conditions of being not fully informed some goods (or financial assets) in many cases may be quoted either only on the market of certain commodities, or only on the market of future supplies as the organization of the market in such situation is facing a number of difficulties. Even given the operation of existing markets it can be expected that transaction costs, search of counterparties and obtaining the information costs will constitute a significant value and increase henceforth;

4) Purchase of goods for money and receiving money for the goods on all markets. Inability to obtain goods for goods (without taking into account the existence of some relatively small markets). It follows directly that the volume of demand is determined not only by the need, but also by the options of payment, when financial conditions may affect the functioning of product markets.

5) the ability of the various institutions that arise during the market organization to influence the behavior of prices in the case of an imbalance on this market;

6) availability in the model of the public mechanism of mutual credits for various private debts, which implies the existence of the banking system with a time reserve coverage. Non-banking financial institutions are also introduced and they are unable to produce the means of circulation themselves, as they are not part of the public mechanism of mutual credits, regardless of the banking system operation. However, these financial intermediaries may affect the direction and the size of the funds flow, and hence the magnitude of demand on the markets;

7) the economic agents have 'faith' in the existing monetary and financial system.

Thus, according to Davidson, the main characteristics of the monetary economy, that is really existing, are: prospects uncertainty, possible mistaken judgments, contractual obligations, economic institutions, trade, finances and trust. Modern market economy relies on these 'seven wonders of the world'. At the same time they generate serious obstacles to the functioning of modern money economy, to which J. Keynes turned the attention (inability to provide full employment, arbitrary and inequitable distribution of wealth and income).¹

During the formation of general principles of countercyclical theory the concepts of cyclical balancing of the state budget appeared. They representatives of it were: Stockholm School [E. Lindahl (1891–1960), G. Myrdal (1898–1987), B. Ohlin (1899–1979) and others.]. The idea was also supported by American economists (P. Stewart, P. Tucker et al.), English economists (W. Beveridge (1879–1963), H. Dalton et al.). The initial idea of new Keynesians is that the annual budget balance is not required. The state budget must be self-supporting within a whole cycle through surplus financial resources obtained during the growth and prosperity periods. The concept of 'cyclic balancing' borne the idea of 'long-term formation programmes' budget. It provides that the budget adjusts to the economic cycle. Government expenditure policy as the US economist S. Leland writes, as far as possible must be synchronized with the economic rhythm.

The state must reject such 'outdated' principle, as the annual balancing of the budget, the total revenues in the years of the cycle must equal expenditures; deficit, emerged during the crisis and depression should be covered by the budget surpluses, formed during the expansion phase.

With the further deepening and sharpening of market economy contradictions the concept of 'cyclic balancing' is gradually more subjected to the idea of state regulation of economic growth, and it gains a new meaning. It gains considerable popularity among the economists (R. Musgrave, A. Hansen, R. Harrod, W. Heller, G. Croll, F. Naimark et al.). According to the US Congressman C. Curtis, this concept was once recognized as a respectable, as it is recognized nowadays. This concept is displayed in the financial policy of states. In many countries, it essentially was the official governmental point of view, particularly in the United States during the Presidency of John. F. Kennedy (1917–1963). The concept promotes the most important provisions of Keynesianism about counter-cyclical policies and solving the unemployment problem. As the American scholar of history,

¹ Detailed: Modern economic thought. — P. 404–409.

the US public finance professor R. Lindholm claims that the classic rule provided for the required budget balancing, and the new one — that the budget should balance the economy.

The revenues and expenditures of the budget should be completely subordinate to the legislative dimension of the reproduction process. On this subject, the range of practical recommendations of economists to the authorities was much expanded. Thus, the English economist R. Harrod thought it was necessary to develop not only national but also international fiscal policy. In his opinion, it was worth to create a special international body that would coordinate existing deficits and surpluses in various capitalist countries for the purposes of unified 'countercyclical policy'. A large group of economists of the Organization for Economic Cooperation and Development, analyzing fiscal policy in Belgium, France, Germany, Italy, Sweden, the UK and US recommended the governments to freely programme for the budget deficit, when the financial economic status needs it, or budget surplus if it changes. Moreover, in their opinion, the emergence of the budget deficit in times of crisis and depression is a mostly necessary and beneficial phenomenon. But for the growing deficit not to cause the avalanche of public debt, it must be compensated with the corresponding surpluses of revenues over expenditures during the cyclical upturn.

The governments of several market economy countries created special funds for cyclical balancing of market conditions.

For example, in Germany in the middle of 1960s according to the Law on Promotion of Economic Stabilization and Economic Growth a special fund was established of 'alignment of market conditions'. The fund was used during the economic difficulties and reinforced during the economic recovery. The government could, at its discretion raise or lower the corporate tax rate in case of danger of 'overheating' the market conditions or the onset of recession. However, the actual financial practice showed that the regulation of the production process using such funds is limited. Mitigating some contradictions, it leads to exacerbation of others. Practical government attempts to overcome the cyclical nature of production by using the budget in a market economy proved to be insufficiently effective. The most important provisions of this concept one the balancing the budget over the course of cycle did not withstand the test of practical application either, since with the deepening and intensification of the economic development contradictions, the trend of growing chronic deficit and the size of deficit in most countries is much higher than the surplus.

All these factors under the terms of increasing globalization in economics and finance greatly increase the attention of Western economists to public finance, their place and role in the economy. They are regarded as one of the

most important state levers on the process of expanded production, while the budget deficit and public debt — as very effective tools of state regulation. On this basis the theory of ‘deficit financing’ with its main directions — ‘budgetary inflating’ and ‘compensatory budget’ — is gaining a new impetus. Deficit financing became an important component of economic policy of most major countries. The concept of ‘budgetary inflating’ is based on Keynesian theories of financing public expenditure in debt. The basic idea is to expand the methods of financing the budget spending.

According to the principle of T. Jefferson (1743–1826), President of the United States in 1801–1809, budget deficits and debts are not allowed, and the wealth owned by society at present, belongs to the generation living today. According to the ‘new principles’, we view the budget deficit and public debt as the effective tools of economic regulation and expansion of aggregate demand. Aggregate demand can be increased through the expansion of government expenditures regardless of their coverage methods. The growth of public spending has to positively affect the aggregate demand, which in turn promotes successful realization of national product.

With the development of economic growth theories and economic dynamics and the search for new, more effective means of influencing the processes of acceleration capital accumulation ‘compensating’ budget concept appears, taking a strong position in the global financial thought and state policy. According to J. Schlesinger, it is recognized by all Western governments, parties and almost all politicians. Supporters of ‘cyclical balance’ ultimately favor a budget balanced within the cycle. Representatives of ‘compensatory budget’ believe that the budget may and even must have constant, chronic deficits. In this persistent budget deficit, as a German economist F. Naimark says, is the basic difference between cyclical and compensating budget balancing.

The market economy is not always able to provide the necessary demand. In these circumstances, the state must compensate its lack by budget deficit financing. If individuals are cutting spending and investment, the government compensates this reduction and the lack of effective demand by the expansion of public investments, financed mainly by loans. It is assumed that the national debt is a mandatory prerequisite and an essential structural element of the whole process of economic growth.

The concept about the distinction between the active and passive state budget deficit has been developing in the works of new Keynesians. Passive deficit according to W. Heller, arises from the negative impact of decreasing production and employment, leading to a reduction of budget revenues, the active deficit — in the process of financial policy implementation. State financial measures, aimed at encouraging investment and consumption are,

on one hand, related with a reduction in tax rates and introduction of tax incentives, and on the other hand, — with the growth of public spending on economy interventions, increasing the budget deficits. Thus, passive deficit will be formed as a result of the automatic changes, whereas active deficit will be created as a result of discretionary, governmental measures.

American economist, Professor W. Heller introduced the term 'fiscal drag' and 'fiscal dividend' as factors of financial policy. In his opinion, government measures focused on economic recovery in the conditions of rising inflation may actually be a deterrent factor. For example, revenues from personal income tax during the inflation increase because the gross income levied moves to higher income taxation rates, while the real wages are starting to decline. Such automatic increase in budget revenues inhibits the development of private consumer demand and is considered to be a 'fiscal drag'.

The tax rates reduced as a result of fiscal policy can contribute to the expansion of production and employment; in this case, GDP growth will be considered as 'fiscal dividend'.

New Keynesians develop the idea of deficit financing as a means of achieving the effective demand. Just like John Keynes, they criticize the views of those economists who advocate the need for annual budget balancing. This point of view is vividly expressed by R. Harrod: he believes that funds flow using the budget deficit is a dam that can be easily breached, and the best way to do this is to reduce taxes. It should be noted that R. Harrod in this way emphasizes that high taxes depress both consumption and investment. According to the British economist C. Britten during the depression deficit financing of government expenditures facilitates employment and income growth. A relatively miniscule portion of the increased national product that will be transferred to the creditors as a percent, as he considers — is a very small price to pay for the improvement of the economy. In his opinion, full employment, achieved through the interest repayment and even inflation, would cost society less than the economic and social cost of unemployment.

Orthodox Keynesians claim that the growth of public debt leads to the formation of additional financial assets. In their opinion, the availability of financial assets in the form of government bonds affects the demand; the amount of capital increases. In the developed market economies large sums of public debt are accumulated, averaging from 50 to 95% of GDP. For their owners government securities are equity, as they bring dividends. However, according to the figurative expression of Marx, government securities as a capital are of 'negative value'. Government bonds give creditors the right to appropriate a portion of taxes. Growth of interest paid on debt is one of the

reasons behind the deficit budgets, which requires the necessity of new loans.¹

The apparent feature of fragile modern civilization development is the connection of periodic political and economic crises with nature of finance, with the relative autonomy which it has gained from the real sector of economy and state intervention. Such a pessimistic approach to estimating the financial evolution is typical for post-Keynesian economists of the end of the 20th century, when players on financial markets relied on speculation in the implementation of agreements on mergers and acquisitions, repurchase of shares through borrowed funds, and 'junk' bonds issuing.

M. Binewanger generalized the view on the negative impact of these latest trends in the development of the financial sector to the real economy as follows:

1. 'Displacement hypothesis' formulated by John Tobin in the book *Money and Economic Growth* (1965). Financial resources can be invested in financial assets. When the latter provide higher returns than investments in real sector projects much money is invested in the financial capital and it hurts the real sector through negative multiplicative effect.

2. 'The hypothesis of financial domination'. Changing the important economic indicators such as interest rate and foreign exchange rates increasingly occurs under the influence of financial speculation, not reflecting the true state of the economy. In this case, the financial sector begins to dominate the real one as transactions set standards for activity in the real economy.

3. 'Hypothesis of a casino', formulated by the professor of Manchester University S. Strange in her work *Casino Capitalism* (1997). In the presence of speculative 'bubbles' prices on the stock markets do not accurately reflect fundamental economic indicators. In this case, the irrational behavior of investors is often determined by the very speculative dynamics formed at financial markets. This trend can adversely affect the real economy sector, as it risks converting into a casino side-product.

4. 'The hypothesis of short term'. Providing real opportunities for successive exchanges, financial markets attract speculators focused on short-term transaction implementations. Prices react quickly to the information, effecting the expectations of market participants. In the process of decision making managers start to consider short-term peculiarities of financial markets. So if financial markets underestimate long term strategic investments, then corporate executives must do the same, because the

¹ Detailed: Theory of Finance: textbook. / [P. I. Yuhymenko, V. M. Fedosov, L. L. Lazebnyk and others]; ed. V. M. Fedosov, S. I. Yuriy. — K.: Center of academic literature, 2010. — P. 139–143.

effectiveness of their activities is estimated on the base of the financial performance of the company.

5. 'Financial instability hypothesis' formulated by post-Keynesian H. Minsky in his work *Finance and Stability: the Limits of Capitalism* (1993). The basic source of instability, in his opinion, is inappropriate correlation of real opportunities for profit and debt.

In periods of economic boom loans are increasingly used for speculative and compensation trade, but and not for investment projects in the real sector. The financial structure is becoming more unstable and the business cycle ends in depreciated debts, which leads to the next recession.¹

The close interrelation of these hypotheses is evident in terms of the existing negative correlation between the financial sector and the real economy sector development. We can presume that their effect is not constant, but it can be attributed to the periods of market economy development, when the financial sector grows at the real sector's expense. Therefore, appeals for the management and control of financial speculation at national, regional and global levels emerge in the economic literature. After all, today in terms of market economy development in the 21st century they are the most effective and essential mechanism of political and economic organization of society. So if to summarize the development of Keynesianism, it should be noted that the choice of instruments of state intervention depends on the orientation of the economic system of any country. It is necessary to take into account a number of factors that reflect the specifics of those concepts or regulation. Firstly, modern Keynesian theories in different ways justify the state's role in the formation of certain models of management. They all come with a large state role in the economy after World War II and based on different objectives and instruments of intervention in regard to states and time periods. Thus, for the liberal model of the US economy, minimal state involvement in economic life was associated with more regulation in the agricultural sector in order to ensure an adequate level of profit to farms.

The Western European states undertook the task of promoting economic growth in the 1960–1970s together with solving the problems of postwar restructuring. Then — adjustment to 'external shocks' and the crisis in the 70's and 80's, increasing competitiveness and standard of living in the 80's and 90's. The strengthening of the state role was based in 'failures' of the market mechanism.

The most focused on the preventive role of the state in developing and implementing the economic policy were Asian countries that relied on

¹ A. Nesvetailova Economic legacy of Hyman Misky. — P. 108–109.

historical tradition of collective ownership: business and state equally distribute the responsibility for the results of national economic development.

Secondly, we must consider the level of socio-economic development, competitiveness and potential growth ideology. For example, the newly industrialized countries later than others joined the market economy and used the ideology of economic nationalism with an active and diverse government regulation.

Thirdly, the real state of less developed and dependent on the current market countries raised the question of the relationship of state regulation with the concept of national economic security.

Government intervention in the US economy has traditionally been associated with quite high level of military oriented economy, national protectionism of manufacturers, ensuring political conditions for the supply of raw materials from abroad and the presence in the global market. A government intervention in Japan was initially focused on creating security through solving structural and institutional problems, creating competitive public sectors of the economy.

Fourthly, an important factor of state intervention is the country's participation in the international division of labor, finding the ways and means of forming future competitive advantages in the world economy.

So, regardless of political views on issues of government regulation nowadays the interest to the ideas of George Keynes and his followers does not subside as in the countries with developed modern market economy and in the states that have recently taken the path of their development. Some developments of postwar Keynesians play an important role in understanding the multiplicity of problems of modern economy in Ukraine. The most important are:

1) during the transformation of the economic system it is important to prevent excessive uncertainty of the future, adversely affect the business activity, which as the experience of Ukraine, can be stored for a long period. One of the consequences of uncertainty protracted decline in investment;

2) investment crisis is more acute than the budget deficit. Investments are the base of economic growth and technological progress, so their long fall may be a transition not to the 'market', but to a certain varieties of primitive pre-market, pre-capitalist systems;

3) prolonged decline in aggregate demand is the cause of unstable real economy sector. Policy concerning aggregate demand management has an important role not only in the short term but in the medium and long-term perspective;

4) the structure of circulation means is of great macroeconomic significance. There is a positive correlation between economic development and such a structure. Most of the unit M3 (or M4) that is not included in M2 (or M3) may indicate a high degree of economic development, a greater proportion of M0 to M2 — its lowest level at the same time. These long processes of growth (recession) and progressive changes (degradation) within the circulation mean interaction with each other.¹

If all these aspects were considered when reforming the economy of Ukraine in 1990s it could prevent such a deep transformation economic decline and social costs.

So if to generalize the changes of the concept of macroeconomic regulation postwar Keynesian economist's economy, it should be noted that they mainly related ideas about the mechanisms of economy state regulation, the need to preserve and use did not raise any doubts among Keynesian economists and especially politicians. New views emerged on the mechanisms of regulation in terms of macroeconomic policy. First of all the question about the role and nature of the budget increase of public expenditures, tax reform to reduce the tax burden and public debt were reviewed. All this reduced the possibility of using fiscal policy as an important instrument of macroeconomic regulation.

Unlike John Keynes, who considered as a priority in regulating the economy fiscal policy, the major role in macroeconomic stabilization postwar Keynesians assigned monetary policy and central bank activity. This approach to a higher level will be raised by monetarists. In particular, postwar Keynesians attached a great importance to policy changes in interest rates as the main means of economic activity in a recession or limit of inflationary pressures if the economy was on the rise. As the practice showed, the use of this tool in terms of finance globalization finance and uncontrollable movements of speculative capital required precautions. In terms of declining interest rates or excess of state expenditure over income there was a reaction of speculative capital outflow, followed by the fall of the exchange rate and increasing import prices.

In the real economy, it caused the opposite effect — instead of the expected stimulating of economic growth the country could have provoked inflation.

There were interesting studies of the winner of Nobel Prize in 1999 R. Mundell, who proposed a model which describes the dependence budget and monetary policies on the exchange rate regime. In case of fixed rates

¹ Detailed: N. Nozdran Money aggregates: theory and practice / N. Nozdran, I. Berezin // Economic Issues. — 1993. — № 6. — P. 31–39.

(Bretton Woods option agreement) the role of monetary and credit regulation is reduced, while in terms of exchange rate flexibility (liberalization of financial flows), according to Mundell, monetary regulation takes the first position and budget policy loses its previous value. In the history of financial thought R. Mundell came in with his theory of 'optimal currency area', which he put forward in the 1960s and which got Nobel Prize.¹ According to his thoughts, currency zone is a zone within which exchange rates are fixed. The optimal currency zone is a zone in which rates should be fixed.

Developing this idea, R. Mundell stresses that 'the true currency zone created for stabilization policy is a region that meets the requirements, the less currency areas in the regions the better it is. Advantages of the currency area are the following ones: first, the participants receive full benefit from the use of money as a unit of account, medium of exchange and accumulation of wealth, because different money always creates a discomfort; secondly, the possibilities of monopolistic speculation are eliminated as corporations that own local currency may have more resources than central banks; and thirdly, supported money illusion and price rigidity is supported. It is necessary that exchange rate changes to become effective (for their effectiveness it is required that inputs not to cause instant cash compensation rules remuneration for any real change of assets value or real cost of buying goods)'.²

The theory of 'optimum currency area' has been the focus of other theorists (R. McKinnon, P. Kenen, D. Fleming etc.), who clarified the notion, defining it as a union of states which accepted regime of fixed exchange rates or the single currency while maintaining a flexible exchange rate in regard to the rest of the world.

This model assumed that the benefits of such regime exceeded the costs of failure of floating exchange rate as an instrument of macro-economic stabilization. According to supporters of this theory, a group of countries that have introduced a single currency gets some economic benefits as a result of higher price transparency, reducing the cost of economic calculations, reducing transaction costs, reducing uncertainty and weakening competition. In order to ensure efficiency of union of states in 'optimum currency area' some countries had to abandon such instruments of Financial Regulation, as an independent monetary policy and independent setting the exchange rates, which is undoubtedly a barrier to the entrance into the zone. 'A country that enters the currency area, loses the ability to use Foreign Exchange and

¹ Detailed: Mundell R. A Theory of Optimum Currency Areas / R. Mundell // American Economic Review. — 1961. — № 4. — P. 379–396.

² I. Osadchaya The evolution of macroeconomic theory after Keynes / I. Osadchaya // Economic Issues. — 2006. — № 5. — P. 11.

monetary policy to stabilize production level and level of employment', — P. Krugman and M. Obstfeld underline.¹ Equally important factor of feasibility joining the currency area is the same response of participants to external shocks or, at even their reaction is different, there are other adaptation mechanisms that are inherent in the free market (flexible wages and prices, the mobility of production factors, effective tax fiscal policy, etc.), and they are an alternative of exchange rate flexibility. Otherwise, the efficiency gains from currency can not cover expenditures of participation in 'currency area'.... Actually, most theorists of 'optimum currency area' emphasized its conditions which can not always be performed in practice. However, the argument of supporters of this theory was the idea that in the case of 'asymmetric shocks', in other words, recession or rising inflation in some countries — members of the association, the situation may be corrected, not only because of labor mobility, flexible wages and prices, but also through the redistribution of financial resources, implemented by monetary authority of the 'zone'. This theory would later be recognized as a conceptual study of formation the single currency area within the European Union. Evolution postwar Keynesian economists views, based on the rejection of budgetary policy as the main tool of macroeconomic regulation and stabilization of the situation led to the creation of new concepts of the organization of budgetary process. Economists in their theoretical studies began to emphasize the need to implement some budget rules, which could serve as criteria of fiscal effectiveness.

However, most researchers point out that, unlike the rules that are used in monetary and exchange rate policies, rules of budget adjustment have more diverse and complex character. It is the experience of the countries where these standards were somehow used or are used nowadays. They depend on the purpose of economic regulation, institutional organization of the budget process and methods of fiscal policy implementation. One of the main conditions for effective fiscal policy, which is based on the related regulations, postwar Keynesians consider transparency of the budget process, which implies openness, truthfulness and accuracy of information about the budget. Only under these conditions the rules will help to strengthen the financial discipline and order. Otherwise, the violation may occur and deviations that cause erosion of the rules. Fiscal policy of Ukraine is an example of it. In the *Fiscal Rules* (1998) American researchers J. Korids and S. Sumansky on the basis of summarizing the experience of a number of developed countries distinguish three basic types of rules that

¹P. Krugman *International economics: theory and policy*. — P. 616.

limit the ability 'tyranny' of the government in carrying out their budget policy.

First, the rule requiring a balanced budget or fix the limit budget deficits. These may include: full balancing income and expenses (prohibition of government loans) or limit the budget deficit to a certain share of GDP; balancing costs and revenues (and the size of the budget deficit); balancing only current income and expenses (despite the fact that loans are allowed to finance investments). Secondly, the rules regarding loans can: prohibit government borrowing from domestic sources; prohibit state borrowing from the central bank; restrict these loans by certain proportion relative to previous government revenues and expenditures. Thirdly, it is necessary to remind the rules relating to public debt or reserves. These include limiting the value of the gross (or net) debt relatively GDP and determine the magnitude of budget funds reserves (for example social security funds) as a proportion of annual social payments.¹

Noting the advantage of 'rules' on discretionary policy, a significant portion of postwar Keynesians primarily emphasize that these are the rules legally approved or accepted as a kind of 'social treaty' can prevent negative aspects of democratically elected governments.

This is especially the tendency of voters under pressure to shift the burden of payments on future generations. However, they point to the shortcomings of this budget policy: established a small deficit is not always able to fulfill the role of automatic stabilizers in case of worsening the economic conditions in any country. For example, the rules of the country of European Union provided for in the Maastricht Treaty, and in the Stability Pact (1999) recommended the budget deficit to 3% of GDP. On one hand, the 'rules' fixed requirement for the budget deficit, obliging Member States to try to ensure a balanced budget or even a surplus, but on the other hand, the Pact provided that to the countries in which excessive deficit (over 3%) is caused by decrease of GDP to 2% or more, that is associated with the economic decrease, sanctions will not be used. Anti-crisis role of budget is recognized due to these 'rules'. Experience in Germany and France (which exceeded the limit of budget deficits in the period of the economic decrease) confirmed the importance of budget to support the economic growth during the period of decline. The important role in antirecession regulation played monetary and credit policy and it will be identified as a priority by new monetarists. The US, Europe and Japan during the crisis at the beginning of 21st century resorted to reduce the average rate of inflation percent. This instrument is applied in the countries of EU, which after a percent reduction

¹I.Osadchaya The evolution of macroeconomic theory after Keynes. — P 13.

in 2001 from 4.75 to 2.75% and during the financial crisis, European Bank holds it at 2%, in Japan, where in the same year an interest rate decreased from 1% to 0,5% and continues to stay at the same level during the current financial crisis.

3.3. *Monetarism. Money dominance*

As an alternative to Keynesianism in the 1930s there were formed groups of supporters around F. Knight and John Weiner, generally recognized as the founding fathers of the Chicago School, who offered their own concept of financial stability. The key figures in the group of F. Knight were M. Friedman, J. Stigler and W. Allen Wallis. Later they began to be supported by young teachers — G. Saymonson and A. Director. «It is this group,» according to M. Raeder, «brought the gaps between generations and ensured that continuity of scientific traditions which was called «Chicago School».»¹ All representatives of this school were empiricists with a tendency to use quantitative methods for testing theoretical postulates. In this they were closer to J. Weiner than to F. Knight, but consider themselves supporters of the latter.

Since Oscar Lange, known as J. Keynes' admirer, coming to the University in 1938 it was established the Commission of Kaulza (association of US scientists economists, named after the businessman A. Kaulza that funded his work; it operated in the 30–60 years of the twentieth century.). It was a school of young talented economists who later became internationally known, including J. Debre, L. Clake and others. Association became the basis for the approval of monetarist principles for M. Friedman, W. Wallace and their supporters and led to the formation of a special scientific approach, which was isolated from the majority of other scientific schools.

The fundamental difference between monetarists and Keynesians was not mostly in their approach to the impact of money supply on economic development but in a difference of views on balance power of market mechanism.

The peculiarity of their scientific approach in positive economic theory was shown in the role of aggregate effective demand as explicable variable was put into the background, and the main place was given to the structure of relative prices and its «distortion». «These economists,» according to the

¹ Reeder M. V. Chicago school / Roeder N.V. // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading, B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 51.

researchers of monetary theory, «which intellectual leader is Milton Friedman, argue that excessive monetary growth is the main cause of inflation, and fluctuations in the rate of monetary growth has historically been the reasons for the large cyclical fluctuations of the real release. For stable monetary growth of self-adjustable mechanisms distract strong lasting impact of macroeconomic shocks on economic activity.»¹

Activation counterattack of Chicago School representatives on the «General Theory» has led to the revival of neoclassical monetary theory in an enhanced and empirically faithful version. Its name is associated with M. Friedman, who, according to V. Usoskin, «played a leading role in shaping and strengthening monetary doctrine. He formulated the basic theoretical principles monetarism, developed their arguments.»²

Monetarism is a modern economic theory, according to which the amount of money makes a decisive impact on economic activity and prices, and the goals of monetary policy are mainly achieved by adjusting the rate of money supply growth. It's not just theory, but the mechanism of the state corresponding behavior in economic relations.

Under the concept that money is the main, central area of economic system that determines the status and development, M. Friedman proposed the idea according to which control over the supply of money is more important than Keynesian fiscal stabilization measures demand. Its main proposals to Governments were a necessity to finance the budget deficit by issuing new money and to use a budget surplus to extract money from circulation. Financial authorities should monitor parameters they can control. «The amount of money is the best of the available ... direct criteria of monetary policy, and this summary is more important than a choice of specific monetary aggregates as a guide.»³

The demand for money is a constant upward trend, which is caused by the tendency of individual savings. To achieve sustainable economic dynamics it is necessary to ensure the continued increase of money in circulation. A money proposal is characterized by instability, primarily because of the erroneous policy of credit and monetary institutions. As a result, there is a gap between the money supply and demand, causing cyclical fluctuations in the reproduction process, which has a short-term nature. The policy of countercyclical fluctuations in the money supply has to stabilize economy, provided that governments set their own costs and tax

¹ Lindsay D.E. Money politics / D.E. Lindsay, G.S. Uollyh // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 580-581.

² Usoskyn V.M. «Money world» Milton Friedman / Usoskyn V.M. — M.: Thought, 1989. — P. 23.

³ Frydmen M. I. If Money could talk. — P. 143.

rates at a level that balanced the budget for full employment. The constant increase in amount of a fee regardless of the status of the state budget would be simpler and more effective means of stabilizing the economy. Later M. Friedman specified the content of «permanent» growth, «I recommended such rate that would ensure consistent approximate prices of final products; in my estimation, and this should correspond to 3–5% increase in the amount of cash and all commercial deposits (per year) or smaller percentage of cash amount and deposits on demand.»¹

The economic literature sometimes calls this rule «Friedman's 4% rule» (4 percent Friedman's rule). The background of this rule was the indicator of 4% average annual growth in US GDP for a hundred years. That is, money growth was tied to GDP growth by M. Friedman, which, in his opinion, would contribute to price stability and bring inflation to minimum. As in modern financial practice of developed countries the issue of money in circulation is directly related to the public debt, the monetarists offer an alternative method to reduce the state budget deficit, public debt and actively regulate emissions. M. Friedman believes that the main reason for inflation was fiscal policies aimed to increase public expenditure covered by issue of loans.

To be fair it should be noted that such views were expressed not only in the University of Chicago. In the 1930s J. Engel from the Columbia University defended a constant money supply growth, and in the postwar period it was done by K. Brunner and A. Meltzer. The term «monetarism» was firstly used by Karl Brunner in 1970s, who founded the «Shadow Committee on Open Market» with A. Meltzer to spread monetarist ideas.² Monetarists' ideas went outside of the United States and found their followers in the UK and other West European countries, and then worldwide. The development of these ideas and practices in developed countries was generalized by C. Chatek.³ Spread of monetarism beyond one country and increase of its impact influenced on intense debate among economists about the usefulness of targeting growth rates in money supply.

It's worth mention that M. Friedman himself considers it possible to increase money in circulation only in the long term. He thinks that neither fiscal nor money policy can regulate short-term downturn. Therefore, he had critical attitude toward Keynesian policy of «precise setting» that depends on

¹ Frydmen M. I. If Money could talk. — P. 144.

² Selden R.T. Monetarism / R.T. Selden // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 391.

³ See for more det.: Subrata Chatar. Monetary Economics in Developing Countries / Subrata Chatar. — L.: St Martin's Press, 1995. — 262 p.

situational circumstances and changes in each phase of the cycle. In practice, government measures are always late because of temporary gaps between the dates of their adoption and the start of putting into action. So, being calculated on the crisis phase, they are often implemented in phase of elevation, or on the contrary, that only reinforces the negative social and economic consequences of the crisis, puts back the economic capacity of «self-adjusting and self-adoption».

In view of the above rise of monetarism origins from quantitatively theory of money, which explains the change in nominal aggregate expenditure, reflecting a change in volume of production and prices, changes in terms of money supply and velocity of money (the ratio of the number of total costs money). In practice, the change in velocity, in the long run, is less than the change in the quantity of money and to some extent the result of changes in the quantity of money prior periods. Then we can say that the total cost is mainly determined by changes in the quantity of money. If we talk about the long term, the increase in volume production is mainly determined by real (non-monetary) factors because monetary changes affect mainly on price levels. Long-term relationships between money and prices are confirmed by the practice, which was the basis for the conclusion of M. Friedman that the cause of inflation is too high monetary expansion and inflation which can be prevented by proper control over the money supply. «No other empirical economic value, which would be corroborated with such constancy and regularity in terms of significant changes, as the relationship of great change in money supply and prices observed over short intervals of time; always associated with the first one, and their one-way traffic.»¹ Therefore, the scientist believes that the release of additional funds to finance growing government spending equivalent tax cash.

M. Friedman emphasized the government's direct interest in inflation, which it uses to increase government revenue. First, inflation increases taxable income and this enlarges tax revenue of the state without any quota in parliament to change the tax rates. And secondly, if the government is able to issue securities with lower interest than the rate of inflation, it may sell those securities to receive some income. That alienation (realization) of debt plus automatically tax increases, in his opinion, were the main sources of state revenue in the United States during the inflationary 70s of the twentieth century. So automatically indexation of tax rates and partial implementation of public debt have increased government revenue. Indeed, inflation helped to reduce the federal deficit debt in 70 years of the twentieth century in the United States.

¹ Frydmen M. If money could talk. — P. 42

A series of studies by C. Warburton, where he took for granted that money still matter, was the first significant empirical support for monetary interpretation of business cycles. However, as noted by T. Selden, «appeals of C. Warburton and other members of the quantity theory of that time were not heard.»¹ Only fundamental research of M. Friedman and A. Schwartz «A Monetary History of the United States, 1867–1960» (1963), which described in detail the role of money in economic cycles, led to the intensification of studies in this area. In their works «Statistics Monetary System of the United States» (1970) and «Monetary Trends in the US and UK» (1982) they continued monetary research, so strong confirmation that reverse impact of economic activity and prices of money did not explain the main part of that correlation and therefore indicated that an active party to this dependence money were worked out by K. Andersen, L. Jordan and Ph. Cagan.² «By the end of the 60s,» defines Ph. Cagan, «a point of view which suggested that monetary policy made a significant impact on aggregate economic activity was generally accepted.»³ It gives reason to believe that, apparently due to the influence of monetary expansion on inflation 70s, money again became the focus of macroeconomic theory.

Strategic research and theory of monetarism total expenditures are quite different from Keynesianism. If the latter theory, as shown above, focuses on the determinants of the total expenditures components and does not give much importance to monetary balances, the monetary theory of money demand and supply is the primary factor to explain the total costs. Supporters of these theories have focused on the major economic behavior hypotheses underlying that the Keynesian multiplier theory of consumer establishes a stable relationship between consumption and income, and due to the monetary theory — velocity of money determines a stable money demand function. Using data from the US from different periods, M. Friedman and D. Mayzelmen empirically appealed against these two theories. In the first, regression consumer spending correlated with investment ones which provided a constant rate of consumption, and the second — with the amount of money, which provided a constant rate of exchange. According to the conclusions of authors, monetarist regression reflects data significantly better. «But these claims», — M. Blaug said, «were soon discarded because

¹ Selden R. T. Monetarism. — P. 370

² Selden R. T. Monetarism. — P. 376-379

³ Keyhan A. F. Monetarism / A.F. Keyhan // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 555.

soon it was revealed that complex Keynesian models were not worse than monetarism ones.»¹

Professor of the University of California George Pishendzher in the work «The essence of the theoretical debate about monetarism» (1981) analyzed almost all mathematical apparatus used by monetarists and Keynesians and came even clearer conclusion. From his point of view, «Both schools used almost the same model and the calculations for them but got different results.»²

Later the advantages of Keynesian model was also refuted by economists of the Federal Reserve Bank of St. Louis. They tested St Louis equation in which the change in nominal GDP depends on current and lagged changes in the quantity of money, current and lagged changes in public expenditure and constant, reflecting trends of money velocity. Let's remind that the exogenous variables model consisted of indicators of money in circulation, government spending to support the employment potential production volume, previous inflation. Endogenous variables model parameters are the total costs of excess demand, the volume of production, current inflation (depending on the excess demand), the expected changes in the price level (setting as adaptive expectations), the difference between achieved and potential output, unemployment, interest rates (depending on the mass change money, prices and expectations).³ While using these variables basing on US historical data the equation showed strong permanent influence of money on GDP and weak time (in later works — insignificant) effect of fiscal variables. This contradicts Keynesians' ideas who claims that fiscal policy is more important than monetary one.

Like the majority of models, St Louis model did not propose accurate calculations in predicting the recession of 1973–1975. Among the researchers of this fail there is no unity. According to S. Capek, mistakes in models significantly associated with abnormal price changes caused by program price controls, imposed by the Nixon administration, and the subsequent cancellation of control.⁴ The undeniable result of St Louis research was the recognition that the interest rate changed because of the influence of budget deficit or surplus and thus might affect the demand for money. However, according to monetarist, fiscal impact on aggregate demand was small due to

¹ Blauh M. *Economic Thought in retrospect* / Blauh M. — 4th ed. — Moscow: Delo-LTD, 1994. — P. 635.

² Livshits A. Y. *Monetarism. The concept of economic policy: scientific-analytical overview* / A. Y. Livshits. — Moscow: INION, 1983. — P. 9.

³ *History of Economic Thought* / ed. Avtonomov B., O. Ananyina, N. Makasheva. — P. 584.

⁴ Subrata Chatar. *Monetary Economics in Developing Countries*. — P. 202; Yukhimenko P. I. *Monetarizm: theory and practice*. — P. 102.

the low elasticity of demand for money percent. Government loans forced out private and related costs and deficits created non-significant overall effect on aggregate demand. St. Louis model and its results were found proof of the weak and the temporary impact of fiscal policy which is controversial in economic literature today. The reason for this diversity, due to M. Bunkina, is that «universal sebaceous recipes in this area do not exist.»¹

In the 70s of the twentieth century K. Brunner and A. Meltzer examining the impact of monetary tare changes on the economy compared the effects of government release into circulation of money and bonds. Under financing costs, increased due to an expense in the quantity of money, by the Government, the total cost increases and nominal income grows. It is worth paying attention to the other side of this process associated with an increase in the money supply — growth of social wealth, which enlarge the demand for goods and services that also increases nominal income. First, nominal income growth reflects an increase in real income and only then — in price increase. Having compared this result with the result, when the government finances its rising costs by issuing bonds, the researchers noted identical trends: wealth growing and total costs increasing. While the government is releasing money or bonds to finance the deficit, nominal income has to grow by increasing wealth. In this situation researchers agree with Keynesians that the deficit funded by the issuance of bonds as well as new money, leads to an increase in business activity. In their researches Brunner and Meltzer showed that national income increases much more because of the issuance of dollar money than the dollar value of the bonds, later it was confirmed by J. Smithin.²

Changing the time lags of money influence on economic activity from one to several more quarters makes it difficult timing of events countercyclical monetary policy. Therefore, according to monetarists, monetary policy in the absence of unattainable ideal forecast will rather strengthen than weaken economic fluctuations. To prevent the emergence of monetary reasons for economic instability and to achieve a relatively stable level of prices in the long run can only be gained in stable growth rate of money. «The closest to the optimum policy is obviously the doctrine of money constancy ... The immediate objective of stabilization can be input prices. If the demand for money in real terms peculiar to the same elasticity as income, taking into account the growth of population and labor force, the United States needs to increase the money supply by about 1% per year. If the elasticity is higher,

¹ Bunkina M. K. *Monetarism* / Bunkina M. K. — M.: AO «DIS», 1994. — P. 30.

² Smithin J. *Controversies in monetary economics: ideas, issues and policy* / Smithin J. — Cambridge: Cambridge University Press, 1994. — P. 32-38.

as observed in the past century, the growth of the money supply may be at about 2% per year.»¹

It is worth to clarify: as specified quantity of interest differs from its «golden rule», the increase of the cash amount and all commercial deposits (per year) should be 3–5%.² The answer is given by L. Herman, who pointed out that neither the result of calculations, as it was noted by M. Friedman, nor «population growth and labor» have to do with this case.³

It turned out that in this way gold mining was growing. «America needs the gold standard, similar to existed until 1933.»⁴ According to John Kemp, after the restoration of dollar convertibility into gold the inflation will disappear. That is some monetarists reflect the quantity theory of money metallic times.

After appropriate stability of monetary growth the residual volatility of economic activity will be negligible, and in any case cannot be prevented by means of economic policy. This monetary policy will also help eliminate the constant political pressure for short-term monetary stimulus and non-investor confidence, which is associated with unintended results of discretionary monetary policy. Especially M. Friedman opposed to state price controls, warning of the danger of hidden inflation. «Such suppressed inflation is much harder for economic activity and freedom than open one; and the more effective suppression is, the greater economic loss you have. It is extremely desirable to avoid inflation, but if for some reason this is not possible, then much better to have an open inflation than suppressed.»⁵ It can be contradictory omissions regarding shortages of codes, which presence leads to an increase in the debt, and it is the hidden suppressed inflation, according to M. Friedman.

The described above politics of constant growth rate of money can be contrasted with the practice of the central bank, which aims to pro-cyclical variation in the money supply. M. Friedman emphasized that the main role of banks «is related to the money supply more than the demand for it.»⁶ Central banks are free to decrease the funds of commercial banks in the period of demand for credit increases in order to prevent an expanse of interest rates.

¹ Friedman M. If money coul talk. — P. 100-101.

² Ibid. — P. 144.

³ Naydenov B. C. Inflation and monetarism. The lessons of the anticrisis policy. — P. 50.

⁴ Ibid. — P. 128.

⁵ Friedman M. Quantity Theory of Money / M. Friedman // Classical economic thought: the compositions / [V. Petty, Adam Smith, David Ricardo, and others.]. — M.: Eksmo-Press, 2000. — P. 872.

⁶ Ibid. — P. 800.

Targeting interest is really effective stabilization measure of the financial market, but it does not often provide any change rate sufficient to compensate for fluctuations in demand for credit. Consider the particular example: in a growing demand for credit the bank keeps interest rates growth. This policy will lead to monetary expansion, which generates higher costs and inflationary pressures. Remember the 70's, when much of the country carried out targeting of interest rates. Financial market rate of increase in nominal interest rates lagged behind the rate of inflation and the resulting low rates of real percent (adjusted for inflation) excessively stimulated investment and aggregate demand. According to M. Friedman, the only competition and market mechanisms can «bring together the deposit rates and nominal income on physical capital.»¹ Awareness of this situation contributed to the fact that, for example, in the United States during the «Reaganomics» the government let interest in free swimming and allowed to look through the market mechanism balance.²

Targeting the volume of loans from the central bank may also adjust the market demand for bank credit. For this reason the central bank is required offer reserves with applying the open market by the alternative loans to commercial banks, while the growing market demand for credit is increasing the pressure on bank reserves.

In the opposite situation reserves are removed. Pro-cyclical money supply gives the most effective stabilizing effect in operations to support continuous growth rate of the money supply. «Our final rule,» M. Friedman writes, «which determines the optimal amount of money is that this can be achieved through deflation of prices, the rate of which leads to a zero nominal interest rate. In this situation income from the stock of cash, assessed as high as great it is, will be exactly balanced: for individual subjects there are expenses rejection of consumption, and for companies who acquire cash by means of loans — with growing of debt service.»³

Analytical framework that describes how monetary policy should focus on achieving some intermediate goals to eventually affect the total cost was developed by Brunner and Meltzer. Intermediate objectives are changes in the money supply or interest rates. «The question of proper intermediate target of monetary policy,» Ph. Cagan said, «soon became the most discussed issues in this area.»⁴

¹ Friedman M. *Quantity Theory of Money* / M. Friedman // *Classical economic thought: the compositions* / [V. Petty, Adam Smith, David Ricardo, and others.]. — M.: Eksmo-Press, 2000. — P. 866.

² Yuhimenco P. I. *Monetarism: theory and practice*. — P. 121.

³ Friedman M. *Quantity theory of money*. — P. 849.

⁴ Kagan F. *Monetarism*. — P. 558.

The development of the world economy in the 70s of the twentieth century is characterized by the application of many countries in the modified monetary targeting, where it was declared and provided a range of money growth rates per year, though with frequent exceptions that were due to violations of domestic trade. The main countries that have adopted some form of targeting and monetary growth were Germany, Japan and Sweden. This strategy of monetary policy took on different forms depending on the choice of monetary aggregate, such as a corridor for targets and mode of administration selected unit. A more extensive development of monetary targeting in industrialized countries was gained directly after the dissolution of the Bretton Woods monetary system in the early 80's. However, since 1982 the monetary targeting popularity had begun to decline, and in the mid-90th of XX century only a quarter industrialized countries and approximately 10% of developing countries announced monetary targets.¹

Under current conditions most countries use partial form of monetary targeting where the task is to follow a relatively wide range of different rates of growth, which could be changed in case of necessity. Therefore, the policy can be called monetary targeting only in the sense that one or more monetary aggregates are not a complete guide for society and its impact on inflation expectations are not substantially howl. However, the advantage of monetary target is that it is easy to be controlled by the monetary authorities. This is especially true for countries with transitional economies where monetary authorities must show the public their discipline and ability to control monetary interest.

However, in modern practice it is widely used inflation targeting, which is the case for the following:

1) financial authorities provide clear and transparent guidelines for the whole mixture of society and especially for the activity of economic agents. On this occasion, M. Friedman wrote, «The expected inflation (deflation) does not lead to any transfers from debtors to creditors that require payments relative debt: the agreed nominal interest rate enables to tune on the expected rate of inflation. There is no need to introduce barriers to self-adjustment of prices. Each entity has the ability to take into account the expected price changes, coordinating future trading conditions;»²

2) due to the policy of inflation, targeting monetary authorities provide much greater transparency of monetary policy, facilitates public oversight over it, which enhances its responsibility;

¹ Lagutin V.D. The choice of strategy of monetary politics / V.D. Lagutin, T.S. Krichevskia // *Finances Ukraine*. — 2002. — № 3. — P. 8.

² Fridmen M. The quantity theory of money. — P. 863.

3) it provides an open consideration of the role of monetary policy time lags by using its tools. «The transition to full policy needs to be brought in time,» said M. Friedman, «most prices slowly get used to change»;¹

4) according to S. Fischer, it removes the need to compensate for the central bank failures in previous years to achieve his goal, which greatly stabilizes the economy (compared with a situation where the purpose is to stabilize the price level);²

5) it contributes to the solution of dynamic inconsistency problem (as it was demonstrated by C. Swanson, inflation targeting optimizes the level without an increase in the unemployment rate dependence of aggregate supply shocks);³

6) it strengthens the credibility of the monetary authorities in comparison with the strategy of monetary targeting, which is characterized by frequent changes of targets such as money supply. «If the monetary authority generates credit mechanisms of change in money supply, which are quite flexibly respond to the actual demand for money, the total amount of money has no effect on inflation. In connection with this policy targeting total money supply is counterproductive»;⁴

7) it helps to create much better conditions for monetary stimulate economic growth, and this is the most important thing. But «suppression of inflation,» according to M. Friedman, «prevents the functioning of a market system. The government has to create a substitute market system that is very inefficient.»⁵

The practice of successful inflation targeting in many countries promoted support of International Monetary Fund. Based on the analysis of the causes and consequences of financial crises of the late 90th in XX century IMF concluded the need for increased transparency in monetary and financial policies. September 26, 1999 Code of Good Practices on Transparency Monetary and Financial Policy was adopted, where the proper place targeting regime of inflation was given.⁶

The peculiarity of monetarist theory about total costs, based on the function of the demand for cash assets is that the economy is stabilized

¹ Friedman M. The quantity theory of money. — P. 863.

² Fisher S. Maintaining Price Stability / S. Fisher // Finance and development. — 1995. — № 12. — P. 36-38.

³ Wagner H. Central Banking in Transition Countries / H. Wagner // IMF Working Paper. — 1998. — № 126. — P. 35-36.

⁴ Zhukov P.E. Monetarism and Modern Monetary policy / P.E. Zhukov // Finances. — 2004. — № 10. — P. 65

⁵ Friedman M. The quantity theory of money. — P. 884.

⁶ The explanatory note to the Code to be transparency practices in monetary and financial policies. — Washington: Intern. currencies. fund. Management of monetary credit. and currencies. issues. — 2000. — P. 38.

without government intervention through market mechanisms of leveling. «The balance can exist,» M. Friedman writes, «only because of the level of growth which requires a balanced increase in consumption that accompanies it, which is possible because of the obvious time advantages»¹, although in this process the role of the state is not reduced as there is a certain amount of money in circulation under its control.

This approach to the problem of the money demand has given the opportunity to show its dependence on the volume of transactions, the share of income and wealth that people want to keep in the form of cash balances, and the alternative expenses of money ownership rather than other assets that generate income (i.e. the difference between income from cash and alternative assets). Wider interpretation of alternative assets enabled the monetarists to include them not only in financial instruments, but such physical assets as consumer durable goods, real estate and industrial buildings and equipment.

According to the monetarist theory the population reacts to changes in the money supply transactions that result remains valid as cash and other assets in accordance with the desired level. As a result of substitution between money and assets ranging from close substitutes for money, profitability of extensive assets list changes, including consumer durables and capital goods. This led to fluctuations in loans, investments, consumption and production in all sectors. This exchange will last as long «as the value of services (money — Ed.) added to the total flow as a result of an increase of one dollar money from the owner, cannot be compared with the size of the flow reduction of services as a result of elimination of one dollar in any form, which holds its own nickname assets.»²

As a result of these movements the total cost and average prices change. So despite the money impact on the total cost and the price level processes that are characteristic of certain sectors, they determine the allocation of costs between goods and services and the corresponding prices. This happens spontaneously through market mechanisms, as money itself «if it could speak,» said M. Friedman, «would not say what the aim of its ownership was.»³ It means that the monetarist theory rejects a famous technique of forecasting for certain sectors and increased price level changes due to changes in prices of certain goods and services. In the world of free enterprise it cannot be any «money controlled by power» monetarists believe.

¹ Friedman M. Quantity theory of money. — P. 870.

² Ibid. — P. 800.

³ Ibid. — P. 795.

Monetarist theory was one of the first alternatives for powerful Keynesian theory of money demand for the short-term interest rate on short-term liquid assets that as a result eventually becomes a «liquidity trap». That is by M. Friedman, «the role of money supply and money demand limited to what they determine the interest rate.»¹ In contrast to this statement the position of their empirical studies have shown that the interest rate on deposits and short-term securities sold, has even less elasticity than $\frac{1}{2}$, which follows from the simple Baumol-Tobin theory of money balances. According to J. Tobin, «as the operation of the central bank as exogenous money shocks have to exert a relatively greater impact on the movement of nominal income, while fiscal measures and other shocks to aggregate demand products and services will exert relatively less influence.»²

As we can be seen in the works of monetarists, whose arguments are based on empirical research, money demand function usually includes one or two interest rate and real GDP as an approximation of real income. They proceed from the assumption convergence of real and desirable money residues, which stretched for several blocks. This adaptation is overdue alternative interpretation, which reflects the demand for money «permanent» rather than current income and interest rates. Therefore monetarists volume of transactions is not the main determinant of the demand for money, they percept money as capital asset that allows the flow of certain services that depend on «permanent» values of wealth, income and interest rates (in most empirical studies they are modeled using lagged variables).³ The approach, involving consideration of money demand like demand for other assets, in recent time is an acceptable standard for economists-monetarists.

Displaying money as capital asset by monetarists implies that the demand for money depends on a combination of characteristics, not only on their transactional services. Monetarists distinguish two circumstances essential in determining money for monetary policy purposes: 1) the ability of monetary authorities to control their numbers; 2) empirical stability function that describes the demand for money. According to M. Friedman, theorist-quantatist «considers it as a tool that is vital to identify those variables that play a central role in the analysis of the economy as a whole, such as level of income and prices.»⁴ But the question is what is controlled by the monetary aggregate, M1 or M2? If we talk about collective work of M. Friedman and A. Schwartz, the studies of the US used an early version of M2, which

¹ Fridmen M. The quantity theory of money. — P. 803.

² Tobin D. Financial Intermediaries. — P. 347.

³ See for more det.: History of Economic Thought / under total. ed. A.G. Hudokormova. — P. 126-129.

⁴ Friedman M. The quantity theory of money. — P. 802.

included the inclusion of money term and long-term deposits in commercial banks. Later M2 became basic one in the further studies. However, they argued that small changes in the definition of the monetary aggregate did not significantly influence on their results.¹

The followers of the monetarism theory often used the quantity of money balances, which is involved in the transactions (M1). It became the basis for the definition of money in most countries, although some central banks argued that while conducting the monetary policy more attention is paid to wide aggregates. This view is justified, as under significant distribution of various kinds of credit substitutes (bills, certificates, etc.), along with cash and checks in circulation «near-money» are sufficiently liquid. Therefore, according to M. Bunina, «distribution line between them is difficult to conduct.»²

In the present current conditions a wide range of assets where people can put excess cash balances, transfer of monetary changes throughout the economy, affecting the total cost and other variables can occur in several ways. Therefore monetarists criticized attempts to track these effects in the detailed econometric models which provide financial mechanism of the process. Alternatively, they put forward a model that does not postulate a certain way transfer effects and emphasize stable overall attitude change amount of money to total costs.

Any change in the amount of money, as in the large econometric models, is considered by monetarists to be exogenous (i.e. determined outside the model). It gives some reasons to believe that money is approaching exogeneity only in the long-term period. According to A. Schwartz, referring to previous data of M. Friedman studies in the USA and research of Ph. Cagan, money supply «does not only affect economic activity, but, in turn, depends on it.»³ This approach significantly complicates the empirical validation of monetary influence on economic activity as a correction to be made to reverse the impact of economic activity on the money supply. The first attempt to show this interdependence was done by Brunner and Meltzer, who confirmed that reverse effect rose through the banking system. Much later it was more deeply analyzed by S. Chatar, who proved that under modern systems such non-convertible money backfire determined policy of the central bank.⁴ This issue is quite controversial in economic literature as statistical testing exogeneity of money supply using the methodology of

¹ See for more Det.: Schwartz Anna J. *Monetarism and Monetary Policy* / Schwartz Anna J. — L.: The Institute of Economic Affairs, 1992. — P. 20-22.

² Bunina M. K. *Monetarism*. — P. 42.

³ Schwartz A. J. *Monetarism and Monetary Policy*. — P. 23.

⁴ See for more det.: Subrata Chatar. *Monetary Economics in Developing Countries*. — P. 75-93.

Granger-Sims gave mixed results. Despite the lack of clear positions on the interaction between money and economic activity, economists today believe that «Observed correlation may depend on the reverse effect of economic activity in the money supply.»¹

A controversial issue among monetarists, who transferred attention to money and monetary policy, is the stability and velocity that will ensure the success of policies in targeting monetary growth. For a constant level of monetary growth velocity change causes expansion and contraction of economic activity. Remember that monetarists understood stability as «a saving type of function that links the right amount of money with variables that determine it.»² The relatively stable and predictable trend of this indicator has been in the US since the early 50's to mid-70's of XX century, but money demand equation, based on data of that period, showed significantly inflated forecasts after the mid 70's.³ The changes occurred in the financial market due to its innovations were new payment methods and close substitutes for money, forced to revise the definition of the money demand function and parameters. For the US financial market it was characterized by a gradual shift from the practice of setting upper limits for the interest rates which banks could pay on deposits that intensified competition in the banking sector.

Elimination of internal controls over international financial transactions in the UK led to unexpected movement residues in 1979–1980. For Germany and Switzerland damaging of the optimal monetary policy became capital inflows from abroad.⁴

The research initiated by economists J. Frenkel and H. Johnson from University of Toronto [«Monetary Approach to Balance of Payments» (1976)] started the study of monetarism spread in open economy where supply and demand for money across countries linked through international payments. The ideas embodied in their «Monetary Theory of Payments Balance» were analyzed more detailed by E.-M. Classen on the example of post-socialist countries.⁵ However, the possibility of individual countries even within flexible exchange rates to conduct an independent monetary policy remains controversial. The internationalization of financial markets in modern times is often cited as an argument against the monetarist

¹ Kagan F. Monetarism. — P. 561.

² M. Friedman quantity theory of money. — P. 801.

³ Smithin J. Controversies in monetary economics: ideas, issues and policy. — P. 126-127.

⁴ *Ibidem*.

⁵ See for more det.: Classen E.-M. Global Monetary Economics / Classen E.-M. — Oxford: Oxford University Press, 1996. — P. 247-300.

preconditions under which the velocity of money and domestic supply for flexible exchange rates are largely independent of foreign influence.¹

The debate around the issue of correct definition of the money supply and instability circulation of various monetary aggregates led to proposals for target monetarist monetary liabilities of the central bank — the so-called monetary base, which consists of cash in circulation and bank reserves. We have already pointed out the positive aspects of this process in the inflationary period. Advantages of targeting in other periods are explained by the monetary base priority comparing with other factors of the economy — it does not directly affect market innovations and therefore it does not require redefinition for the emergence of such innovations. The proposal of monetarists to maintain a constant growth rate of the monetary base is justified by the fact that it simplifies the function of central banks and governments to conduct monetary policy and indirectly actually remove it. During the transformational economy central banks of some European post-communist countries preferred targeting the monetary base to targeting money supply, although allowed significant deviation from the goal.²

The experience of financial market development in post-socialist countries shows that some of its lines in the absence of other instruments of monetary measures (such as the stock market) can cause instability in the monetary base ratio and total costs. It substantiated criticism in recent years to strengthen the theory of monetarism. An alternative proposal suggested that the goal of monetary policy should be a steady increase of total costs, achieved through discretionary changes necessary growth of the monetary base. It sharply contrasts with the evidence of monetarists on discretionary policy. After all monetarism is based on the methodology of balance. Accordingly, any governmental actions due to monetarists interfere with the actions of «free hand of the market». Meanwhile, the balance is not always seen as a trend, so that the elements of the economic system are not so flexible. Hardly anyone deny its influence on the processes and people. Indeed, inflation largely depends on inflation expectations, investment — on trust and confidence, economic growth — on optimism and activity, and so on. By the way, these factors were pointed out by M. Fridmen.³ G. Soros, who was an avid supporter of the market economy, said about the importance of conscious adjusting.⁴

¹ See for more det.: Classen E.-M. *Global Monetary Economics* / Classen E.-M. — Oxford: Oxford University Press, 1996. — P. 259.

² Lagutin V. D. *The choice of strategy of monetary politics*. — P. 11-12.

³ Friedman M. *The quantity theory of money*. — P. 818.

⁴ Soros G. *The crisis of world capitalism. Open Society in Danger* / G.Soros.; [trans. from English. S.K. Umrikhina, M.Z. Shterngarts]. — Moscow: INFRA-M, 1999. — P. 261.

The inflationary effects of discretionary monetary policy, pursued by the governments of the most countries after the Second World War, can be explained by the terms of the compromise choice between inflation and unemployment, which are reflected in all known textbooks on macroeconomics Phillips curve. Actually, its illustration is shown like that, «Phillips curve illustrates compromise theory of inflation. Under this approach, a country may have a lower rate of unemployment, if you want to pay a price higher than the rate of inflation», stated P. Samuelson and W. Nordhaus in «Macroeconomics».¹ R. Dornbusch and S. Fischer had similar approach. These mentioned values were found on the basis of the UK and the US responded to the period of 50–60s of the twentieth century and earlier period. The stated compromising choice is explained by the author of rigid wage rates and rigid prices. In the periods of growing aggregate demand increased wages and prices behind, causing increased production to cover part of the increased demand. Any desired position on the Phillips curve as witnessed in certain periods of the US experience, can be achieved.

So, as emphasized by R. Dornbusch and S. Fischer, «by increasing inflation you can always reduce unemployment, and inflation can be stopped if you go on rising unemployment.»² Having this choice most politicians reduce tension in the country tending to support lower unemployment due to higher inflation.

Events in the economy after 1970, and particularly high levels of inflation and unemployment that occurred in 1973–1975 and 1979–1981 showed that the Phillips curve shifted to higher inflation at a given level of unemployment. It caused the considerable skepticism among economists about related study of the interaction between inflation and unemployment. Denying Phillips, Friedman suggested that the economy goes to the natural rate of unemployment, and in the long term issue of choosing between unemployment and inflation does not generally occur, as unemployment is independent of inflation and cannot be corrected through monetary policy. «Between inflation and unemployment there is always only temporary, not permanent relationship.»³

Commenting on this provision, M. Blaug stressed that the magnitude of unemployment is variable, so the structure of supply and demand in the economy «is the rate of unemployment, which holds on a constant level, average real wages, and under zero growth in productivity and income

¹ Semyuelson P. A. Makroekonomika / P.A. Semyuelson, Vilyam D. Nordgauz; Sciences. Ed. per. S. Panchyshyna. — K: Fundamentals, 1995. — P. 370.

² Dornbusch R. Makroekonomika / R. Dornbusch, S. Fisher; [trans. s English. B. that C. Ovsienko Musienko]; Sciences. Ed. per. S. Panchyshyna. — K: Fundamentals, 1996. — P. 31

³ Friedman M. If money could talk ... — P. 137.

remains constant so also supports consistency in the price level.»¹ This is a level where the forces leading to growth and falling prices and wages are balanced. Wages and prices slowly adapt to unexpected changes in aggregate demand, but more quickly they adapt to increased demand and prices are expected. According to this trend the only way to maintain standards of unemployment below its natural level is to maintain rapid increase in aggregate demand compared to the expected rate of inflation. It is important to achieve sustainable growth of the money supply. «For the sustainable growth of the money supply,» point D. Lindsay and H. Wallis, «self-regulatory mechanisms will prevent a strong stable macroeconomic impact shocks on economic activity.»²

Under the natural rate of unemployment, inflation is stable, and its tendency to acceleration or deceleration is being observed. And the above mentioned «principle of acceleration» implies that there is a permanent choice between inflation and unemployment. The economy, where the high inflation rate takes place, the lowest natural rate of unemployment can be sustained. Thus, it is the highest supported employment, which corresponds to the potential output. The existence of a natural rate of unemployment also suggests that price stability leads to higher unemployment in the long-term.

To summarize the ideas of Friedman regarding inflation in the various sites from his works, we can reduced them all to four key theses:

- 1) «inflation is a monetary phenomenon anytime anywhere»;³
- 2) inflation is not inevitable during development;
- 3) under normal conditions inflation badly promotes development and even if it does, it is only temporarily;
- 4) as a cash tax inflation in certain circumstances may be the least evil, but it is always unpleasant consequences.

Empirical studies have shown that the second-quarter thesis is really fair under certain conditions, although the M. Friedman does not insist on their universality. The subject of discussion among monetarists is only conditions under which these points are performed. Regarding the first thesis, it has attracted attention not only categorical labels, but the absolute universality thesis is to use it everywhere, regardless of the particular country, the economic situation and so on. It should be noted that this theoretical universality of M. Friedman, a universal law, served as justification for repeated use in practice (including the IMF) compression money supply as means of combating inflation.⁴

¹ Blaug M. Economic theory in retrospective. — P. 616.

² Lindsay D.E. Monetary policy. — P. 580-581.

³ Friedman M. The quantity theory of money. — P. 877.

⁴ Zhukov P. E. Monetarism and the modern monetary policy. — P. 64.

The difference between theory and practice can be observed in Ukraine. For example, the experience of inflation in Ukraine can be explained by an excess of money only in 1992, partly in 1993 and even less in 1994. In 1995–2000 inflation in Ukraine had apparently monetary nature. The lack of correspondence between money supply growth and inflation in this period was brilliantly proved by V. Naydenov and A. Smenkovskyy.¹ During this period, the existing shortage of money in the economy did not lead to lower inflation, but to the replacement of commodity-monetary barter transactions and delayed payments. «The experience of monetarist and anti-inflation actions in Ukraine, Russia and other countries,» the authors note, «confirms that the lack of money in the economy is not less harmful than excess. It does not suspend inflation and deforms it, partly making a non-payments and debt, it paralyzes commodity-money relations, inhibits production of general insolvency and thus extends the base cost inflation.»²

One can hardly speak of a proportional increase in prices and money supply growth, even with these M. Friedman «time lags» — «six months, a year or year and a half.»³ From our view, it can be said about straight (non-proportional) dependence of inflation and the money supply under hyperinflation and sometimes under galloping inflation. In fact, this was shown in the studies of Ukrainian economists.⁴

Based on the example of US economic history M. Friedman has proven proportionate increase in real money supply (inflation-adjusted) GDP and long intervals of time, although we note that some economists see this as a coincidence due to a significant distortion of statistical real inflation. For example, L. Toro, citing other studies pointed out that in the US there was a statistical revaluation of inflation.⁵ So, a lot of modern economists challenged dependence of inflation on the money supply. As you know, monetary growth is ahead of GDP growth. It would be more logical to make an opposite conclusion: the demand for money in the economy (through monetary mechanism) during development increases the money supply, and the artificial limitations get in the way of this volume growth.

Adoption of M. Friedman postulate about exclusively monetary nature of inflation by governments of many post-socialist countries did not only lead to bad conclusions in the usefulness versatility of monetary contraction, but

¹ Naydenov B. C. Inflation and monetarism. The lessons of the anti-crisis policy. — P. 82-83.

² Ibid. — P. 101.

³ Friedman M. The quantity theory of money. — P. 879.

⁴ See for more det.: Naydenov B. C. Inflation and monetarism. The lessons of the anti-crisis policy. — P. 197-200.

⁵ Thurow L. The future of capitalism / L. Thurow — Novosibirsk, Siberia. Chronograph, 1999. — P. 222.

also eliminated the incentive to find the real causes of inflation. This approach distorted the whole system of benchmarks and priorities of economic policy, especially during the transformation.

History has known similar tests. Spontaneous and dramatic price increases, for example in 1969 and 1973, forced many governments to choose what is better: to enable the consequences of such an increase occur in the existing monetary and fiscal conditions or to reduce these conditions, which would mean higher prices for their products. A first wave of monetarism supported the first option of solving the crisis. From their point of view, reducing the unemployment below that normal rate would lead to higher inflation. They explained it by lack of sufficient knowledge about the structure of the economy, including the fact that there were lags to believe that the state could provide its intervention of «add-on accurate.» Therefore, their suggestions were reduced to the necessity of setting fixed targets of monetary growth, and then inflation was under control, and output and employment gradually reach the level corresponding to «natural rate of unemployment.»

Later, supporters of monetarist ideas generally questioned the ability of the state to implement a lasting impact on unemployment, for example, to increase their spending by debt financing. In their convictions, the only way to reduce unemployment was to reduce monopoly power of trade unions and to create conditions of free competition in the labor market: to repeal the law on the minimum wage and to cut aid because of unemployment. The second rise in oil prices of OPEC in 1979 prompted the central banks of many countries to see adoption as policy targets or to rule fixed rate of monetary growth. Most countries have begun a restrictive monetary policy.

Budgets calculations of «continuous employment» show that in some cases, budget cuts reached several percentage points of GDP, especially in Europe, where, after 80s of the XX century unemployment significantly increased. Unlike European countries, the US in 1983 went on their way, allowing growth as the actual budget deficit and budget deficit of permanent employment as a result they became the only developed countries which managed to get a reduction in unemployment.¹

However, to consider that there are some clearly defined rules would be quite wrong. From our point of view, it is necessary to suggest the national psychological characteristics «factor advantages», i.e. the reaction of the population on inflation and unemployment. Research of M. Bunkina about average annual fluctuations in unemployment and inflation in developed countries (1983–1987) has shown that for Sweden or Italy there was a

¹ Uorsuik G. Full-time employment. — P. 363.

reference time, partly perhaps to the detriment of the anti-inflation correlation. For Germany, the latter was a key factor. This country, along with Japan, the Netherlands, Switzerland, supported the principle of «strong currency». The Anglo-Saxon region also showed a tendency to curb inflationary process.¹

You can select a characteristic feature of monetarism, which is to provide long-term consequences of primary importance policy. Representatives of monetarist theory reject attempts to reduce short-term fluctuations in interest rates and economic activity, since they are usually beyond the capabilities of monetary policy and, as a rule, are obstacles to long-term price stability and maximum growth. «The failure to take into account this time lag,» says M. Friedman, «is the main cause of erroneous interpretation for experience monetary.»² Based on this monetarists develop the idea that economic activity, if deprived it from cash violations, is stable. Most of their differences with the Keynesians can be attributed to this particular issue.

Monetarist ideas found the support and development in different versions of the theory of rational expectations. From their point of view, the choice between inflation and unemployment, which Phillips curve suggests, is very small or non-existent, even in the short term, as markets are able to carry out any systematic anti-cycling policy aimed at stabilizing the economy. Only expected departure from this policy can influence on the production, as expected monetary changes are completely absorbing price changes. As a small, non-systematic policy of anti-cycling efficiency, the best stabilization policy is to minimize uncertainty using anticipated increase amount of a fee. «If due to economic policy measures change in nominal money supply efficient innovation infrastructure population is expected to advance, it will have incentive to revise the actual and expected levels of nominal variables.» note D. Lindsay and H. Wallis, «Such a reaction should principally neutralize even the short-term impact of expected policy change on real variables.»³

In monetarist theory the idea of rationality is too weak expression. If Keynesian model is a natural target of criticism from supporters' general rationality, it should be added that monetarist no better. Monetarists give no any serious construction in which the demand for money was removed to a rational optimization. While M. Friedman and G. Tobin were criticizing weak arguments in this regard, J. Arrow stressed that the hypothesis of rationality in their arguments had ritual but not essential nature. «The used

¹ Bunkina M. K. Monetarism. — P. 29.

² Friedman M. The quantity theory of money. — P. 878.

³ Lindsay D E. Monetary policy. — P. 572.

arguments assumed non-stable relationship, the relationship that quickly changed in any significant changes in the structure and technology of the financial sector. Meanwhile, the stability of money demand function must be inherent in any form monetarism, not excluding those rational expectations models in which the quantity theory of money played a major role.»¹

Thus, the above described theory of rational expectations shares the monetarists' view according to which unexpected fluctuations in the money supply is an undesirable source of uncertainty. The difference between these two approaches (monetarists and representatives of rational expectations) is reduced to the speed of price adjustment to the expected monetary policy measures and the attendant thick impact on economic activity. In monetarist theory there are no allegations that anti-cycling policy does not create real impact, but monetarists are skeptical about the capacity to use it effectively. «Invalid time for countercyclical policy measures as a result of lags of monetary effect of the changing underlying benefits that monetarists give constant growth of the money supply to prevent uncertainty and inflation,» emphasizes Ph. Cagan.²

Monetarist theory put the problem of designing monetary system that supports the stability of prices in the spotlight after a long oblivion at the time of the Keynesian Revolution again. Let's mention that M. Friedman linked price stability with a number of factors, not rejecting the possibility of effective fiscal policy. «The exact rate of price growth standards for a given amount of money depends on factors such as the behavior of prices in the past, current changes in the structure of the labor market and product market, as well as fiscal policy.»³

The most important characteristic, which distinguishes Keynesian ideas from monetarism, is attitude towards state. Assuming a certain period of active fiscal policy, monetarists generally share of supporters of laissez faire belief in the long-term benefits of a competitive market system and limit government intervention in the economy. It was the period when the welfare state was out of control, to finance it became harder and harder, and bureaucratization deprived residual appeal. It was American economists who made an important contribution to the understanding of new ideas of liberalism. The impact for the review of J. Keynes and V. Beveridge ideas was not only apparent problems like environmental and social «limits to growth», but systemic problems related to state intervention in the economy.

¹ Arrow K. J. Economic theory and hypothesis of rational / Arrow K.J. // *Economic theory* / ed. J. Eatwell, M. Milgoyta, P. Newman; scientific. Ed. corr. RAS B. C. Autonomov. — M.: INFRA-M, 2004. — P. 248.

² Cagan F. *Monetarism*. — P. 563.

³ Friedman M. *The quantity theory of money*. — P. 871.

Neither stagflation of 70s, no surge in unemployment in 80s was not subjected to state regulation. Representatives of various economic schools, especially monetarists, set the ideas of liberalism in the center of discussion again. R. Dahrendorf, analyzing the problems of liberalism, wrote on this subject: «Milton Friedman put forward a number of arguments in favor of the large role of the state is usually contrary to the interests of citizens. Robert Nozick convincingly substantiated «minimal state» and opposed the arrogance of modern government. J. Buchanan and «constitutional economists» turned to the idea of the social contract again and demanded sharply limit the scope of government regulation, including fiscal policy. This trend was much more extent than so-called «supply-side economics» (which in some respect was simply placed upside down Keynes) means for the revival of liberalism.»¹

Monetarists opposed any restrictions on the free movement of credit and interest rate movements, such as limits on deposit interest rates in the US (eliminated in the mid 80's, with the exception of demand deposits). The destructive potential of such restrictions society felt during active implementation of financial innovations that were partly designed to bypass these restrictions and led to transient changes the traditional function of demand for money, which created difficulties in conducting monetary policy. An exception to the principles of laissez faire monetarists saw the need for government control over the amount of money aimed at stability value for money. The reason is that, as noted by M. Friedman, «the real amount of money creates the strongest effect on economic mechanism to assess people in real wealth and the real value of it.»²

Therefore, the central questions in the theory of monetarism — the question of what happens with the economic asset like money, if their number in the system changes. It would seem that the issue has been resolved and justified by the quantity theory of money, proving that any increase in the amount of money not secured by production, i.e. increasing the number of goods and services must keep up with the previous value of money as an asset, in other words, the results in proportional increase in prices and does not affect the level of production. Assuming a static process, one can hardly deny this view. Unless we consider the dynamics of its length in time and space, different motives of economic agents, it is found that the value of money as an economic asset may increase.

¹ Dahrendorf R. Liberalism / Dahrendorf R. // Economic theory / ed. J. Eatwell, M. Milguyta, P. Newman; scientific. Ed. corr. RAS B.C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 479.

² Friedman M. The quantity theory of money. — P. 808.

The results of econometric studies have recently largely confirmed that monetary shocks in the short-term positive effect on the level of production. It remains an uncertain question — what model of motivation of economic agents may underlie explanations for the reaction of the economic system? According to the logic of the classical theory one would assume that the theory of monetary shocks is a monetary illusion of economic agents. However, in modern industrialized countries, monetary and credit options budgetary and fiscal policy is not hidden, they are served in official publications. So talking about the perception of money illusion forming a positive relationship between money growth and increased production could only partially. It may be only the first stage of the process spread of influence, moreover, the length of the entire process is usually much greater than the length of the monetary shock.

Based on the research results for the last 20–30 years, monetarists put forward a version of the mechanism for the positive impact of relatively small monetary shocks in developed countries. As it was noted above, the impact of monetary transmission shock (monetary, credit or exchange) results, in the case of a stable money supply growth, the growth of aggregate demand economic agents. In the circumstances, after the effects of monetary shock, there are reasons for increased supply of goods by entrepreneurs-oligopolists who have sufficient market power. It should be noted the most important of them: 1) such manufacturers due to their position in the market and taking into account the limits of the marginal cost have lower prices than the prices of others; 2) it returns to scale if specific production is that an increase in output allows to reduce production costs; 3) rising demand allows the manufacturer for the timely expansion proposals to take more market share. Strengthening of such a mechanism for large producers can be carried out gear monetary and exchange channels that improve their financial situation and provide access to new financial resources.

Producers whose market share is negligible may behave differently. They usually do not have a sufficiently large positive gap between price and cost money, no spare capacity or sufficient financial stability. To expand production, they need time and additional financial resources and their response to the increased demand may increase prices for their products. Thus, in the present conditions in the countries with developed market relations rather short reaction dynamics of production and prices for monetary shock is largely determined by the proportions between the market shares held by two types of producers, large and small companies. The determinant, which logs this reaction, is the heterogeneity of economic agents and asynchronous changes their levels of production, prices and wages. As a result, the growth of production of large lag is accompanied by

inflation. The reason for this phenomenon, according to V. Naidenov and A. Smenkovskyy, is that «every step forward requires additional costs: first, the rehabilitation of finance; secondly, to restore old or stolen material and equipment; thirdly, to enhance the competitiveness of products. Inflation is contributed by fiscal rigidity pressure (which comes to tyranny), parasitic uncontrolled activity of intermediaries, corruption and so on.»¹

Let's note that the above-mentioned short-term effects of monetary shocks small sufficiently reflect the cumulative effect of these factors in an economy with developed monetary institutions. In case of violation of at least one of these conditions, i.e. in the absence of familiar to traditional economic theory of rational actions of economic agents in a relatively strong financial shocks and / or insufficiently developed monetary institutions the behavior of economic agents, and hence the production, response to monetary shocks can be completely different. According to the above authors, «if the economy does not use anti-inflation mechanism, it can accelerate up to the economic collapse.»²

In spite of detailed monetarists' analysis of long-term impact of monetary transmission mechanism of shocks, there has not yet achieved the necessary degree of transparency. Monetarists argue that inflation can: 1) encourage the development of production, if there is the substitution effect of monetary portfolio of productive capital; 2) cause a decline in production, if, consequently, there is complementarity monetary effect of portfolio capital. Carried monetarists' econometric study of US statistics show that in the long run there is a negative correlation between inflation and output. Unfortunately, in their studies no serious microeconomic analysis that would justify the results. We can therefore say that the mechanism long term effects of monetary shocks on economic growth even in the countries with developed market mechanisms influence which today remains a «black box.» In general, the evolution of basic beliefs of monetarists are presented in the table 3.1.

¹ Naidenov B.C. Inflation and monetarism. The lessons of the anti-crisis policy. — P. 64-65.

² Ibid. — P. 72.

School	Basic Ideas	Aim: towards the quantity of money in circulation, the rate of interest and financial policy	Prices and inflation	The volume of production and employment	Currency exchange rate	Policy on income
Keynesianism	The market economy is not self-regulating and requires active government intervention, its stabilizing action based on the impact on percent level, employment and the amount of money in circulation	The state regulates amount of money circulation via Policy and expensive cheap money. Rate of interest, which reflected the benefits of liquidity, is defined in based on the marginal efficiency of capital determines the amount of private investment	Full capacity utilization leads to increased demand, output growth and employment, and then to inflation	Increased production depends on effective demand. The task of the state is to provide the required amount of aggregate demand. Employment depends of aggregate demand and real wages	The active macroeconomic policy under existing international agreements. The level of the exchange rate should be stable and meet the needs of the economy	Support of sustainable overall in money wages boards
neo-Keynesianism	It is used the Keynesian model, but at the same time it is suggested the tasks for control of the money supply	The amount of money in circulation — one of the elements in the system liquidity, which cannot be ignored. However, this is not the main objective of economic policy	The gradual price adjustment to conditions of market strengthening, direct control of the state	The main objectives of economic regulation — government support products via subsidies	Managed floating exchange rate within a currency band	Gradual adaptation of wages to market conditions, increased state control as an important factor for inflation

3.4. Financial priorities of modern monetarism

Financial priorities of modern monetarists show a significant change of views on certain aspects of monetary policy, and in a way, issue a challenge to the dominant monetarist orthodoxy. The essence of these changes is that new monetarists' findings are based on institutional analysis. Their opinions are somewhat closer to the modern institutional theory, for which institutions and institutional behavior are as important for economic analysis as functional links that are used for operating micro- and macro-transaction models. According to new monetarists, the main reason for the recent failures in macroeconomic policy lies within being unable to understand the key aspects of financial institutions and their changes. First of all, these are the recessions in the USA in 1991 and severe crises in East Asia¹. Among the representatives of the above mentioned new ideas there is J. Stiglitz, who, however, has never thought of himself as an advocate of the neoclassical school with its liberal ideology, and also B. Greenwald, B. Eichengreen, L. Summers, J. Tobin et al.

Contrary to the theorists of the orthodox theory, representatives of the new monetarism stress that credit activities play a significant role for the market system's functioning, rather than money transactions and money supply serving it. As early as in the middle of the 19th century Ukrainian financial economist O. Myklashevsky brought into focus that «credit as a mighty weapon by means of which redistribution of wealth can be artificially induced ... is dangerous, and therefore it is desirable to achieve its development through real accumulation of capital»². Moreover, a century ahead of his time he foresightedly anticipated that «artificial credits do not generate proper entrepreneurship and do not create the right conditions for industrial development ... such lending will result in a temporary increase of prices, overproduction, and a crisis afterwards»³, which has been proved by practice only in the 21st century. Thus, assuming that the traditional approach of monetarist theory is based on transaction demand for money, then, from new monetarists' perspective, we will not get an answer to the question why money matters. According to the monetarist economic theory, a control over

¹ For details see: *Stiglitz J. Towards a New Paradigm in Monetary Economics / J. E. Stiglitz, B. Greenwald.* — Cambridge: Cambridge University Press, 2002. — P. 118–139.

² Miklashevskyy A. Money: experience of learning the basic provisions of the economic theory classic school in connection with the history of the monetary issue / Miklashevskyy A. // Scientific notes Imperatorskyy Moscow University. — 1895 — Vol. 9. — P. 661.

³ For details see: *ibid.* — P. 1–729.

the economy is maintained sufficiently by controlling money supply, as long as there is a stable and simple correlation between money supply and GDP growth (provided that the demand for money is stable and the speed of money circulation is constant)¹. Therefore, the main object of regulating, according to the orthodox theory, is money supply in circulation. Its change with the help of open market operations, namely buying and selling treasury bills as well as changing interest rates on securities will have an impact on interest rates for bank loans which exactly defines the level of demand on bank loans, lending capacity, and correspondingly the scales of investment in national economy. Regarding this policy, most European countries adhere to the so-called Taylor's rule, which recommends raising interest rate by 1.5% with inflation growth at 1% and decreasing it by 0.5% with GDP decrease by 1%².

Another important belief of new monetarists is that they pay special attention not only to the importance of money supply, but also to the credit fund supply under conditions of imperfect (or asymmetric) information and the market structure. J. Stiglitz and B. Greenwald point out that «the key for understanding money economy is the demand and supply of loanable funds, which in their turn depend on understanding the importance and consequences of imperfect information for banks»³. The imperfection of information generates risks and leads to the growth of transaction expenses on searching for such information and purchasing it. Therefore, the credit market, where an imperfect competition is observed, is not similar to the commodity market («auction market»). The interest rate of the latter is fixed for demand-supply equilibrium like the price of any other commodity, whereas the interest rate in the credit market also takes into account risks, unequal repayment ability of clients, bankruptcy possibility.

The views of the theory of asymmetric information in the financial market disagree with the basic principles of neoclassical theory of market economy functioning, namely: 1) that a market functions under the conditions of perfect information and all the participants receive complete and reliable information; 2) that information is reflected in a single equilibrium price; 3) that general economic equilibrium is achieved by means of market regulation mechanism.

Alternatively, the advocates of the new paradigm prove that: 1) market economy exists under conditions of asymmetric information which results in weakening of entrepreneurs' motivation to maximize profit; 2) there is not a single equilibrium price in the market in which all the information is

¹ Friedman M. The quantity theory of money. — P. 808.

² For details see: Taylor J. An Historical Analysis of Monetary Policy Rules / Taylor J. — Chicago: University of Chicago Press, 1999. — P. 118–139.

³ Stiglitz J. Towards a New Paradigm in Monetary Economics. — P. 2.

reflected, every separate market forms its prices; 3) general economic equilibrium is not achieved by means of market regulation mechanism, every industry forms its peculiar equilibrium; 4) under the conditions of asymmetric information the role of government regulation increases; 5) the new paradigm is multifunctional, its methods of analyzing economy and finance can be applied to both micro- and macro-level.

In the new paradigm a special attention is paid to banks, the main institutions of today's economy. J. Stiglitz postulates that the incapability to understand the key aspects of financial institutions and their new role is the main reason of many recent setbacks in macroeconomic policy. On the one hand, an interest rate implies making a profit for the bank, but on the other hand, it means an obligation of a borrower to repay a loan which is often violated due to various reasons. Therefore, in the current context of Ukraine economic development, information about creditworthiness of loan recipients has become especially important for banks. For example, nowadays in Ukraine there are still problems with legal protection for banks and in some cases credit repayment mechanisms are missing. Transactional costs of searching for information increase during a recession or crisis in order to prevent the risk of reducing the bank's lending capacity. Suffice it to recall the political crisis in Ukraine in late 2004, when the banks started raising interest rates and after a while set limits on interest rates for a certain period of time. During that period the scarcity of money supply was not offset by the conventional methods of monetary policy aimed at increasing money supply by means of open market transactions. The same thing happened during the financial crisis in 2009–2010. The risk of so-called monetary intermediaries was thoroughly described by J. Tobin, who made a significant contribution to the «neoclassical synthesis». Above all, he contributed to the elaborating the problems of financial market functioning. He notably added to Keynes' analysis of investment function and determined that the level of investment is dependent on the correlation between the cost of capital on the stock market and current costs of capital replacement. In financial and economic literature the corresponding ratio is called «Tobin's q ». He extended Keynes' «liquidity preference» theory within the theory of investment portfolio. From his point of view, every investor chooses between income level and risk tolerance, applying this criterion not only to liquid money, but also to the whole spectrum of financial and real assets. As Tobin postulates, every situation corresponds to the optimal structure of asset portfolio. To a considerable degree this structure is determined by monetary and budget policy, which also affects real changes in the economic system, namely investments, savings and consuming capacity.

Most financial intermediaries on the monetary market take risks, and that is typical for the nature of the tasks they perform. Profit-earning opportunities, owing to which monetary operations become more attractive, are risky as well. For operations performed by bankers and other similar monetary intermediaries the main risk lies within the fact that their monetary base is composed of bank depositors' money that at any time may be demanded to be repaid, but a monetary intermediary, say a bank, is capable of repaying only at heavy cost, because most assets are illiquid and cannot be traded easily. Some of assets can be traded in a short period of time only on condition of significant losses.

Banks may face bankruptcy for both internal and external reasons. Bankruptcy is a status of a bank that cannot repay its debts to the creditors, no matter how long the depositors and other creditors have been waiting for. There is a situation when all difficulties result in the lack of liquidity of intermediaries' assets. This is a transitional period. «Everything would be as it is supposed to be», J. Tobin notes, «if it were possible to continue saving those assets until the maturity date expires, or till ... normal market conditions return»¹. Consequently, the interest rate should reflect not only the demand and supply of funds (neoclassical approach) but also take into account risks. Interest rates of bank loans vary due to the cyclic development. In recession and crisis years the costs of risk insurance increase and as a consequence interest rates might go up. Banks may refuse to provide loans to those agents of market relations who have got low credit ratings. From the point of view of new monetarism, state regulation of interest rates has to foresee negative consequences. For instance, a significant rising of interest rates might lead to mass bankruptcy of enterprises, capital exports and exchange rate depreciation. Regulation of interest rates should be differential.

Under new conditions, agents of market relations, whose situation is worsening should be provided with credit proposal under reasonable terms. In case of decreasing interest rates, bankrupt firms will be incapable of renewing their business and credit strength. It is the aspect which was the basis of J. Stiglitz' criticism of the financial policy of IMF in the countries of transition economy. In his opinion, the IMF management was unable to admit that the credit institutions and credits they provide play a crucial role in economy and that a tough monetary policy on interest rates amid the global financial crisis causes large scale bankruptcies and weakening in economy. In their practice under stable market conditions banks and other financial intermediaries take into account the possible behaviour of bank

¹ Tobin J. Financial Intermediaries. — P. 340.

depositors over business cycles. This explains the availability of money in cash or (as the equivalent) a deposit at the central bank or in other forms of liquid assets. The proposition of assets is defined by legal regulations or by a contract, and also by just forecasting.

For a single bank, the outflow of funds means moving deposits to other banks or financial intermediaries. The reason of the outflow is a negative balance in interbank clearings of checks or other transfers to «third parties» at the initiative of depositors. For the monetary system, this outflow is a shift by the public from bank deposits to cash.

According to new monetarists, «such shifts in money demand take place in response to innovations in the money market and deregulation of interest rates, and also due to strengthening or weakening the motive of caution»¹.

In real monetary environment the outflow of funds can be observed as a result of implementing the previously agreed credit principles. The privileged and automated overdraft system is used mainly in Great Britain and the British Commonwealth countries. In the USA it is becoming widespread only in modern times, enhancing the transactions carried out by credit cards. Bank clients taking out loans are often offered (either explicitly or implicitly) a line of credit which allows them to borrow money on demand. According to A. Sarkisyanz, the negative side of that is that the banking sector assists in freezing the old economic structure, «but not its progressive changes for the good of processing industries and «new economy»². This is due to the lack of confidence in new industries and a failure to provide the credit lines for active economic activity.

In the current market conditions in Ukraine there is always a possibility of «raids» on banks, which involve sudden and massive epidemic money outflow. The 2004 and 2009 political crises, which caused those «raids», revealed that a crisis is equally destructive for «sensible» banks and careless financial institutions (those that do not have reserves), as well as for their depositors and creditors. In this situation, prudent investors are trying to collect information on financial intermediaries to whom they have entrusted their money: the contents of the assets portfolio, the policy conducted by the financial institution and the skill level of managers. Whilst choosing between competing deposit banks, even maintaining the complete fiscal discipline is not sufficient to prevent bankruptcy. New monetarists justify this by claiming that the most prudent investors are unable to predict how other investors will behave. «Thus», in J. Tobin's opinion, «according to the

¹ Lindsay D.E. Monetary policy. — P. 577.

² Sarkisyanz A. On the role of banks in the economy / A. Sarkisyanz // Questions of economy. — 2003. — № 3. — P. 95.

principles of rational behaviour, a well-informed investor of a «healthy» bank will withdraw his money if he assumes that other investors behave the same way»¹.

For these reasons, a lot of leading Ukrainian bankers justify stabilizing measures of the National Bank amid political crises. This is the picture of financial intermediary lacking liquid assets. All the measures undertaken by the central bank of Ukraine had facilitated the protection of financial intermediaries from bankruptcy until the stabilization was achieved. In economic terms, it was correct, because a bank bankruptcy means not only the withdrawal of an inefficient firm, but also the destruction of information and organizational capital that has profoundly negative consequences for the economy as a whole and its «blood-circulatory system» — banks². As long as the modern credit system provides wealth to the nations and allows opportunities to create normal permanent cash flows for their citizens. This is evidenced by the fact that bank credits in these countries range from 90% to 100% of GDP created.

Under the new conditions, there is an increase of the macroeconomic pressure on the Ukrainian banking system, because the rate of growth and investments depend heavily on bank loans. The economy of Ukraine has experienced that when up to the year 2003 over ten banks had been liquidated (1996 — 11; 1997 — 10; 1998 — 16; 1999 — 11; 2000 — 9, 2001 — 9; 2002 — 12)³. According to new monetarists, under these circumstances, in the monetary theory «the focus of monetary policy should be shifted from the transactional function of money to the role of the monetary policy in its influence on the credit proposals»⁴.

Hence, J. Tobin laid a special emphasis on monetary policy as the main means of stabilization. Monetary policy has to set macroeconomic targets to stabilize the economy. As he views it, any operations of the central bank do not simply change the content of currency (a nominal effect) they cause changes in the portfolio structure. As a consequence, some more assets (bonds) are exchanged for others (cash money), so that an investor could purchase other income-generating assets. However, these shifts in the structure of monetary assets have an influence on the entire range of the real parameters: interest rates, exchange rates, deposits, investments, inflation

¹ Tobin J. Financial intermediaries. — P. 341.

² Evtukh O.T. Money system of laws and principles of their use / O.T. Evtukh // Finance of Ukraine. — 2004. — № 3. — P. 32.

³ President of Ukraine to the Verkhovna Rada of Ukraine «On the internal and external situation of Ukraine in 2003»: [official. kind.]. — K.: Inform.-view. Centre for Statistics Committee of Ukraine, 2004. — P. 420.

⁴ Holychenko O.G. Money Theory: Main ideas, problems and trends of development. — P. 32.

rates and inflation expectations. Therefore, J. Tobin considered the coordination of monetary policy of the government as an important task.

Like most economists, new monetarists appreciate the role and importance of monetary policy instruments for state macroeconomic regulation of the economy as a whole. Comparing with the direct budgetary costs or, in other words, with the budget regulation, the advantage of monetary policy, according to them, lies within the easing of information pressure on the government. For the allocation of additional resources, appearing due to their underutilization in the economy, market mechanisms come into play in the economic life: banks, their incentives, information resources. Bank loans, as it is known, are expected to have a much higher multiplier effect, or the factor that affects the further increase / decrease of the economic growth. In fact, these scientific statements have been proven to be in perfect agreement with the orthodox theory. The differences are only seen on the mechanism through which monetary policy affects the economy.

The reassessment of the mechanism, as new monetarists suggest, creates a more cautious attitude to such a policy in every single situation.

Nowadays, the above-mentioned contradiction is complemented by the discussion on the future of the main institution of monetary policy — central banks. A negative opinion on the future of central banks in the digital money era was expressed by British scientists M. Friedman and M. King, and supported by B. Cohen, Professor at the University of California. The indicated issues were in the focus of discussion at the Washington Conference in June, 2000 «The Future of Monetary Policy and Banking»¹. Most participants of the conference, among whom there were Ch. Goodhart («Can Central Banking Survive the IT Revolution?»), Ch. Freedman («Monetary Policy Implementation: Past, Present, and Future — Will the Advent of Electronic Money Lead to the Demise of Central Banking?»), M. Woodford («Monetary Policy in a World Without Money») et al., expressed their disagreement with M. Friedman and M. King.

The main idea of most conference speeches is that «central banks are entering the 21st century in the prime of life». This point was proved by much reasoning. If in 1990 there were only banks in 18 countries, in 1999 — in 172². More and more central banks are becoming independent, and their activities are being closely scrutinized by scientists and the mass media. As admitted by the participants of the fore-mentioned conference, central banks have significantly succeeded in overcoming inflation for the last twenty

¹ Future of Monetary Policy and Banking. Conference in Washington D. C. [digital resource]. — 11 July, 2000. — Access mode: <http://www.worldbank.org/research/interest/conf/upcoming/papersuly11/July112000.htm>.

² Ibid.

years, and thus in creating conditions for sustainable economic growth. In response to their active monetary policy in the OECD countries (The Organisation for Economic Co-operation and Development), the inflation rate declined from 12.45% in the 1980s to 5.2% in the 1990s, and to 1.4% in 1999.

Under low inflation, conducting efficient monetary policy is virtually difficult, but central banks have coped with this challenge. Numerous studies of the target inflation rate have shown that it should range 2–3% per year. The second important conclusion is that for decreasing short-term fluctuations of output and employment, it is essential to lower the inflation rate to the target range gradually, not sharply¹.

On the basis of the experience of the developed countries it could be claimed that the effectiveness of the most important institution of monetary policy is very high. For instance, the volume of transactions conducted on the relevant market by the Federal Reserve System of the USA does not exceed \$ 5 billion per year, but these transactions affect the stock market amounting to almost \$ 14 trillion.² According to the majority of the modern scholars of monetarism, the impact of central banks is so significant that instead of open market operations they can use open mouth operations. A central banker, operating under market mechanisms, needs only to declare the necessity of raising or lowering interest rates and the market will respond in the right direction. This is one of the most effective instruments for regulating the amount of borrowed and non-borrowed reserves of banking system.

«Open market operations ... are mainly used for «tight» control over non-borrowed reserves. The central bank rate and other administrative procedures affect the volume of borrowed reserves. With these interest rates applied to other sources of short-term funding for banks, central bank rate change or changing lending terms, which are common for several countries, change the incentives of banks to lending reserve funds through «the discount window», claim D. Lindsey and G. Wallis³.

Among the new monetarists there is unanimity on the issue of the impact of monetary regulation of central banks in developed countries on the price behaviour and the economic situation as a whole. The increasing role and strengthening the power of these institutions can be explained by their

¹ Future of Monetary Policy and Banking. Conference in Washington D. C. [digital resource]. — 11 July, 2000. — Access mode: <http://www.worldbank.org/research/interest/conf/upcoming/papers/11/July 11 2000.htm>.

² Grachev M. The central banks in the era of money *электронных* / M. Grachev // *Mirovaya economy and mezhdunarodnye relations*. — 2002. — № 3. — P. 59.

³ Lindsey D.E. Money policy. — P. 567.

monopoly to create money, a unique opportunity to increase or decrease the monetary base, consisting of cash money (paper bills and coins) and the required reserves of commercial banks at the central bank.

«The control of the central bank over the availability of reserves for private banks», new monetarists consider, «allows them to indirectly exert a decisive influence on the availability of deposits for individuals as well as the situation on the money market»¹. And the main tool of monetary regulation is changing short-term interest rates by the commercial banks through transactions with state securities in the open market (selling state securities) as part of the policy of raising interest rates which reduces the monetary base and the volume of credits granted for the non-financial sector of credits.

This monetary policy is aimed at preventing the economy from becoming overheated — production activities and price rates are decreasing, but purchasing state securities for reducing interest rates gives the opposite effect. If we consider the latest trends in reserves policies of the developed countries, we may conclude that they only modify the monopolism, but do not change its essence: central banks possess an efficient control over assets that are necessary for performing transactions, and no other institutions possess this control.

Obviously, this situation can be changed due to the recent fast developments in information technology and electronic money. However, this is the matter of the future. And today, we still talk about a significant influence on the monetary policy of such a monetary institution as a central bank, which operates using three tools: official discount rate, reserve requirement ratio, open market operations. Without getting into the analysis of B. Friedman and K' 's arguments on the future of central banks, we need to mention that most new monetarists view the development of digital money as «the era of childhood»², feature its «remote prospect»³, and «slight chance» of wide spreading⁴, and also assume that today's expansion of digital money is rather a «theoretical concept», which has nothing to do with

¹ Lindsay D.E. Money policy. — P. 567.

² Cohen B. J. Electronic Money: New Day of False Dawn? [Digital resource] / Cohen B. J. // International Studies Association Working Papers. — 2000. — March. — P. 2. — Access mode: www.polsci.ucsb.edu/faculty/cohen/working/emoney.html

³ Fredman C. Monetary Policy Implementation: Past, Present and Future. Will the Advent of Electronic Money Lead to the Demise of Central Banking? [Digital resource] / Fredman C. — Access mode: www.worldbank.org/research/interest/confs/upcoming/papersjuly11/July11.htm

⁴ Friedman B. M. The Future of Monetary Policy: the Central Bank as an Army with Only a Signal Corps? [Digital resource] / Friedman B. M. // International Finance. — 1999. — November, V. 2. Issue 3. — P. 12. — Access mode: www.papers-nhcr9.org/papers/w7420.

«the practical reality»¹. Yet, none of them deny the fact that electronic money is a powerful and poorly understood means which is capable of transforming revolutionary information technology solutions into the reality of economic life. Today, the economy of every country is influenced by the central bank through the tools listed above.

In economic argumentation, new monetarists, unlike orthodox scholars, exclude from their consideration such an important tool of monetary policy as a discount rate, or lending interest rate, fixed by the central bank. It is known that changing interest rates is inversely related to providing loans by commercial banks to the real economy. This may be considered as a flaw in the argumentation of new monetarists. However, it can be explained by the existence of two interpretations of monetary policy in economics. The first one involves a wide range of measures to affect the monetary sphere: open money operations, interest rate change, reserve requirement, credit rationing etc²; the second, a narrow one, applies only to the influence over the stock of money in the country that is now carried out by means of operations on the open market³. New monetarists advocate the latter concept of monetary policy, which basically justifies the above-mentioned flaw.

It should be noted that this approach is conveyed in fundamental economic publications by P. Samuelson. On the one hand, open market operations affect the stock of money directly, and through it, affect bank credits. When this happens, the effect can be calculated in advance. On the other hand, changing interest rate does not have such a direct effect. P. Samuelson claims that «unfortunately, the Fed (the Federal Reserve System of the USA. — *Ed.*) does not have much freedom in conducting interest rate policy which would be in accordance with the procedure chosen by it. It is incapable of imposing more control on banks than they want to tolerate. However, sometimes by lowering the discount rate it can stimulate bill account, and by raising the rate of discount to weaken it. Yet, «the Fed» can play only a passive role in the discount policy. It is unable to accurately determine the amount of bill account, and can play an active role performing operations on the open market».

This thought is shared by the authors of a more modern manual «Economics», S. Fischer, R. Dornbusch, and R. Schmalensee, who

¹ Goodhart C. A. Can Central Banking Survive the IT Revolution [Digital resource] / Goodhart C. A. — Access mode: www.worldbank.org/research/interest/conf/upcoming/papersjuly11/papjuly11.htm

² Fedorov B.G. New English-Russian dictionary the Economic and Banking / BG Fedorov — St. Petersburg.: Lymbus Press, 2000. — P. 452.

³ Finance. Oxford explanatory dictionary: the Anglo-Russian. — M: Publishing House «The whole world», 1997. — P. 262.

emphasize that «currently such tools of monetary policy as interest rate regulation and reserve requirement rate are not often of use»¹. Yet in practice, central banks as the main institutions actively use that particular tool.

For instance, in early 2001, under the economic slowdown at the turn of the century in the USA, Japan and European countries there was a lowering of official discount rates. At the beginning of the 21st century, in the USA it fell from 5% to 1.25%, in Japan from 0.25 to 0.10%, and in European countries from 4.74% to 2.75%².

Consequently, according to new monetarists, the main tool of monetary policy is open market operations, when the central bank purchases and sells government securities (treasury bills, or T-bills) in order to increase or reduce money supply. The latter may affect bank reserves and bank interest rates.

Generally speaking, new monetarists do not deny some other instruments of monetary policy, such as reserves requirement changes and capital adequacy ratio, yet indicate their different impact on money supply as well as on credit supply and bank behaviour. This is precisely why a gap called a «spread» may arise between interest rates on loans and interest rates on T-bills. From the standpoint of the orthodox monetary theory, the impact of monetary policy on the aggregate consumption is realized through investments that are stimulated by interest rate changes on loans reflected in interest rate changes on T-bills. New monetarist also point out at the other side of impact. «Monetary policy affects credit resources supply. Along with credit rationing this is the very effect that matters, but not changing of interest rates on T-bills. Even without credit rationing a spread between them may vary, so the impact on lending, particularly on investment purposes, may be significantly higher or lower than expected upon changing of the interest rates on T-bills.»³

In the theory, there have been considered various channels of impact of raising interest rates on T-bills on credit supply, namely: changing the value of the bank asset portfolio; growing uncertainty of loan payment; growing risk of new loans. That is what we witnessed amid the political crises in 2004 and 2009 in Ukraine. Under the recession, trying to prevent the risks and rising costs on information, banks are less eager to provide credits that are not backed by lowering of interest rate on T-bills. Therefore, as new monetarists consider, the relations between money supply and loans, as well

¹ Samuelson P. *Economy: textbook*. / P. Samuelson — Lviv: World, 1993. — P. 340.

² Osadchaya I. IMF and «New monetarism» Stiglitz // A. I. Osadchaya *World economy and international relations*. — 2003. — № 12. — P. 107.

³ Stiglitz J. *Towards a New Paradigm in Monetary Economics*. — P. 175.

as between interest rates on treasury bills and interest rates on loans are weak.

In a tandem they can move «normally». In the face of uncertainty and crisis («abnormal») a customary ratio of these values (spread) is damaged and may rise substantially. However, taking into account the dominant position, these are the interest rates on loans that determine the level of economic activity, but not the interest rates on treasury bill.

The main reason of this disproportion is that the shocked economy changes the very basis of the structural relations. Under such conditions even an average interest rate on loans is unable to serve as an adequate measure for assessment of capital costs considered to be risky. As J. Stiglitz and B. Greewald emphasize, the problem is that «it is difficult to determine precisely, in what measure the rising of the spread between interest rates on loans and interest rates on treasury bills is driven by growing risks or the desire to prevent risks (or by growing information asymmetries, or by the level of trust)». ¹ In practice, this means that the customary instruments of monetary policy aimed at increasing interest rates in order to reduce inflation or to attract foreign capital, may not work, because they do not merely eliminate the genuine causes and consequences of economic chaos, but also may deepen it. Countries with transition economies are a good example of this.

In terms of monetary economy and monetary policy, the findings of new theory supporters are significant for countries with transition economies. In most of these countries, market institutions are only being formed as well as financial institutions whose importance, from the point of view of new monetarists, is well recognized, and the movement of international capital makes them sensitive to its inflow and outflow. On the basis of these findings some scholars are rather skeptical about the economic policy measures of the last decades taken under the IMF's pressure. «One-dimensionality» of the economic policy gave rise to a hasty deregulation of the financial markets and capital markets in the developing countries inducing the vulnerability of their economies. This is especially true for those models that did not take into account the volatility of the credit mechanisms as well as their effect on the default that led to the substantial underestimation of the recession depth and political actions which deepened and prolonged the recession more than expected. A striking example of this trend was post-socialist countries during the transition crisis. According to G. Kolodko, this was the consequence of «disregarding of institutional approaches in monetary theory and a significant importance of setting up

¹ Stiglitz J. Towards a New Paradigm in Monetary Economics. — P. 201.

institutions for effective functioning and development of market economy»¹. He also placed an emphasis on the dissimilarity of American financial institutions from the European ones which have more bureaucracy, and therefore, the former create a friendlier environment for business development and increasing competitiveness of enterprises².

Based on the above, it should be emphasized that a new phase is coming up in the banking system as well as in the economy. This phase is characterized by a slowdown in the growth of quantitative indicators, which causes the need of activating banks. Under new conditions the macroeconomic pressure on the Ukrainian banking system is increasing substantially, rates of production and investments growth more and more are dependent on bank credits.

Post-crisis model of development allows the Ukrainian banking system to grow ahead of the whole economy. The value of Ukrainian banks assets relative to GDP reached 4.8%, in Central and Eastern Europe it was over 40%³.

With the approval of financial market in Ukraine, the share of institutional investors (investment mutual and pension funds, insurance companies) is growing in the total sum of financial sector assets. The role of foreign investments is also rapidly growing.

On the first phase of economy transition in Ukraine, the assets of Ukrainian banks increased primarily due to an increase in liquidity (of both hryvnya and foreign currency), namely, capital outflow operations. Up to now, the sources of their growth have changed in a qualitative way. Today, as new monetarists claim, it is based on lending to the real economy. Since the period of economic stabilization this process has become more intense. For instance, before the political crisis of 2004, in 2001–2003, the banking system of Ukraine had a steady upward trend of almost all indicators (capital, liabilities and assets). The most positive in this regard was 3.5-time increase in lending to the real economy by commercial banks. The percentage of long-term loans also grew (from 22.3% to 36% over the mentioned period)⁴.

The liberalization of refinancing procedure of commercial banks, undertaken by the National Bank of Ukraine in 2003, was forced by the increase of corresponding lending capacity. However, the initial set of NBU

¹ Kolodko G. *Institutes, politics and the Economic Growth* / G. Kolodko // *Questions of economy*. — 2004. — № 7. — P. 42.

² *Ibid.* — P. 42.

³ President of Ukraine to the Verkhovna Rada of Ukraine «On the internal and external situation of Ukraine in 2003». — P. 51.

⁴ *Ibidem.* — C. 233.

loans was given to maintain instant liquidity through the mechanism of the overnight line of credit. As for long-term refinancing of commercial banks, it is needed to note that for the Ukrainian economy this matter is crucial, it still exists today. In 2003 the share of those banks was only 6.1%¹.

It is worth mentioning that quality changes in the sectoral structure of lending hardly took place. As compared to the pre-crisis period, export-oriented loan portfolio even went up by 5–6 times. This may lead to «freezing» of the current structure of Ukraine's economy. Such a structural organization of Ukraine's banking system makes it extremely difficult for a capital user to transfer capital to new sectors and new enterprises which are independent from financial and industrial groups. First of all, it refers to transferring the capital from export-oriented raw-material industries that make the main profit and are controlled by big enterprises, into processing sectors of economy with predominantly big and medium-sized but independent businesses. Overabundance of bank clients from export-oriented raw-material industries makes them dependant on fluctuations of the world market. 30% of the assets of banking system are under the direct influence of the world market.

Despite the expansion of banks in Ukraine their contribution to supporting economic growth remains low. The bulk of the loans in the real sector is short-term and is primarily aimed at financing working capital of enterprises. Enterprises need to carry out financial and investment programs mostly at their own expense. The authors of new approaches in the monetarist theory tend to support the strengthening of the government's role under conditions of deregulation of financial markets and access of foreign banks to developing economies. In such circumstances, state institutions play an important role. Yet, by tightening regulatory control over the financial industry (e. g. capital adequacy demand), they may lead to a crisis in the economy and bankruptcy of the banks which are still able to participate in investment crediting. Introducing foreign banks has both positive and negative sides. The positive sides include setting up new credit institutions and supporting more efficient allocation of credit resources due to foreign expert advice; the negative sides include the lack of taking into account by foreign capital local conditions and needs, particularly in relation to small and medium enterprises. Therefore, it is quite reasonable for Ukraine to consider new monetarists' offer of passing a special law that would oblige banks to partially invest their capital within a specific region and in accordance with its specific problems. Special modes of banking regulation

¹ Halychynskyy Stability of hryvnia and the problem of its supply / A. Halychynskyy // *Economy of Ukraine*. — 2004. — № 2. — P. 7.

attempted by the state in current conditions are determined by other factors. Since banks as important financial institutions act as agents in carrying out the monetary policy, they play a crucial role in the money supply.

The importance of such institutions as banks motivated new monetarists to research problems of bank restructuring under conditions of bankruptcy or systemic crisis. They urge that in the latter case the existing management should be retained.

The point is that the costs associated with the selection of better management, i.e. with management changes, can be unreasonably large. Therefore, it is advisable to focus on solving current problems, because macroeconomic consequences of delay may accelerate bankruptcy. Some researchers believe that commercial banks can overcome bankruptcy threats more easily for «while choosing investment directions on the basis of market principles they can successfully solve the problem of efficient redistribution of financial flows between industries and enterprises maximizing the return on investment».¹

During the financial crisis in Southeast Asia the policies of the IMF were based on the policy of high interest rates. New monetarists criticized the orthodox monetary policy to raise interest rates. In their opinion, the increase in interest rates during the East Asian financial crisis deepened the crisis, causing more bankruptcies and weakening the economy. The outflow of capital in such a situation far exceeded its inflow. Meanwhile, the IMF argued that if interest rates had not been increased, the exchange rate would have fallen, which would cause bankruptcy. «I claim», writes John Stiglitz, «that there was no choice; higher interest rates did not support the exchange rate. And if it were so, there would be a moral issue of whether it is worth supporting those who speculate currency at the expense of the internal business environment».²

According to new monetarists, the policy should be more flexible. The most effective mechanisms are those by means of which you can quickly identify the errors and easily correct them. The IMF policy towards East-Asian countries is manifested in raising interest rates (nominal interest rate in Indonesia exceeded 80%, real interest rate in Korea — 25%). As a result of this policy thousands of companies were brought to bankruptcy. Lowering interest rates did not return them into active economic activity.

The policy of high interest rates struck a blow at those firms which went bankrupt not because of their assets' value falling. Lowering interest rates also did restore their net asset value. According to G. Brown, the situation

¹ Sarkysyants A.O. *Rolls banks in the economy*. — P. 92.

² Stiglitz J. *Towards a New Paradigm in Monetary Economics*. — P. 11.

was due to the fact that the liberalization had occurred before sufficient preconditions were created, say, in the form of the own financial sector. That was not a failure of the market economy it was a typical policy failure. «The problem lies within the fact that the market operation under the wrong regulatory framework leads to politically unacceptable results. In any case, one thing is true: the confidence of economists, primarily Anglo-Saxon, who have been based on the concept of free market economy, is that generally, deregulation always improves economic performance»¹.

J. Stiglitz specifies these reasons, and stresses that such a failure is resulted by the recommendations to tighten monetary and fiscal policy. Firstly, it is the inability to recognize the central role of credit and credit institutions, and, secondly, to predict the threat of bankruptcy caused by a sharp increase of interest rates and a consequential reduction, rather than a rise, in capital inflows. The IMF programs have failed to recognize the importance of efforts to preserve the whole credit system, the strategic function of which «identifying the most promising potential investors and providing them with funds»².

Indonesia is an example, because during that period 16 banks were closed down there³. Neither international experts, nor their own government took into account the direct consequence of such an act (impact on the current credit offer), and further effects on other private banks. Mass withdrawal of the deposits had started, which led to the erosion of the banking system.

Emphasizing the threat of inflation, the IMF sought to reduce bank liquidity just at the time when many companies needed credit. A similar situation was observed in Ukraine. High interest rates did not correspond to the profitability of the real economy. One can assume that loans obtained under low profitability conditions were supposed to be plundered by the agreement between the bank and the enterprise administration or that the bank served illegal business practices of the enterprise, increasing losses of its legal activities. The US economy is the opposite example. In 1999–2000, when the US overall production was approaching stagnation, the Federal Reserve's interest rate was introduced. To support investment and general market conditions, interest rates were reduced from 5 to 4% and then to 1%⁴. Accordingly, higher interest rates have a negative impact on economy.

¹ Brown G.G. Market economy and consensus Vashynhton Congress / G.G. Brown // International economy and international relations. — 2004. — № 8. — P. 40.

² Stiglitz J. Towards a New Paradigm in Monetary Economics. — P. 272.

³ Osadchaya I.I. IMF and «New monetarism» of Stiglitz. — P. 109.

⁴ Naydenov B.C. Inflation and monetarism. Lessons of anticrisis policy. — P. 103.

Thus, from the point of view of new monetarists, one of the main channels for activating economy is monetary. Based on neo-classical positions, ideal performance of monetary policy may be described as follows. Suppose that the tactics of monetary authorities in the open market have led to decreasing the refinancing rate and, consequently, lowering the interest rate. In this case, the financial status of economic agents (balance of payments and total asset portfolio) will improve. This situation is especially favorable for economic agents who have had short-term debt (a typical case for manufacturers, because their revolving funds are derived from short-term bank loans) since reducing interest rate would cut the cost of debt servicing.

At the same time lowering interest rate usually contributes to price rise of other assets, and thus it will increase the value of market portfolio of an economic agent. A general strengthening of the manufacturer's balance of payments and increasing the value of market portfolio of economic agents expand their possibilities of borrowing funds. As a result of these changes the money supply of economic agents will increase and the monetary channel of influence transmission will work.

The growth of money supply of economic agents generates additional consumer demand of an agent if it acts as housekeeping or demand for working capital (capital goods) if it is a manufacturer. For cases when the result of monetary authority's actions is reducing the money supply, which causes an increase in interest rate, the model can be described similarly but with the «opposite sign».

It should be noted that in both cases a lack of significant lags in the transfer of impact is expected.

Above, we have already discussed the possibility of deviations from the ideal impact of the transmission channel, described by K. Wicksell and later by D. Lindsey and H. Walling.¹ The modern economy is more sensitive to such changes, which cause deviations of an entirely different type. The empirical studies of money supply contraction resulted from transactions performed by monetary authorities on the open market, were carried out by B. Bernanke and M. Gertler on the basis of the US data from 1965 to 1993, and showed that the refinancing interest rate responds to the money shock quite quickly and reaches its culmination in a month after the shock. It returns to its shocking trend within eight or nine months and in the next three or four months tangible assets of an enterprise continue to increase. The fixed investments respond later — only in six months they begin to decrease and this process lasts for approximately 18 months. The price responses to

¹ Lindsay D.E. Money policy. — P. 579.

changes in interest rate are even more delayed, the GDP deflator becomes negative only within 14–15 months¹.

However, an unresolved question remains: why does manufacturers' reaction to changes of interest rate become smooth? If you follow the logic above, then, on the one hand, manufacturers will suffer considerable losses sustained as a result of a decrease in demand, and, on the other hand, because of rising in cost of short-term bank loan that they need to actively use for working capital financing under conditions of scarcity of funds. The change in the capital market is also negative for a manufacturer. Since increasing in interest rate is mostly accompanied by the outflow of funds from the venture capital markets and the fall in prices for different types of assets, it thus worsens the state of a manufacturer's asset portfolio.

As shown in N. Kiyotaki and J. Moore's research, this situation causes difficulties in financing production through sales or additional emission of securities and complicates the access to bank credits for manufactures². These difficulties are amplified by the specific features of modern chart of commitments, that do not allow the bank to refill the shortage of loan funds by placing debt in case of money supply contraction resulted from the actions of monetary authorities and the consequent outflow of deposits³. But these circumstances do not encourage production to reduce circulating capital goods, cut output, and, moreover, to lower prices.

Modern researchers of monetary channels narrow down the explanation of such a situation to the presence of big companies (oligopolies) in the market. For example, M. Gertler and S. Gilchrist claim that big companies in their hope for a temporary nature of the situation can withstand the decrease in corporate revenue by 40% caused by such shocks⁴. New monetarists emphasize on the point that good reputation and availability of credit facilitate companies to do that. Continuing to actively use bank loans, despite the increase in interest rate and difficulties in attracting additional loanable funds, they maintain the previous level of production and employment for a long time. And even the beginning of production cuts does not cause a fall in

¹ For details see: *Bernanke B. Inside the Black Box: The Credit Channel of Monetary Policy Transmission* / B. Bernanke, M. Gertler // *Journal of Economic Perspectives*. — 1995. — № 4. — P. 27–48.

² For details see: *Kiyotaki N. Credit Cycles* / N. Kiyotaki, J. Moor // *Journal of Political Economy*. — 1997. — № 2. — P. 214–248.

³ See for details: *Bernanke B. Inside the Black Box: The Credit Channel of Monetary Policy Transmission*. — P. 27–48.

⁴ See for details: *Gertler M. The Role of Credit Market Imperfections in the Transmission of Monetary Policy: Argument and Evidence* / M. Gertler, S. Gilchrist // *Scandinavian Journal of Economics*. — 1993. — № 1. — P. 43–64.

prices for their goods. There is a long time lag that manufacturers are trying to sustain after the decline in manufacturing.

A different trend is observed for small firms (whose assets are estimated less than 250 thousand dollars in prices of 1991). According to the above-mentioned scholars, these firms have a much smaller financial stability and a limited access to credit resources, and thus they respond faster to a decrease of interest rate lowering their output and prices. Therefore, it can be concluded that the overall picture of response to the monetary shock depends on the ratio of such groups of enterprises.

In the US, for example, small manufacturing firms occupy no more than 30% of the market, while in the retail and wholesale trade, and construction they cover most of the market¹. It seems that in Ukraine the same structure in the above-mentioned economic areas is formed, which means that in the future the considered areas will be the most sensitive to monetary shocks in the market.

Analyzing the impact of credit transfer channel, new monetarists pay attention to the possibility of liquidity trap, which «clogs» this channel.

P. Krugman examined the situation from the new perspectives and due to the Asian crisis. He drew attention to the fact that it was then when the Bank of Japan was taking considerable efforts in order to reduce interest rate by means of aggressive monetary expansion in the open market, but it did not lead to the desired results².

Econometric research of influence transmission channels in short-term periods by B. Bernanke, M. Gertler, C. Lawrence, M. Eichenbaum and C. Evans, J. Stock and M. Watson and others proves the following: 1) monetary shocks have a lasting impact (with a fairly large lag) on production level; 2) the spread of influence lasts longer than the monetary shock; 3) there is a positive correlation between the level of production in the near-term prospect and future inflation³.

It should be noted that in the economic literature the problem of such trends arising in countries with transition economies and undeveloped monetary channels that can be paralyzed due to some other reasons, has not been resolved yet as well as the uncertainty of long-term effects of monetary shocks. That is due to the fact that the lack of immediate reactions of

¹ See for details: *Ibid.*

² *Krugman P.* It's Baaak! Japan's Slump and Return of the Liquidity Trap [digital resource] / P. Krugman. — see: <http://web.mit.edu/krugman/www/bpeajp.pdf>

³ *Lawrence C.* Monetary Policy Shocks: What We Learned and to What End? / C. Lawrence, M. Eichenbaum, C. Evans // *Handbook of Macroeconomics* / eds. J. B. Taylor, M. Woodford. — Amsterdam: Stock, 1998.

economic agents to changes of money stock may cause reasons for a protracted price rise and thus persistent inflation.

Under the circumstances, its impact on production level may be in the following ways: 1) long-term inflation stimulates production, driving its growth; 2) causes decline in production; 3) does not affect the level of production.

The impact of anticipated inflation was studied by D. Patinkin, who concluded that the effect depends on whether inflation evokes the processes of mutual substitution between money and capital, or both of those components of economic agents' market portfolio remain neutral to one another¹.

The substitution effect models (Mundell, Tobin, Fischer et al.) assume a shift from cash balance portfolio to an asset such as physical capital.

The resultant flow of additional investment causes an increase in production assets and a rise in the ratio of capital to labor, and hence a long-term growth of production. However, some researchers have questioned the anticipated effectiveness of the economic mechanism that appears in the growth of parasitic speculative capital (e.g., pyramid schemes) or processes, described by K. Wicksell (Wicksell's «ghost»)².

There is a model with the opposite effect (R. Klauer, P. Samuelson, N. Wallace et al.). It can be divided into three groups: 1) economic agents facing inflation start saving up; 2) price level growth and high cost of saving money lead to a rise in transaction costs. Both models have a negative impact of these factors on production.

And the third group of models (M. Sidrauski et al.) introduces superneutrality of money when money growth rate does not affect the level of production

According to recent studies (C. Lawrence, M. Eichenbaum and C. Evans, J. Stock and M. Watson et al.) there is a negative correlation between inflation and output in the long-term perspective³. However, their study is not accompanied by any significant analysis of initial causes of the results which might enable them to be interpreted. In calculations done by the above authors we should eliminate the impact of technological and resource changes, and changes in tastes for the entire period in question. This requirement is difficult to meet in the modern world.

¹ For details see: *Patinkin D. Neutrality of Money / D. Patinkin // The New Palgrave Dictionary of Money & Finance / eds M. Eatwill, Milgate and P. Newman. — L.: MacMillan Press Limited, 1992. — V. 3. — P. 17–28*

² For details see: *Smithin J. Controversies in monetary economics: ideas, issues and policy. — P. 150–173.*

³ Lawrence C. *Monetary Policy Shocks: What We Learned and to What End? — 256 c.*

According to J. Stiglitz, the core of macroeconomic models is the theory of the firm based on the asymmetric information theory. It needs to be noted that the theory of the firm should be considered in three ways: financing corporations, corporate governance and organizational charts.

To the neoclassicists, whose theory is based on the principles of perfect information, namely M. Miller and F. Modigliani, the company solving the problem of financing can either attract loan capital or increase equity capital by issuing new shares (tax factor is not taken into account). The company tries to limit such a method of financing as issuing new shares. According to the theory of perfect information, while issuing new shares the company signals to new owners that the market overvalues their shares, and the financial market reacts to it by lowering equity prices.

Consequently, this way of financing carries additional risk of capital appreciation.

The new paradigm explains the dominance of borrowed funds by the fact that hypothetical investors obtain imperfect information. They receive distorted information on profit distribution among shareholders, and they are not assured of fair profit-sharing based on equity participation. Using different ways to pay net income to major and large shareholders, and managers, a company can significantly reduce the amount of income distributed among the other shareholders. Compliance with legislation and accounting standards leads to the introduction of developed stock markets and, therefore, may change company policy on capital structure.

The classical theory was based on the principles of transparency for dividing net profits into retained earnings and dividends. In the theory of imperfect information it is claimed that the information is distorted: corporate managers are more informed than hypothetical shareholders. Besides, it is noted that they deliberately conceal certain information in favour of the company.

The importance of corporate governance is stressed in the theory of the firm.

The theory of perfect information does not pay adequate attention to the problems of economy and finance management. The main objective of the company is defined as the discounted expected profit maximization (which is equivalent to market value).

However, the argumentation on how this goal could be achieved and what decisions should be made is rather weak. Yet, in pragmatic terms, corporate governance plays an important role. A company's competitiveness and ultimately its value depend on how effective managers are and how coordinated their actions are.

For that matter, it is worth paying attention to the managers' mandate. The distribution of property rights and management rights requires from the manager to make pro-shareholder decisions.

However, in practice, due to information asymmetry, problems arise in relationships involving owners and managers (principals). Managers can act in their own interests, manipulating financial statements, overstating profit margins, and using other illegal means.

Organizational chart as the concept of firm development, according to J. Stiglitz, is the central problem of business. Information asymmetry limits the possibility of decentralization.

Therefore, new approaches to building organizational charts were suggested, in particular, developing programs which are designed to reveal organizational failures and to make decisions. J. Stiglitz hypothesized that under a number of circumstances, especially under conditions of lack of promising projects, a decentralized, polycentric structure has obvious advantages.

In the new paradigm, it is agreed that all economic players are within the scope of asymmetric information. Thus, J. Stiglitz notes the difficulty of controlling the government performance by citizens. The tax authorities also do not receive all the information from taxpayers and tax avoidance practices are commonly used by corporations. Since classical political economy of A. Smith and D. Ricardo, all subsequent schools have paid apparent attention to taxes and have developed tax principles that would meet the level of economic development. J. Stiglitz, as a representative of the new paradigm, identified five so-called desired principles of rational tax system: economic efficiency, in which the tax system should not impede the efficient allocation of resources; administrative simplicity, which means that the tax system should be simple and relatively inexpensive; flexibility — a quick response (in some cases automatic) to changes of economic parameters; political responsibility — the tax system should be structured to convince people that they pay taxes for a more complete and accurate fulfillment of their wishes by the political system; justice — the tax system should be fair in their respective approaches to different taxpayers.

These principles reflect the broad impact of taxes on the development of market relations in the modern economy. Taxation affects the overall balance, income distribution, the formation of savings and investment, the level of natural resources development and environmental protection. J. Stiglitz emphasized, that it is unlikely that there are any important spheres of resource allocation in the economy which would not depend on taxation.

The principle of simplicity and low-priced taxation has been considered over and over again by representatives of all schools. J. Stiglitz notes that

official administrative costs are supplemented by indirect costs that are passed on taxpayers (the cost of tax accounting, consulting fees, etc). In the world that is changing rapidly, the flexibility of taxation is becoming increasingly important. As far as the principle of political responsibility is concerned, it is necessary to mention its propaganda-like nature, thus, «good intentions» of the political system to fulfill taxpayers' wishes are hardly achievable. The principle of fair taxation has been known since mercantilism.

In terms of a welfare state in a democratic society, the principle widens its scope. J. Stiglitz refers to it as Pareto optimal. Vilfredo Pareto is an Italian economist and sociologist who proposed his own approach to determining the welfare principle.

In his opinion, the main condition for social welfare growth is a situation when welfare of one individual is growing without a simultaneous deterioration of another individual.

As noted by J. Stiglitz, «each information structure corresponds to an efficient taxation structure in terms of Pareto» where none of the taxpayers (or no group of taxpayers) can improve their position without making worse the position of others. The choice of taxation structure depends on the function of social welfare (beliefs on inequality).

He further claims that according to Pareto the efficiency of taxation system means that maximizing the welfare of one person (a group of people) implies such an income inflow into the budget which would provide others with specified welfare, and consequently nobody could get more at the expense of another person. However, J. Stiglitz stresses that under conditions of asymmetric information markets could never achieve efficiency in terms of Pareto.

Thus, one could argue that monetary and real changes are interrelated. In short-term perspective, equilibrium dichotomy and neutrality of money are impossible for the modern economy. Monetary shocks (expansion or compression) create a significant short-term (different in strength and with a different lag) impact on production output, employment, prices, salaries, interest rate and credit availability. The strength and direction of impact on these variables and lag depend on the extent of monetary shock, institutional structure, a particular economy, including the level of maturity. As for the long-term impact of monetary shocks, there is no unanimity and theoretical approaches, as well as the validity of empirical data. It can be stated that for modern economists this is a «black box».

Thus, the quintessence of new monetarists' views on monetary policy is as follows:

- 1) concerning the degree of rigidity of monetary policy it is not always measured by the real interest rate, and the availability of credits is important;

under conditions of credit rationing, demand does not matter, whereas supply does;

2) concerning interest rate policy, the real interest rate, which is important for economic activity, is the loan interest rate, and the spread between the interest rate and interest on T-bills can vary in a very wide range;

3) as banks play a major role in providing loans, it should be understood, how different methods of economic policy affect them, including alternative proposals and liberalization. You cannot just rely on the standard paradigm of competition. Today, it is generally accepted that rapid liberalization of capital is risky. The growth of credit, which began in Ukraine in 2000, became possible due to simultaneous impact of the following factors:

- fast and successful recovery of the Ukrainian banking system;
- increase in the number of potentially creditworthy borrowers as a result of intensification of industrial production and increased income;
- stabilization of the exchange rate, which made it unprofitable for banks to keep substantial amount of assets in foreign currency;
- limitation of alternative lending operations due to the «freezing» of the public debt market;

4) implementation into practice of regulatory policy, similarly to monetary policy, ought to be based on the theory of bank behavior. In particular, adherence to the standards of capital adequacy can be counterproductive, sometimes forcing banks to take increased risks. Therefore, according to new monetarists, the alternative approach based on the theory of portfolio assets is more efficient. It provides a set of regulatory measures that affect both incentives and opportunities for loans;

5) the state regulatory authorities should be particularly attentive to the effects of significant changes in interest rates, and national governments should sometimes be required to provide credit on reasonable terms reasonable for those groups whose position can deteriorate, especially during tighter credit policy;

6) it is important to understand the dangers of bank failure. Tight monetary policy which may lead to the increased number of bankruptcies is likely to cause capital outflow from the country than its inflow, and ultimately to reduce the currency exchange rate. Moreover, a significant increase in interest rates can dramatically increase the level of bankruptcies, whereas the decrease does not necessarily restore the livelihood of bankrupt companies.

3.5. New classical macroeconomics

Some positions of monetarists were supported by representatives of «the theory of supply» (supply-side economics), which was formed in 1970th mostly by the efforts of US economists P. Bouermen, M. Feldstin, R. Barrow etc. Their adherents (supply-siders) are the representatives of neoconservative approach in neoclassical economic theory which is based on the elements of the theory of the marginal efficiency of production factors, modern monetarism. It is not always possible to clarify where the monetarist theory ends and the theory of supply starts because of the lack of clearly formulated methodological and ideological platforms, substantial characteristics of the subject and recognized leaders. For example, the crisis of 1929–1933 is considered mainly as monetary problem. This conclusion is based on M. Friedman and A. Schwartz's theory of the monetary contraction due to erroneous policies of the Federal Reserve System. Following the monetarists the representatives of supply-siders argue that Keynesian theory of stimulating demand through monetary and financial factors does not lead to real gains, but only contributes to increasing price etc. The representatives of theory of supply give their points of view on a number of issues (the role of monetary policy in stabilizing inflation process, financing the budget deficit, etc.). (tab. 3.2).

In contrast to the monetarism the theory of supply defined separation from Keynesianism more clearly. If monetarists take account of Keynesian analysis of aggregate demand and other ideas, the creators of the theory of supply (representatives of neo-Keynesian school, primarily F. von Hayek) take tougher anti-Keynesian position on a wide range of problems in modern economics and financial policy.

In 70–80th supply-siders had a significant influence on the development of world economic thought and the principles of development of financial policies of some leading Western countries. Their recommendations are a core experiment of Reagan administration in the US economic policy.

Perception of the theory of supply by practitioners in the current period is proved because its supporters could give a convincing answer to the practical economic issues how to produce conservative solutions to many problems of the economy and finance of the West in the 70th. These challenges are the loss of control over inflation, interweaving it with rising unemployment (stagflation), slowing for a long period of economic growth that was typical for some developed countries at the time. It was impossible to eliminate the negative effect of these factors by management techniques of demand. The crisis of the state regulation economy system, which was based on the

principles of Keynesianism, began to appear with the help of effective achievements of the technological level of the STR. Neoconservatives, in addition to the realistic explanations of these phenomena, substantiated proposals concerning changes in financial policy. They raised the question of the need for a major transformation of the whole economic and financial mechanism of the modern economy.

Table 3.2

**Similarities and differences in theories
of monetarism and supply-side economics**

criteria	Monetarism	supply-side economics
Similar features		
Relation to state regulation	The concept of «minimal state»	
Monetary policy	Not anti-cyclical management of aggregate demand and stimulating supply of goods, capital and inputs	
Different features		
The main economic category	The amount of money in circulation	The level and structure of taxes
Tools regulation	Monetary regulation through financial intermediaries system	Regulation of supply of deposits and credit by means of tax reform
Object of regulation	Stabilization of the rate of money supply growth	correct determination of the average rate of income tax
The nature of inflation	Fluctuation in the money supply	High taxes
Influence of money on economic system	money affect economic growth in the short-term period	Only investment money to influence the growth of GDP
The basis of regulation	«Money Rule» of monetarism	«Tax rule» of economy of supply
The system of international payments	Waiver of fixed exchange in favor of floating, full liberalization of the foreign exchange market and foreign trade	Saving the current system of fixed exchange, restoration of classic gold monometallic, establishing trade restrictions

According to M. Beytor as the economy has become more «open» to manage aggregate demand was more difficult than two decades ago. The cause and effect relationships have become more uncertain but instruments, comparing with the goals, were even smaller. Under these conditions a searching for strategy of state intervention, «focusing not so much on the achievement of some ambitious goals, but how to minimize losses» began.¹ The main issue was more rational use of the state budget.

A shift of values in a society in the early 80's became a general background and culture medium for anti Keynesian confidence. Previously, it was about equality of results, equality of opportunity began to proclaim, freedom was considered positive, freedom as the absence of rigid framework of the state began to discuss and so on. Frames were formed by active public policy intervention in the late XIX — early XX century. «The broad legislative interference into freedom of contract again became a habit, and much of it was, redistributive essentially»². Life has set about finding more effective internal «spring».

Conceptual scheme of almost all sections of the theory of supply is identical: consideration of the mechanism of appearing of economic problems (uncontrolled inflation, high unemployment, low dynamic reproduction and so on), their analysis, and explanation of the way out of the crisis. The main factors are forces that distort market processes and reduce the effectiveness of the use of inputs, governments that (conduct irregular economic policy, trade union activities that are beyond the reasonable economic limits, etc. idealize «spontaneous market order» and reduce the function of the state to ensure the smooth operation of the market conditions.

Other forms of government intervention in the economy (Keynesian anti cycle regulation, profit fiscal redistribution, inflation maintenance with the economic or administrative methods, etc.) are recognized as harmful, because they disorganize market mechanism and generate economic difficulties. So, for example, the position of the famous theorist of neo conservatism M. Feldstine that saw in the «wrong» Keynesian policy the root cause of all difficulties, actually one can see only the continuation of F. von Hayek's call to expel «evil spirits of Keynesianism» from economic theory and practice.

¹ Beytor M.F. Fine superstructure / MF Beytor // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. ed. Corresponding second reading. RAS B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 355

² Atiya P. S. General right / P.S. Atiya // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow. INFRA-M, 2004. — P. 96

Economics of supply is the most oriented ideological concept proposed by the representatives of economic conservatism in the 80s. The content of the theory of economic supply focuses on barriers to expanding supply and efficient use of inputs. Practically, this means an increased interest to a type and condition of aggregate supply factors function and hence to the parameters which determine the natural rate of unemployment rather than the level of aggregate demand in the short period as it often happens in the usual Keynesian macroeconomics. Among these obstacles the main one is considered a major negative impact on the tax structure and the incentives to work and invest, as well as institutions and skills (e.g., restrictions related to the activities of trade unions) for efficient allocation of resources. For example, B. Verb according to pre terms of rational decision considers trade unions' as «cartel or monopoly for maximizing benefit of their members.»¹

Analyzing that US tax system, the proponents of supply concept (A. Laffer, M. Feldstine, J. Gilder, M. Evans — 1970–80th) argued that it is the most productive as to the capital accumulation process and production increase and has negative impact on the state budget. High taxes, according to them are also one of the causes of inflation. That is in contrast to the monetarist theory of non-monetary nature of inflation, according to which high taxes, on the one hand, provoke costs, on the other — allows the government to raise artificially the price of demand for certain goods and services, which leads to inefficient use of resources. Unpredictable price increase is considered as a way to compensate the negative effects of such businesses².

Major political and economic conclusions and recommendations identified the sense of concept the importance of which lies in the fact that there is not contradiction between the goals of fighting inflation and stimulating economic growth, but also achievement of these goals is possible with the involvement of the same instrument — tax reduction. For the first time this idea, which then became the core concept was expressed by some congressmen and senators while discussing fiscal policy in 1977–1978th. The journalists J.Vanniski and J.Gilder popularized it and at that time a little-known professor A. Laffer from South Carolina — the author of the curve represented in university science. The majority of the administration of Ronald Reagan was proponents of the concept.

¹ Brown F.G. / Brown F.G. // *Economic theory* / ed. J. Ytuella, M. Mylgate, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 834.

² *Economy: Textbook*. / Ed. E.N.Lobachevoy. — 2nd ed., Stereotype. — M.: exam, 2004. — P. 392-393.

Theory concept of supply has a practical tendency and theoretically is based on the standard neoclassical model of price. In the work « Beyond Monetarism: Finding the Road to Stable Money » M. Miles emphasizes that «monetarism will never be able to provide stability in prices.»¹ The main reason for this, according to him, is that the economy provides many alternative forms of financial assets that perform specific monetary functions and financial innovations that make it possible to improve the effectiveness of monetary circulation, change demand for various components of the money supply and so on. Instead of Friedman's monetary rule Miles proposed as a guide of monetary policy the price rule — ensuring price stability and sustainable purchasing power of money. It is necessary not only to restore the exchange of the dollar into gold, but also «to supplement the central bank's commitment to provide» support «of long-term interest rates and commodity prices on agreements on the term»².

The theory of supply-side economics, as well as neoclassical doctrine, represents the principles of functioning of subjects at the macro level. Just as there is no problem of realization for individual firms and consumers at the equilibrium price they can always buy and sell any quantity of benefits, so it cannot be unemployed resources at the level of the economy and production level depends primarily on the supply of capital — this is especially the problem of deposits, the resolution of which depends on the choice of working people — choice between work and leisure. The question of how this choice affects state policy is subject of consideration. In fact it's about that taxes distort relative attractiveness of labor to leisure and attractiveness of deposits to consumption.

The representatives of the theory of supply put into practice standard reflections, explaining familiar to everybody kind of functions of supply. Indeed, increased taxation of wages means its actual decrease and thus leads to a reduction in labor supply. There is a substitution effect, when more and more people are not satisfied with their real incomes, voluntarily go into the unemployed. A similar result causes social security system, including unemployment — reduces the attractiveness of labor, and thus distorts the free labor market, increasing the «natural» rate of unemployment. Increased costs of the state budget are associated with social programs, which in turn require a fairly high tax rates. Resource allocation is suboptimal, including artificial decrease of labor supply. Thus, high taxes double negative effect of payments due to unemployment and other forms of social security.

¹ Usoskyn V. M. «Money world» Milton Friedman. — P. 42.

² Ibid

Considering the importance of taxation in the economic growth some of modern scholars (J. Atkinson, P. Diamond, Avinash K. Dixit, J. Miralis and John. Stiglitz) analyze the so-called optimal taxation. This tendency developed the following ideas: (a) uniform taxation is not always neutral; (b) special conditions under which a particular set of uniform taxation of goods or activities minimizes the net loss from collecting certain amount of tax revenue, is performed when the equilibrium quantity (or activity level) of each taxable item set in equal proportions responds to the (hypothetical) uniform tax on all products or activities that are *not* included in this set; (c) if the condition (b) is not satisfied, then instead of uniform taxation minimization of net tax requires taxation at a rate higher than the average of those goods which number decreases as a result of the introduction of (hypothetical) uniform tax on items that are not included in the set and tax at a rate lower than the average on the objects, the equilibrium quantity is growing most rapidly¹.

In addition, government spending on social needs changes relationship between savings and costs part of income. The share of current expenditure is increasing as busy subjects, assessing their well-being in the long run, rely on the financial and other assistance to the state in the retirement period. As a result, there is a decrease in the share of deposits in total income, reduction of the amount of credit and sources of accumulation, which leads to slower economic growth and a negative impact on employment. It is no accidentally that proponents of this theory compare taxes with «sword» that «is killing» between factor income that affect the supply and the net factor cost that determine the demand for factors². In other words, the curved nature of income taxes is emphasized.

The originality of their positions is observed in the issue of the budget deficit, unlike the monetarists, who believed that the deficit is not a serious threat to the economy in case that its size and capacity of the operation do not conflict with M. Friedman's opinion to stabilize the rate of supply growth in theory of money. The tendency to state deficit budget is seen as the «tendency of democratic governments to focus more on expenditure rather than income.»³ In this their positions are closer to the representatives of constitutional economics. Therefore, representatives of supply theory

¹ Harberher A.J. Neutral taxation / Harberher A.J. // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 628-629.

² History of economic studies / ed. V.D. Bazilevich. — P. 1048.

³ Buchanan. J. M. Constitutional economic theory / J. M. Buchanan // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. ed. Corresponding second reading. RAS B. C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 176.

reject deficit completely. In their views, monetarists exaggerate the ability of the state to control the movement of money and manage it, because in practice monetary policy is a tool of Keynesian regulation of credit, production and employment and provides stabilization of money aggregates as M. Friedman required. Their hope to transform the budget only into instrument of monetary policy is doubtful. Advocates of the supply theory offer for the state government to block the channel of unexpected inflation completely, change money supply in another way, bypassing the deficit. They proclaim the need for a separate, independent from monetary, fiscal policy, as proponents of the supply theory believe into the high effectiveness of fiscal stimulus of economics.

Distrust of the creators of the theory of supply to government agencies conducting monetary policy, skepticism about their ability to fund deficit within monetarist monetary strategy to prevent unexpected inflation indicates that to problems regarding the budget they take a more realistic position than monetarists. This view is much closer to the views of F. von Hayek than M. Friedman. As you know, the leader of the modern neo Austrian school claimed setting the budget balance as well as hard limiting the powers of the state in monetary circulation¹.

If in these concepts representatives of supply theory complement monetarist version, their analysis of the problems of economic growth has undoubtedly original character. Monetarism doesn't have its analysis of economic dynamics, so the theory of supply is of priority. Its concept of economic growth differs in critical focus and concentrates on the study of factors that have the obstacles to economic growth. The traditional neo-conservative «method of opposition» is widely used: discredit of the Keynesian regulation or social policy, is regarded as a decisive argument in favor of its own version, which is considered the only alternative for society.

The logic of reasoning of supporters of supply economics (D. Black, M. Skols, J. Brennan, P. Miller etc.) is too simple: decrease of taxes on income from property (interest and dividends) leads to increased susceptibility to deposits by current consumption, increased supply of loan capital and reduced interest rate that is known to contribute to the expansion of the investment process. Lowering taxes on corporate profits (as well as the introduction of tax and depreciation benefits) stimulates investment process in two ways: increasing the level of paid dividends and, therefore, the market

¹ For more det. see F. Hayek.: *Private Money* / F.A. Hayek — M: Eun-t nat. model of the economy, 1996. — 248 p.

value of the assets, which contributes to the attraction of foreign capital; creates an additional source of accumulation internal resources¹.

Decrease in cash tax rates on labor income causes expansion in labor supply of workers, attracting additional troops (for which the marginal utility of the findings wealth was more significant than the marginal utility of leisure). Thus, the accumulation of capital is provided by the necessary growth of human resources.

As a result, increasing the rate of accumulation and accelerating of economic growth is achieved. Due to the theory of marginal productivity share of labor income increases in national income. This is problematic through the social point of view because the tax reduction is insecure at least in the short run, reducing government spending, including on social programs. While in this as predicted by proponents can be expected a positive effect.

Thus, high tax rates, especially on income, distort market processes, causing dangerous decrease of the marginal efficiency of capital expenditures, which negatively affects the deposits, investments and economic growth. Tax policy, an American conservative economist P. Bouermen says, helping to increase consumption by investing further enhances opposition of the tax system to capital accumulation. With decreasing of real income after tax the mechanism of personal contribution reduction takes place, and this undermines the financial basis of accumulation. According to supply-siders, increase of tax deductions has negative impact on social policy, which not only stimulates the growth of current consumption at the expense of deposits, but also causes a decrease in labor supply, increases unemployment, reduces the amount of labor income and thus savings.

No less harm to economic growth and sustainable development is done by inflation that causes increase in nominal interest rates and limits access to sources of business credit. This leads to partial paralysis «essential element of the economic system of society»². Combining with excessively high income tax rate possible reduction of dividends makes shareholders refrain to invest. In practice the real income in this situation is pressed by additional inflation tax — the amount of corporate tax payments equal to the normal tax multiplied by the rate of inflation. As A. Auerbach demonstrated, in a continuous increase of the rate of price the duration of capital increases,

¹ For more det. see Brykly J. E. Politics dividends payments / J. E. Brykly, J. J. McConnell // *Economic theory* / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B. C. Avtonomov. — M.: INFRA-M, 2004. — P. 214-215

² Evtukh O.T. Nature and causes of the wealth: a financier's look . — P. 7.

share of obsolete equipment, which hinders the development achievements of NTP and slows economic growth, is increased¹.

Supply siders were able to explore the fundamental mechanism of the negative impact of the budget deficit on reproduction expanding. At the time when the deficit is covered by public debt, there is a negative situation in the financial markets. Trying to avoid accelerating inflation, the government places on these markets the bulk of the securities, and then is transformed into a competitor to private firms. By manipulating the interest rate on debt, establishing public credit amount and terms of repayment, it takes away from the private sector loans, which could otherwise become productive investment. At the financial market these resources go into public consumption, mostly non-productive, which means the displacement of private sector from capital market. These conditions should be taken into account the fact that budget deficit causes an increase in private demand for money, an increase in interest rates at banks and other credit institutions. For the real economy, especially in the short term, this is a negative phenomenon as financial and material resources of the private productive accumulation shrink, credit gets more expensive, the level of investment is reduced. Pointing to the differences of monetary policy from fiscal one, the researchers outline that the latter has a financial dimension «as budget deficits or surpluses lead to changes in public debt, which obviously affect the overall demand for credit and interest»². In other words, fiscal policy has a direct impact on costs and revenues, and the budget investments directly compete with private ones as to resources that exist in the form of deposits. This was indicated by M. Feldstein, J. Gilder and M. Evans. Similar views were expressed in the late XIX — early XX century by Ukrainian financial economists. Specifically M. Aleksyeyenko³, Hlovinskyy E., S. Illovayskyy⁴, A. Polotsk⁵ were against excessive taxation.

American economist R. Barrow called the phenomenon of displacement effects (crowd — out effect) private demand for credit resources by state. In his view, to eliminate negative pressure of deficit on reproduction dynamics

¹ Dornbusch R. *Macroeconomics*. — P. 594.

² Lindsay D. E. *Money policy*. — P. 570.

³ See for more det.: Alekseenko N.N. A look at development of scientific views on tax of economists / A. Smith, J.B. Say, Ricardo, Sysmondy and D.S. Mill / Alekseenko M.M. — H.: University typogr., 1870. — P. 173.; Alekseenko N. General Theory of changing taxes / Alekseenko M.M. — H.: Unyversity typogr., 1870. — 17 p.; Alekseenko M.M. Profit tax and terms of its application / Alekseenko M. — H., 1885. — 35 p.

⁴ See for more det. Illovayskyy S.I. *Indirect taxing in theory and practice* / Illovayskyy S.I. — Odessa: Typogr. Staff Odes troops. Vaughan. District 1892. — 193 p.; Ylovayskyy S.I. *Tutorial of financial law* / Ylovayskyy S.I. — Odessa: Typogr. Sokolowski, 1904. — 383 p.

⁵ For more det. see Polotskyy A. *Tax Policy* / Polotsk A. — K.: State Ukraine publishing house, 1925. — 97 p.

one needs to set a budget balance, causing devastation of financial markets by state. Then eliminating of the deficit would mean to «neutralize» fiscal policy. The latter, as monetary policy in terms of expected inflation will ensure the free functioning of the market system. This effects positively on the activation of monetary activity, because any decrease in the net profitability of business activity causes its collapse. «Convergence of profitability in the real sector with the deposit rate indicates stagnation of production and promotes transfusion financial resources of the manufacturing sector in the bank, where they are used for speculative lending of financial instruments or trading procurement», — V. Burlachkov said¹.

Taking into consideration these arguments, supply-siders offer governments help to increase deposits by means of tax reform, cutting in government social spending, eliminating budget deficits. Great importance is given to production stimulation using accelerated depreciation policy. Such actions, due to representatives of supply economics, contribute to overcoming market deformation processes and accelerate economic growth.

Advocates of the of supply theory, as well as monetarists, require from a state actions to mobilize the potential of the market economy, support of free enterprise system. However, unlike the monetarists, they reject absolute long monetary regulation. Such regulations, M. Feldstine considers, do not guarantee free market mechanism, that is distorted by tax system; it is necessary, but will be effective only in combination with the new tax policy. Summarizing the principal conclusions of the supply theory an American economist T. Roth points out that non-inflationary economic growth engine is appropriate supply theory tax incentives, supported by a slowdown in money supply.

Common to both theories is the requirement of a significant reduction in the size of the state budget (and its share in national income), mainly due to cost savings. In general in the concept of neo-conservatism government expenditures play a passive role, no regulatory burden. Therefore, reducing them, according to neo — classic is the easiest and correct way to take away the state financial resources to enable it to unreasonably interfere with economic processes. If monetarists have the same approach to taxes (for them the main thing is monetary policy), the proponents of the supply theory, however, regarded tax policy as the most important tool of government control, the main path to solve many problems of the modern economy.

¹ Burlachkov V. Financial offers: Theory and organization / V. Burlachkov // Questions of economy. — 2005. — № 3. — P. 50.

A significant reduction in marginal tax rates, in their view, reveals the capabilities of the market system, thus must be the central element of tax reform. This view is diametrically opposed to the Keynesian «exact superstructure», a form of which is the aggregate demand management by manipulating tax rates.

One of the prominent economists, supporters of the theory of supply, was A. Laffer. In his view, the result of tax rate lowering in the long run will be not increasing of the budget deficit but its reverse decline, which will help stabilize the inflation process. This conclusion is well-known in the world of economics as the «Laffer curve» (Fig. 3.2).

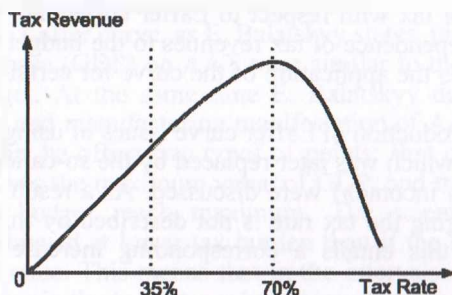


Fig.3.2 Laffer curve

The economic sense of the Laffer curve is that if the tax burden overcomes optimal limit, then the revenues in the budget begin to decrease. According to the scientist, the taxes cannot charge more than 30–35% of the budget revenues — a fiscal optimum (t^*).

In case of increasing of the taxation optimal level it is observed reduction in business activity, decreased interest in saving and investing, bankruptcy of businesses, tax evasion, a significant share of economic agents begin working in the «informal» economic sector¹.

Laffer Curve is the most graphic illustration of the supply theory which was not only a subject of research for the IMF experts (M. Evans, M. Boskin and D. Fullerton), but was a base for his programs. In modern period, almost all textbooks on economics present critical assessment of Laffer curve and the results of Reaganomic policy, which was based on it. However, today studies of mathematical and empirical aspects of the Laffer curve continue. Summarizing them, Y. Balatsky identifies two areas: theoretical and

¹ History of economic studies / ed. V.D. Bazilevich. — P. 1049.

applied¹. The first one covers modeling of fiscal and manufacturing processes, theoretical evidence of parabolic form of graphs and availability of Laffer points, and the second one — practical calculations to determine these points for some countries.

Despite skepticism about the Laffer curve and its theoretical justification by some prominent economists who argue that its use in the United States under Reaganomics did not give the desired reduction in government deficits, and the opposite effect was received — deficits increased², many studies predict the existence of Laffer curve priori. For example, S. Movshovych, L. Sokolovsky examine the degree of «subordination» of a particular type of tax with respect to Laffer curve and show that this curve describes best dependence of tax revenues to the budget on the rate of VAT. How legitimate is the application of the curve for certain types of taxes — a disputable issue.

Since the introduction of Laffer curve issues of using it as the optimal tax rate on income (which was later replaced by the so-called «all amount of tax exemptions from income») were discussed. As a result, recent studies have found that changing the tax rate is not described by this curve and that the growth rate of this entails a corresponding increase in revenues to the budget³.

V. Papava believes that the Laffer curve was originally formulated in the macroeconomic setting. Therefore, it is not used for certain types of taxes, and, as Laffer predicted, for the average aggregate tax (AAT). While in most countries, in his opinion, instead of the latter is often used the term «tax burden», which is defined as the ratio of actual tax revenues in the consolidated budget of the country to the gross domestic product (GDP). The contradiction of this approach is due to the fact that it does not reflect the potential tax revenues, which, for various reasons, and primarily because of the heavy tax burden is not available to the budget⁴.

J. Buchanan and D. Lee emphasize the importance of taking into account the main range of the Laffer curve. Regarding it the long run is considered to be a period of time that is sufficient to accommodate taxpayers to any changes in tax rates. The above authors analyzing the Laffer curve for long-term and short-term periods of varying prominence and at the same

¹ See for more det. Balatskyy E.V. Efficiency of the fiscal policy of the state / E.V. Balatskyy // Problems of prediction. — 2000. — № 5. — P. 3-15.

² Дет. див.: *Krugman P.* Peddling prosperity: economic sense and nonsense in the age of diminished expectations / P. Krugman. — New York : W.W. Norton, 1994. — P. 47-51.

³ Movshovych SM Issue, taxes and opens up laffer / S.M. Movshovych, L.E.Sokolovsky // Economy and mathematic methods. — 1994. — Vol 30 — Vol. 3. — P. 139-140.

⁴ Papava V. Lafferov effect with consequences / V. Papava // Mirovaya economy and international relations. — 2001. — № 7. — P. 35.

intersection reveal contradiction that exists in practice, because in the short term reduction of taxes reduces tax revenues, the government is trying to keep them at a high level; businessmen also require their reduction to stimulate the economy from the supply side, leading to higher revenues in the long run.

Graphic Laffer curve is given in coordinates «tax rate — the amount of tax revenue.» However, the idea underlying this curve, covering not only fiscal, but also the production aspect of the signs of change rates AAT. According to proponents of the supply theory, reduction of AAT in case of high initial value affects the increase in labor supply and investment growth, resulting in GDP growth and expansion of the tax base.

The concept of the Laffer curve, as E. Balatsky states, there is an idea of a dependence of tax base (GDP) on AAT rates similar to the dependent tax revenues to the budget. At the same time E. Balatsky describes aspects Laffer curve as fiscal and manufacturing manifestation of AAT rate change. In accordance with this he offers two types of points: first on Laffer curve, the first, when it reaches the maximum value of GDP, and the second, when tax revenue in the budget reach maximum. The scientist points, the maximum GDP is achieved at lower tax burden than if the budget received the maximum tax revenue. This means that in the intervals of Laffer points increase in tax revenues in the budget can be achieved by the relative decline of production (with a reduction of GDP), i.e. «amendments» to the curve based on consideration of the time factor, including this interval which is required for the exercise of the Laffer effect. Therefore, E. Balatsky considers «synthesis of the results of the Laffer» reflects reality more, when the coordinates show «tax revenue-time.»¹

Less debatable there is an issue of availability of Laffer effect in the countries of post communist economies. A number of applied research confirms this. Some world famous economists (eg G. Becker — on Georgia, J. Sachs — concerning Ukraine) speak in favor of reducing the tax burden for the economic activity and increase of tax revenues to the budget. It is known that in Ukraine in 2004 decline of tax rate on personal income to 13% and changes to the taxation of profits of enterprises promoted cutting AAT rates that actually caused an increase in tax revenue and enabled government to make the new budget more socially-oriented in 2005 compared to the previous period.

This is due to several factors. First, the transition countries have significant reserves in available production capacity. This can significantly

¹ Balatsky E.V. Reproductive cycle and tax burden / E.V. Balatsky // Economics and mathematic methods. — 2000. — Vol 36 — Vol. 1. — P. 8-9.

increase output without much investment, which is a favorable precondition for Laffer effect (using the potential of business who produced uncompetitive products).

Second, in the transition from a command economy to a market one tax relief due to reduced tax rates could cause stimulation of supply, as well demand. The first approach in economic literature was formulated as a theoretical construct «Laffer-Keynesian synthesis», which is the methodological basis of the so-called «tax treatment» to promote post-communist economy.

Thirdly, according to the Keynesian approach reducing of tax rates leads to consumption increase. In the short term it causes an increase in demand for goods and services, and respectively, affects output and employment. As a result of increased consumption deposits are reduced, which causes increased competition between investors and thus increase interest rates. Changes in interest rates upward are a barrier to domestic investment, but an incentive for the inflow of foreign capital. This effect is classified as negative for developed economies, but for countries with transition economies, it has the following positive aspects:

- 1) in case of availability of production facilities to reduce the tax burden can indirectly promote the use of at least part of them to expand production;
- 2) substitution of «macroeconomics» by competitive production is possible only on the basis of foreign investment.

With many original findings of problems in taxation theory monetary policy offers solidarity with the ideas of monetarism. Their unity can be found in relation to the system of state regulation of the economy. The common in both theories is that this system should be durable and focuses not on anti cyclical aggregate demand management, but on stimulating of the supply of goods, capital and inputs. To maintain sustainable growth it is recommended regulation of deposits supply and credit resources through tax reform.

Monetarist monetary policy aimed at stabilizing the growth rate of the money supply is considered the most important method to curb inflation. Tackling unemployment is associated with various activities of the state to restore freedom of action of the market mechanism, which should affect the supply of labor. According to M. Beytor, «the choice of specific components of economic policy among a large number of combinations of budget modes and growth rates of the monetary base, compatible with selected targets economic growth and inflation, should reflect social benefits on income distribution and product division between consumption and investment, both private and public»¹.

¹ Beytor M. F. Fine superstructure. — P. 355.

Not including the factor of demand into the theory confirms attempts of supply-siders to end forever with the anti cyclical regulation of the economy, resulting in a mixed reaction. A prominent theorist of modern Keynesianism J. Tobin noted that the neo-conservatives suffer from dogmatism, loss of sense of reality, neglect the lessons of the crisis. He was supported by J. Galbraith. However, this does not affect the fact that in 80th a number of principles of the supply theory were the basis for the economic policy of the USA, UK and other developed countries. Thus, the economy and politics in 80th give us enough reasons to evaluate the practical significance of this theory.

As practice showed, the supply theory contains many realistic moments. This refers to the new scientific results, clarification or retraction of well known provisions relating to conditions of modern economy.

History of economics of supply ended with the completion of the R. Reagan presidency, but it has become part of the modern history of economic and financial thought and financial policies. In any economic dictionary or encyclopedia everyone can find such notions as «supply-side economics», «Reaganomics», «Laffer curve». The theory of supply itself, and this is its great heritage, more accurately than other currents of world economic thought, diagnosed the most complex and intricate diseases of developed economies in the 70th. This required substantial research into the problems of unemployment, inflation, economic growth, monetary, public finance etc. The neoconservatives have shown the need for restructuring of state regulation of the economy that has developed in these countries in the last period. They realized that highway of this restructuring passes through a mobilization of market creative potential, maximum use of its capabilities. Especially valuable and specific findings related to inflation expectations, tax incentives for productive accumulation, division of monetary and fiscal policy functions and so on.

«New Classics» or «new classical macroeconomics» has developed and gained recognition as one of the options of modern economic conservatism in the late 70's — early 80's of 20th century. In the economic literature this approach is also called the theory macro rational expectations (F. Modigliani), new classical macroeconomics (J. Tobin), a branch of monetarism with rational expectations (B. Makhalum), Lucas-Sargent-Wallace school (K. Hoover) etc. All names are associated with the various features of this school — from its members (R. Lucas, T. Sargent and N. Wallace — the most prominent representatives of this approach) to the hypothesis of rational expectations of economic agents. It is based on macroeconomic framework built according to the neoclassical macroeconomic model¹. As

¹ Дет. див.: Smithin J. Controversies in monetary economics: ideas, issues and policy. — P. 40-42

for practice, the «new classic» took the position close to monetarism, and brought to its logical conclusion the idea of limited monetary policy towards the economy directly manifested in the monetarist period in Ukraine.

The importance for modern economic theory of ideas «new classical macroeconomics» demonstrates the award of the Nobel Prize to one of its founders Professor of the University of Chicago R. Lucas in 1995. «In the 70's and 80's the Model of Lucas — Mr. Hauitt writes — was a theoretical paradigm for representatives of the new classical economic theory, whose research program tried to take a whole macroeconomics with microeconomic principles.»¹

In discussing the impact on the economy of certain measures of monetary policy for a long time economists speculated that economic agents react to these events as if there is no «social» memory and ability to learn. However, it is natural to expect that people are aware of the links between that or those state of the economy and the subsequent actions of the government and can provide actions as well as their consequences, and thus adapt to them, and often do, even ahead of such actions. J. Arrow on the subject noted that «as the world characterized by uncertainty, expectations are likely to take the form of distributions and expectations of each of the agents depend on available information»². There is hardly any reason to deny that nowadays politicians and citizens of Ukraine know that another growth in prices is due to two or three months after the significant budgetary payments that the possibility of government to meet its obligations depends on the collection of taxes and so on.

The problems faced by economists both in theory and practice in the 70's due to the so-called stagflation, forced them to accept this fact. It was then that the question of economic policy from the sphere of individual measures and their effectiveness shifted in the sphere of rules that is served by politics. The first who started to recognize the problem were the representatives of «new classics». Their findings correspond to the neoclassical tradition in its most consistent and strict form.

Modern political and economic foreign dictionary summarizes conclusions: «when the economy reaches the natural rate of unemployment, efforts to reduce unemployment are neutralized by economic agents, who predict activities undertaken. Any attempts to stabilize output and employment by methods of fiscal or monetary policy at a level higher or lower than that normally are inefficient and cannot lead to changes in real variables neither in the long nor the short term. In other words, there is no

¹ Hauitt P. Macroeconomics attitude to microeconomics. — P. 490.

² Errou K.J. Economic theory and hypothesis of rationality. — P. 256.

choice between inflation and unemployment even in the short term (as a short-term crisis of supply and the Phillips curve is vertical). Although this approach is associated with monetarism, «new classic» departs from the mainstream of monetarism, especially Fridmen's, which allowed for short period deviations of output and unemployment from the natural norm under the influence of demand management policies. The new classical macroeconomics is intended to show the futility of Keynesian demand management policies and provides to move the focus to supply analysis.

If we analyze the theoretical foundations that helped to make such a conclusion, it is appropriate to note that theoretically «new classics» is a modified version of the model L. Walras, as indicated by modern scientists¹. First of all modification relates to ideas of balance and behavior of economic agents in the conditions of uncertainty. The new model provides the following: a rationality of economic agents is that they try to ensure their optimum objective functions, having in mind not only the current state of the market, but also on its possible position in the future; economic agents do not know what the situation will develop in the market as a result of their actions, and therefore they have to rely on their own forecasts; degree of probability of prediction depends on the availability of objective information for the subjects; rationality of expectations is that they are obtained under the optimal (in terms of maximization criterion) use of information; balance is treated not as a result, but as a process of aligning supply and demand.

The above prerequisites have enabled representatives of the theory of rational expectations to summarize the general approach of L. Walras — to provide equilibrium model of the dynamic nature and based on new ideas about the behavior of subjects to create micro theory that explains the most important macroeconomic phenomena — the cycle and inflation. However, unlike the theory of adaptive expectations of monetarists, whereby the formation of expectations of economic agents is due to extrapolate trends in the development process in the past, representatives of the theory of rational expectations use the analysis of future opportunities. That is in contrast to adaptive expectations rational expectations focused more on the future than the past. According to R. Lucas economic agents are not inclined to wait passively for changes in economic policy, having available information they provide probable effects of monetary and fiscal policy, take rational solutions that balance the actions of state structures².

¹ Hauy P. Macroeconomics: attitude to microeconomics. — P. 490.

² See for more det.: Dovbenko B. Modern economic theory: economic nobeology: teach. guidances. / Dovbenko. M.V. — Kyiv: Academy, 2005. — P. 141.

Rational expectations of economic agents are based on complete information, analysis, estimating of future events, projections, i.e. predicting economic events. Since the probability of distribution of future events depends on the «market completeness» of information and a person's ability to gather information and perform calculations, so G. Simon believes that «rationality is limited»¹.

R. Lucas himself in the theory does not come from the fact that people always predict accurately but the fact that they do not always do false predictions that can be used by politicians. In maximizing rationality of prediction of new public policy results for key decision makers institutions (large firms, major financial institutions and trade unions) hired economists and other specialists help².

This reduces the chance of permanent deceit of main decision making economic institutions.

Representatives of the theory of rational expectations are too close to the monetarists' views on the role of government in the economy. Its minimum role in the economy stems from the Lucas' supply function, the essence of which is the following: as participants of the economic process are informed about government measures so the expected prices coincide with the actual level and, therefore, economic policy has no effect on the actual production. Changes in production, in their opinion, there are only influenced by unexpected actions of governments or their mistakes in economic policy.

This explains their negative attitude to the unexpected governmental activities, even effective because they generate more uncertainty. Only through the reduction of taxes the government can influence the level of prices and supply. In such circumstances, there may be a rational equilibrium expectations where everyone knows and uses conditional expectation of prices which are beyond supervision or observation that optimal statistical forecasts due to available information. This can be called a balance only with certain prerequisite for obvious problems associated with knowledge. Therefore, in economic theory, since Morgenstern in 1930s to R. Friedman nowadays, there was a line of thought whose adherents believed that «you cannot hope to understand the most important events in the economy and, probably, its everyday operation, not following the hypotheses of imbalance»³.

As for monetary policy, then, according to the «new classics» monetary «pumping» o demand does not lead to increased production but to inflationary price explosion. R. Lucas, for example, comes from the fact that

¹ Errou K.J. Economic theory and hypothesis rationality. — P. 260.

² Smithin J. Controversies in monetary economics: ideas, issues and policy. — P. 41.

³ Phelps E. S. Equilibrium: concept from the point of view expectation. — P. 283.

the market economy has the ability to restore balance. Prices are quite flexible and mobile, their oscillations occur at the firm level. At the macro level prices align. Any government intervention disrupts the market self-regulation. To ensure adequate response of relevant institutions and economic agents to changes in economic policy it is required that they should be notified in advance of such changes and trust estimates and forecasts of government agencies. That is, as G.Kolodko says, less «grey zone» in politics.

On the one hand, its scope «depend on the maturity of the institutions of a democratic state and civil society, and the other hand, from the market economy.»¹

Thus, the contribution of the «new classics» is defined in rethinking of macroeconomic policy. Practical implementation of it in some developed countries in the 80s of the twentieth century provided good results. Practice confirmed that in assessing and calculating the results of the new economic policy (for example, tax reforms, changes in foreign trade regime, the new monetary policy, a new system of exchange rates etc.) the effect of changing of rational expectations should be taken into account. On the basis of their theories there are several econometric models of the market economy, the rules that allow evaluate economic policy objectively.

«New Classics» offer to shape economic policy so that it provides stability of decisions and laws and changes in monetary and fiscal rules are not associated with temporary needs of the state budget, and new rules come into force in sufficient period of time that agents can adapt and predict their actions. A direct consequence of this would be complete depoliticization of important short-term process of fiscal and monetary regulation.

Such economists as S. Fisher from Massachusetts Institute of Technology, E. Phelps from University of Columbia and J. Taylor from Stanford University disagree with the full flexibility of wages and prices, where there is a new classical macroeconomics. However, they realize the importance of expectations to determine the aggregate supply and are willing to accept the theory of rational expectation as realistic description of their formation. In their works, they developed «neoclassical model of rational expectations,» which suggests that expectations are rational, but does not allow new flexibility in prices and wages. This model suggests that prices and wages are inflexible. The main conclusion of this model is following: unpredictable policy influences more on aggregate output than predicted (as in the new classical model). However, unlike the new classical model, in this

¹ G. Kolodko Institutes, politics and the Economic growth. — P. 45.

model policy ineffectiveness of politics is not supported because predicted politics really influence on aggregate output and the business cycle¹.

Depending on the content and direction of the main economic doctrine, economic and political situation, the role of a direction of economic thought can be intensified or weakened. In terms of robust upturn when there is motivation to mitigate the state care, the position of neo-liberalism is strengthened, Keynesian and neoclassic are intensified in difficult circumstances of financial and economic recession and crisis.

The neoliberal doctrine became popular in Germany as a concept of social market economy. Financial foundation of the system is public finances. They are the dominant institutional component of the economic infrastructure of social market economy.

The state through the budget, taxes, public expenditure and public credit must ensure the welfare of the whole society and each of its citizen and therefore consistency and balance of interests in society. Therefore, the role of state fiscal policy is significantly increased, which should be aimed at solving specific tactical problems of functioning of social market economy and achieve its strategic goals. It must be directly related to the implementation and coordinative and directive state's role in social and economic development. It should be emphasized the idea of increasing the state's role efficiently. It is not a «heavy hand» administrative state care, strict government regulation of financial relations, excessive restrictions on the rights of employers and individuals but a reasonable fiscal policy through the use of effective financial tools and levers that do not undermine motivation and incentives for productive activities. In the system of state regulation of the social market economy they occupy a dominant position. Fiscal policy should be reasonable and effective, providing balance of the interests of all citizens, businesses and the state, taking into account national interests and priorities. Its key role is in providing financial permanent sustainable growth of domestic product and economic growth.

The ideas and principles of the social market economy were formed before the Second World War by members of Freiburg school of economic thought — ordo- liberals (from the journal «ORDO» published by them) V. Oken (1891–1950), F. Boehm (1895–1977) and others. Their theoretical findings were further developed in the works of neoliberals of humanistic tradition — V. Repke (1899–1966) and A. Ryustova (1885–1963), the social liberals — A. Muller-Armak (1907–1978) etc., whose ideas were closely

¹ see for more det.: Mishkin F.S. Economy of money, banking and financial markets / Mishkin F. C.; [transl. from English. by Panchyshyn S., G. Stebliya A. Stasyshyn] Science. Ed. transl. C. Panchyshyn. — K: Fundamentals, 1998. — P. 44-45.

related to the social Catholic studies and successfully implemented in practice in Germany by economy Minister and later Chancellor Erhard L. (1897–1977). His fundamental works — «Prosperity for All» and «German economic policy. Pathways to social market economy» were published in many languages and in many countries, have become pragmatic encyclopedia of social market economy without exaggeration. In addition the term «social market economy» was firstly proposed by professor A. Muller-Armak in 1946th.

Theoretical foundations of the concept of social market economy is the provision of rules and institutions influence on the behavior of businesses and the natural combination of economic competition and freedom of the market with social guarantees and compensations. In fact this is about the protection of competition and economic freedom in economics, the combination of free initiative with a guaranteed growth through social progress on this basis. So the idea of financial policy and economic and social order is appeared as active and reasonable financial and economic policies aimed at achieving social objectives of a free society.

Financial and economic policy and social order should create and strengthen long-term framework of economic actors. In this regard role for the state, its financial mechanism is important. A special responsibility for creating and maintaining this order is relied on state. If Adam Smith called the state as a «Night watchman», Erhard L. considered its dominant and major task the creation of «a framework of economic and social order», within which there should be no interference on the part of the state and society. From this starting position is in following: the role and effectiveness of government actions should be measured and valued not at the scale of activity and intervention but final financial and economic and social benefits. Priorities of socio-economic and financial order is the protection of property rights, maintenance of effective competition and currency stability, deregulation, reduction of budget subsidies, antitrust actions and control of merger, freedom of foreign trade, supervision on preventing abuse and so on. In practice, it is the policy of macro-financial stability and economic growth, its important components are fiscal, currency and monetary policy.

The policy of economic, financial and social order takes into account ethical principles and requirements, opportunities for social partnership, based on social and human values. In the model of social market economy market economy appears as an independent social value, as the dominant and the foundation of social order, which is based on freedom, the right of choice and creative initiative. The social policy is considered and conducted as an natural and integral part of the financial and economic policy, policy of economic and social order. Social segment is an integral part of the market

economy, and there are strong forward and backward links between them. It follows that effective financial and economic policy creates the potential for a successful social policy and sustainable economic growth — for meeting both social and individual needs. An important part of the social policy is the incomes policy, especially in the area of wages.

One of the basic assumptions of the social market economy is the state social assistance to be provided only to those who need it. The greater («for all occasions») is system of state social «charity», the lower is its efficiency. Thus, the social problems must be resolved not by state (especially the budget) but by increasing the efficiency of the economy based on competitive market. The task of the state is to create the right conditions for this, proper economic, financial and social order. An effective system of social protection from general life risks, sickness, unemployment and disability, which belongs to the sphere of social solidarity have to operate. Thus, the social market economy is a special form of democratic social order, quite effective management, and equitable distribution of its results. This is a way of life, where there are equal opportunities for all, priority rights and human freedom are respected, and individual liberty becomes the largest value.

The main prerequisite for socially oriented economy is the high level of GDP per capita, providing sufficient individual incomes and the state's full financial social guarantees. Speaking about a socially oriented economy under low level of GDP per capita has no financial base. Therefore it is necessary to understand that the socially oriented economy is not only a developed system of social security and expenditures, but firstly a high standard of living of people that is provided primarily by high personal income. The system of social protection is an important addition to them, but it is a supplement, not a basis for life support of citizens. The state provides social assistance to those in need.

Here, it is crucial that the construction of a social market economy is not just a set of economic and financial measures, the formation of new financial institutions and changing operational principles of some areas and parts of the financial system. First of all it is the path of social development that is based on the fundamental principles of civil society — democracy, respect for human as the highest value, freedoms, a philosophy of social life, a way of thinking and a new outlook.

3.6. Financial and institutional architectonics

In the late 19th century in the US, along with the existing neoclassical school of financial thought a new direction, institutionalism, was founded by Thorsten Veblen (1857–1929). He introduced the concept of an institution as a special form of social life and human relations, and revealed its evolutionary nature¹.

Some ideas of institutional theory are reflected in the works of Ukrainian economists, financiers of the late 19th — early 20th century. Despite a number of adverse conditions related primarily to the lack of a sovereign state and increasing censorship, the Ukrainian financial thought of the given period was developing in terms of the scientific society openness to the global financial thought. The works of some Ukrainian financial economists (M. Tugan-Baranovsky, V. Zheleznov, D. Pikhno and others) have been translated into foreign, especially main Western European languages. However, in general, our compatriots' creative achievements of that period (and not only that) remained virtually unknown in the West.

The famous Ukrainian economic and financial thought researcher E. Lortikyan counts P. Mihulin, I. Yanzhul, M. Tugan-Baranovsky, V. Zheleznov, N. Sobolev and many other Ukrainian scientists and financiers among the institutionalists.

The reason for this, according to E. Lortikyan, can be the scientists' determination, despite their belonging to different economic schools, 'to explain economic and financial processes from the standpoint of social and historical implications, to find scientific methods of conscious regulation of these processes and to investigate the economic system evolution issue'².

In fact, you may come across these basic principles of institutional methodology used in Ukrainian scientists' works. In particular, O. Myklashevsky, M. Sobolev, M. Aleksyeyenko and others emphasize on the historical nature of financial phenomena, processes and their variability³.

It is clear that many of the ideas revealed in the works of Ukrainian economists and financiers during late 19th — early 20th centuries,

¹ Th. Veblen *Theory of the Leisure Class* / Th. Veblen; [translation, introduction by S. T. Sorokina]. M.: Progress, 1984. — P. 45.

² Lortikyan E. L. *Ukrainian economists of the first third of the 20th century: the sketches on economic thought history and economic education* / E. L. Lortikyan — Kh., 1995 — P. 59.

³ Myklashevsky A. N. *History of political economy: philosophical, historical and theoretical beginnings of 19th century economy* / A. N. Myklashevsky — Yuriev : Typography K. Mattisen, 1909. — P. 215; M. N. Sobolev *The agricultural issue* / M. N. Sobolev — Kh.: «Uitro», 1917. — P. 211; Alekseenko M. M. *About the development of Tax study by the economists, followers of A. Smith, J.-B. Say, D. Ricardo, J. Sismendi and J. S. Mill.*

corresponded to the requirements of institutionalism. However, the opinion of P. Leonenko, a modern Ukrainian economic and financial researcher, that 'it didn't turn these supporters of such approach into Ukrainian institutionalists'¹. Therefore, it seems more reasonable to talk about Ukrainian economists, financiers of the last third of 19th — early 20th centuries as the historical school followers and unconscious institutionalism supporters. After all, the key contours of the concept 'institution' were only being outlined. Still, there are different approaches to the definition of this economic category. The scientific literature offers different interpretations². In our opinion, the main reason for this is the heterogeneity of the current general institutional direction of scientific thought and, most importantly, as emphasized by modern scholars — 'the absence of methodological subordination between its different branches, which causes confusion'³.

Meanwhile, the economic thought representatives of Ukraine for the first time actively began making sense of complex issues of their science's methodology (V. Levytsky, O. Myklashevsky, H. Symonenko, M. Tugan-Baranovsky, I. Vernadsky, K. Vobly and others).

They point out the institutional fundamentals in Ukrainian financial thought:

– declaration of various economic trends equality and equivalence within the structure of financial science, the need of using its achievements for further development⁴;

– wide approach to the science object study, the national economy study in close connection with the 'country's political and public institutions, with its civil and administrative law', investigation of 'the impact on the economic way of life of the religion, the people's dominant moral outlook and its household features, the direction of the ideas prevailing in this era, the general progress of human knowledge and technical, particularly industrial, in connection with the whole course of historical development'⁵;

¹ Leonenko P. M. Methodological aspects of the History of Ukrainian Economic Thought (19th—20th centuries). — P. 148.

² Chukhno A. A. Institutional and information Economics: Textbook / A. A. Chukhno, P. I. Yukhymenko, P. M. Leonenko — K.: Znannia, 2010. — P. 24-37.

³ Artemova T. I. Institutionalism methodology in the context of the Theory of Value / T. I. Artemova // Economics and forecasting. — 2003. — № 3. — P. 109-110.

⁴ Levitsky V. F. Objectives and Methods of the Science of Economy / Levitsky L. F. — Yaroslavl, 1890. — P. 3-4.

⁵ Symonenko H. F. New trends in Political Economy. Review and critical assessment of the studies of the main representatives of the modern Economics especially Economics of new-historic school / H. F. Symonenko — Warsaw, 1900. — P. 9.

– disclosure of general economic laws, research of the conditions for people's welfare, taking into account the effect of different non-economic factors, 'all moral and political life of the country'¹;

– launching such an important component of the institutional methodology as an interdisciplinary approach to the study of social and economic phenomena and processes, institutions that 'could lead scientific research in this area to the most fruitful results'²;

– the research of real economic environment of the Ukrainian reality, which clearly revealed the hidden 'faulty sides, important for understanding the laws of social development'. Later they became, as I. Vernadsky, one of the founders of Kyiv School put it, 'essential, vital issues of society'³.

So, one can state undeniable fact of independent formation of institutionalism as a special direction of Ukrainian financial thought in the second half of 19th — early 20th century. It was developing under favourable for institutionalism socio-economic conditions of the country's advance. Some theoretical conclusions by Ukrainian scientists almost reached the modern understanding of the theory interpretation. In this connection it is worth quoting one of the Kiev School founders, an enemy of socialism M. Bunge.

The measures introduced by him were aimed at strengthening a number of important social institutions and had quite modern features. 'To successfully fight socialism,' — according to the Ukrainian scientist, 'it is essential to establish morality, laws and institutions that strengthen moral and material welfare of each and every one, both the classes, possessing estate property and the workers. It is important to start awakening and development the family spirit, private property spreading altogether with other organizations that provide unity and coordination of interests within certain categories of population as well as among these categories (agricultural, industrial and other companies' institutions) for the successful conduct of each business, achieving common goals by combined forces (so far only life and property insurance have been made).

It is necessary to create courts for disputes even if nobody's formal law was violated. It is essential to prevent the estate property concentrating in the hands of a few holders and to make the capital accumulation and credit use

¹ Symonenko H. F. *New trends in Political Economy. Review and critical assessment of the studies of the main representatives of the modern Economics especially Economics of new-historic school* / H. F. Symonenko. — Warsaw, 1900. — P. 14.

² Symonenko H. F. *State, Society and Law from the standpoint of the Economy Laws* Государство, общество и право с точки зрения законов народного хозяйства / H. F. Symonenko. — M.: P. E. Cheglakov, 1870. — P. XIV.

³ Vernadsky I. V. *Essay on the History of Political Economy* / Vernadskyy I. V. — St.P., 1858. — P. 208.

for production purposes, not for consumption easier for everyone.' The scientist also analyses the various elements for the country's finances development in a way the modern institutionalism does¹.

Modern researchers are developing schemes or behaviour models that may turn out the most effective under specific circumstances. It is being done so that to avoid the plurality of external factors coordination in the financial science that affects the success and the very possibility of a decision adoption within the economic and social orders. These schemes and algorithms, or behaviour matrixes of individuals, are the institutions.

However, comparing to the past, the word 'institution' in modern theory of finance and economics literature in general and social publication trends (from journalism to scientific publications) has been so popular that it complicates the attempt of suggesting a constructive definition of what should be considered an 'Institution'. Let us try exploring this concept in the institutional architectonics context, which is a structure of institutions that formed as a result of relationships with the people's way of thinking and actions, rules, norms, stereotypes, traditions, institutions and other social structures as they relate to the nature and overall aesthetic construction plan of the social system².

In the modern scientific literature on scientific economic thought, the classic definition of the institute has been suggested, offered by a well-known institutionalism theorist Walter Hamilton: 'Institution is a linguistic symbol for a better description of social mores. They (the institutions — Ed.) refer to a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people. The institutions set human activity limits and forms. The world of customs and habits, to which we adapt our lives is a continuous fabric weave of institutions'³. This definition is also incomplete, but compared to the others it allows to define the main institutional features more clearly.

Institution is a 'linguistic symbol'. Many authors rightly point out this term's diversity. The institution may refer to the state, family, customs and the organization. It also seems correct in most cases when the task is to deduct micro-phenomena and processes on a macro-level. 'The instinct-habit-custom-law' is just one of the chains bringing particular to the general.

¹ Bunge N. Kh. The afterlife notes / N. Kh. Bunge // *River of Time: a book on the History of Culture* / edited by S. Blinov. — Book I. — M.: River of Time Press; Allis Luck, 1995. — P. 232-248.

² Hrytsenko A. A. Peculiarities of institutional architectonics of the Ukrainian society in the 21st century / A. A. Hrytsenko // *Economy of Ukraine: Politics and strategy of long-term development* / edited by Acad. of NAS of Ukraine V. M. Heits — K.: Institute of economic forecast, 2003. — P. 155-172.

³ Yukhymenko P. I. History of economic studies: Textbook / Yukhymenko P. I., Leonenko P. M. — K.: Znannia, 2005. — P. 352.

According to G. Hodgson, 'to see the role of individuals in relation to institutions one should focus on the micro-level. Considering the same institution as a socially constructed invariant or emergent property constitutes the fundamentals for study of macroeconomic dynamics and behaviour'¹.

Furthermore, the institution is a 'group of social mores...'. In institutionalism the terms 'institute' and 'institution' are often different. However, the institute refers to the habits and customs, and wound up in the community mental order, i.e. unwritten rules, formed from 'below', from the micro-level, and the institute means the consolidation of customs and habits at the macro-level in the law and organization form.

Fundamental importance in the proposed by Walter Hamilton definition of the institute holds the establishment of the 'limits of the possible' in the economic agents' activity. 'Belonging' to a particular institution and limited areas of human activity is considered to be the basis of stratification and obtaining specific forms of income. This part in the financial institution definition is the most important, as the emphasis shifts from the factorial (neoclassical) justification to receiving specified income (rents, profits, wages, entrepreneurial income) towards their institutional study.

Finally, the definition in question draws attention to the fact that the world of customs and habits is a continuous fabric weave of institutions. Here, the institution is treated as the organic unity of its forms, that is objectively given for the individual conditions of its existence — not only near, but beyond it as well.

Considering the impact of human factor on socio-economic development, the Ukrainian researcher and financier O. Myklashevsky points out the importance of such components as education, tradition (in modern language — informal institutions), various establishments. 'With the culture and human individualism development that are fixed by upbringing and traditions transference comes the developing public understanding of the purpose, while different kinds of establishments evolve, and the very course of the historical process becomes more reasonable'².

It follows that despite the complexity of the term 'institution', perhaps we could focus on the four attributes of an institution, which form a vicious circle in its definition.

¹ Hodgson J. Habits, rules and economic behavior / J. Hodgson // *Issues of Economics*. — 2000. — № 1. — P. 44.

² Myklashevsky O. Realism and idealism in Political Economy / A. N. Myklashevsky // *Ukrainian economic thought: Anthology* / compiled by S. M. Zlupko. — K.: Znannia, 2007. — P. 374-375.

Firstly, using the concept of 'institution' indirectly upholds the logical procedure of deducing micro-phenomena on the macro-level. The institution is always seen as a result of socialization, social recognition, regardless of whether private is seen as private, or private is seen as public, and vice versa.

Secondly, the term 'institution' is associated with organizational or legal registration provided by the phenomena legitimacy.

Thirdly, in economic terms, most importantly, any institution is an area, more specifically the limits of existence and the grounds for receiving specified, 'established' forms of income.

Fourthly, in any institute the social trait is dominant, but it is not devoid of natural or psychobiological basis. Any institution with all the social level fullness is in the same way associated with the natural origins, as are its medium. Undoubtedly, the specified feature in the institutional analysis is not straightforward. For example, Th. Veblen, having selected the institutions (instead of instincts) as a tool for his research, essentially distanced himself from the prior influential biological reductionism, while stressing the possibility of adapting institutions to the environmental changes.

Recognizing the 'institution' as a 'stereotype of thought', it is logical to consider it a cultural phenomenon. According to Th. Veblen's interpretation, unlike the rules that are imposed from outside, institutions are the results of the rules pioneering these rules by individuals. The introduction of such institutions in economic theory was determined, in his opinion, by the necessity to overcome economists' hedonistic prejudices. They perceived human nature as something given and immutable, for economic analysis, as an intermediate factor, ultimately taken out of the equation. For Th. Veblen, by contrast, 'economic share of the individual is a cumulative process of adaptation from means to goals that mostly cumulatively change in the development process. Both the individual and the environment of its existence in each moment are the product of this process'¹.

At the level of applied economic analysis, this difference is largely erased. Whatever the nature of institutions, in real modern life they acquire the form of legal norms, traditions, informal rules, cultural stereotypes. However, the 'old generation' of institutionalism followers base their ideas on cultural norms and traditions, emphasizing that the institutions do not only limit, but direct, facilitate and encourage human activities. Although institutions can be outdated, according to Th. Veblen, acquiring 'archaic' and 'ceremonial' nature, as a whole they provide the socio-cultural fabric, without which human activity is impossible. Institutions establish relations

¹ Veblen Th. *Theory of the Leisure Class*. — P. 112.

between people, erase differences in individual behaviour, and most importantly make the individual's behaviour understandable and predictable to others. Unlike Th. Veblen and his followers, the 'new' institutionalism supporters regard them as primarily legal institutions and informal norms that create a framework for limiting human activity¹.

Noting that institutional features create a 'circle', we mean that the fourth and partially first features (instincts, habits) indicate psychobiological roots in the institutionalism methodology; in fact, the first feature (from habits to mentality) — sociological, the second feature (law) — the legal, the third ('established' income) — on economic principles.

Many researchers consider rules as the institutions. It is necessary to remark that it is a set of universally recognized and protected requirements prohibiting or allowing certain actions of one individual (or a group of people) during their interaction with other people or groups.

The rules constituting the institution are reasonable only when they are applied to more than one person. From this perspective, any institution is a set of specific rules, while the rules are not always an institution. That is why separating one category from another is considered appropriate.

Rules can be in the subordination relations, as one type of rules is easier to change than the other. These rules directly determining alternatives for other rules formulation, and undergoing change with greater costs, are global. They constitute the institutional environment. In turn, global rules consist of constitutional, or political, and economic ones.

There are local regulations, including bilateral and multilateral contracts concluded between individual economic agents. Firstly, to the constitutional rules we refer those forming the hierarchical state structure. These rules also determine the procedure for making decisions that significantly affect the voting outcome. These regulations establish how the control over the list of issues to be discussed and addressed should be conducted.

Economic regulations define the possibilities of economic activity forms in which individuals or groups cooperate with each other, or engage in specific relationships. This regulations group includes the prohibition on two companies belonging to the same industry merging, if the result is an excess concentration index over the predefined critical mark.

These regulations may also include limiting prices on products and resources, which determine the sharing on a particular market; implementation of restrictions on imports (through quotas, increased fees, increased requirements upon environmental protection, etc.); patent validity terms.

¹ Oleinik A. Institutional Economics : Textbook / Oleinik A. — M. : INFRA-M, 2002. — P.34

Economic market game terms are established by law and organizations that ensure compliance with all the rules (meaning both public and non-governmental organizations, public and government enterprises, internal and external agencies, operating in an open market economy, financial intermediaries and brokers, and households as well) economic actors, implementing incentives, rewards and punishments.

Contracts should be regarded as rules that structure in time and space a relationship between two (or more) economic agents based on specification rights and duties that are exchanged according to the agreement reached between them.

In fact, all rules can be interpreted as contracts. However, in this case several levels at which they occur should be distinguished.

Thus, institutions are heterogeneous. They can be divided into two groups — informal and formal. Informal ones arise from the information that is transmitted through social mechanisms. Most of them are the part of the inheritance, which is called a culture. Informal rules have been crucial in the period of human history when human relations are not governed by formal (written) laws. Informal institutes (limitations) also constitute all modern economics and finance.

Emerging as a means of coordination forms of human interaction that are consistently repeating, informal constraints are:

- 1) continuation, modification and development of modern rules;
- 2) socially sanctioned norms of behaviour;
- 3) internal binding standards of conduct.

In fact, economic ethics performs the role of informal institutes. A large number of scientific papers' investigation is devoted to it. Economic ethics enhances public and, therefore, economic and financial market coordination. If existing social ethics allow economic agents to rely in their actions more on trust than on the exercise of certain formal law sanctions, then in the society the deals will acquire more regular and complex features.

Formal restrictions, rules and institutions arise mainly on the basis of existing rules and informal mechanisms to ensure their implementation. The structure of formal institutions distinguishes:

- 1) political institutions;
- 2) economic institutions;
- 3) contracting system (methods and procedures to contracts governed by legal rules and laws).

Formal economic institutions in the scientific literature are often viewed in the same context as property rights, since they establish property rights, i.e. the right to use and receiving income from property and exclusion of others from the property or resources use.

It must be mentioned that D. Pikhno was the first among Ukrainian financial economists to disclose the specific institutional factors and their impact on the economy.

Considering the impact of intangible factors of 'historic basis of the economy', D. Pikhno pointed out that 'the most important of these forces, constantly affecting the economic activities of individuals and all the people are the following: morality and customs, education, energy, spirit of entrepreneurship, legislation, political and social way of life'¹. The Ukrainian scientist in detail examined the importance and the effectiveness of the aforementioned factors' impact. In his opinion, 'behaviour and habits affect the propensity for hard work and laziness', 'the degree of law perfection facilitates or hinders economic relations' etc.

The supporters of neo-institutionalism theory expanded understanding of institutions, distinguishing two types — internal and external. External ones instil in the economic system the ground rules that ultimately determine its character. Internal ones make agreements between entrepreneurs possible, reduce uncertainty and risk, as well as transaction costs.

H. Kolodko also points out market institutions 'that organize, control and shape economic processes to ensure their sufficiently smooth execution with due regard for all the participants' interests in the social production processes².

In addition, market institutions include both a contract between entrepreneurs and arbitration or judicial procedures, the price of goods and services, which is agreed upon by the buyer and the seller, the right to appeal against the low-quality product supply, alongside with consumer associations that strengthen the market position in lawsuits with manufacturers and vendors. In our opinion, the most generalized institution classification is presented by H. Kolodko. Overall institutions, in his opinion, constitute:

— 'procedures and rules of conduct, authorized by law or custom (formal and informal institutions. — Ed.);

— legislative and regulatory norms protecting the market operators' interests (economic institutions. — Ed.);

— organization and administrative/political structures that meet the needs of different market operators — from government and central banks to commissions from the stock market and antimonopoly bodies (designed to force economic subjects to comply with specific standards for the benefit of the whole socio-economic system) and to commercial banks and commodity exchanges (structural institutions, among which the state is central. — Ed.);

¹ Pikhno D.I. Foundations of Political Economy/ D.I. Pikhno — K.: Association of printing and trade I. N. Kushnerov and C° (Kiev division, 1890). — vol. 1. — P. 68.

² Kolodko H. Institutes. Politics and economic growth. — P. 40.

— institutions in the broadest sense, including the market culture and national identity (market institutions. — Ed.)

From this perspective, H. Kolodko concludes that market institutions 'are not only created or established, they also have to acquire'¹ specific skills and habits.

Thus, generally acknowledged institutional components of the socio-economic system (historical traditions, the system of values, and level of justice) are proportionally correlated with norms, customs and habits that suggest optimal solutions to economic agents. Institute is a social phenomenon and its core is the law that provides clarity and predictability, structuring, certainty of daily life. Acquired value systems, stable social norm, standards of conduct and worldview schemes constitute the essence of an economic institution; rational guidance and coercive apparatus are its signs.

Official rules and regulations form the legal and control infrastructure, forming a hierarchy that structures the institutional environment. Official rules are an important, but small subset of constraints that shape the choice situations. To a greater extent the conduct is determined by the unwritten codes of behaviour, norms and conventions. Daily activities practice consists of formal institutions and informal rules of business conduct.

Among the formal institution features one can name: the restriction; maintenance; creation stimulation; public justification, informal practices camouflage.

Informal institutions (generally accepted stereotypes and norms of behaviour rooted in individual and social consciousness) constitute the 'core' system of institutions that is slow and difficult to change². In modern economic literature they are called institutes. The most powerful and socially acceptable institutes are fixed in traditions, informal norms, and later in the written law — legalization.

The institutes are characterized by their relative stability and lasting impact on the processes of production, duplication and distribution of forms and human interaction methods. Due to these factors inherited transfer of characteristics is provided in the society and economy (in time — vertical, in space, through adaptation — horizontal). However, institutes are also characterized by variability, which provides social and economic adaptation systems to changing conditions of existence. The ratio between stability and variability of institutes is established by the interaction of negative and positive relationship cycles.

¹ Kolodko H. Institutes, Politics and economic growth. — P. 41.

² Chausovskyi A. M. Formal and informal in Economics: [monograph] / Chausovskyi A. M. — Donetsk : Donetsk National University, 2001. — P. 42.

The most important features of the institutes are the following:

- harmonization and coordination of economic agents, and minimizing losses in case of their interests collision in the course of interaction;
- reduction of time, effort and resources associated with obtaining and processing information, rationale and decision-making, contracting and monitoring the implementation;
- ensuring the stability of social and economic systems, and saving their essential features through hereditary transfer.

As for the types of economic market institutions, an auction is considered the best example of their formation. To reach an agreement on price the auction provides specific methods, habits or routine practices. Among the examples one can mention 'English' and 'Dutch' auctions (tab. 3.3). Such routine determines the structure of bargaining and probably affects the outcome. The auctioned organization also requires transparency, clerical work, transportation and warehousing. So auctioning is not just a place where individual preferences face off, but a social and financial institution in the fullest sense of the term. These real auctions are very different from the imaginary price auction theory of L. Walras.

Specificity and difference of the mentioned above auction markets are presented in table 3.3.

Table 3.3

Common and divergent features of some auction markets¹

Auction definition	A public sale for movable (shares, bonds and other securities) and real estate (land, buildings, equipment, housing, etc.), and commodities with individual properties, taking place in the pre-set time in a certain place under an auctioneer supervision. The auction goods (or samples) are previously exhibited for inspection and are deemed sold to the buyer, who offers the highest price. General sale conditions are determined by the seller.
English Auction	The auction, where the minimum prices are established as starting, basic for further trading, during which the price increases gradually. The final price is a bargain during the auction as the last maximum price offered by a buyer.
Dutch Auction	The auction, where the highest price for the goods is initially declared, then is gradually reduced to the rate of the price at which the first buyer agrees, to whom the offered goods are sold.
Walras Auction	Theoretical agent that offers a range of prices, offering buyers and sellers the opportunity to enter the bidding process to reach the equilibrium level of prices. W.A. is considered the basic element of Walras model of setting a market price.

¹ More details : Greater Economic Encyclopedia. — M. : Eksmo, 2007. — P. 38.

A famous American scientist Arthur Melvin Okun (1928–1980) opposed the auction to the consumer market. According to the researcher, 'the main feature of the auction sales is a lack of labels indicating prices; the sellers do not set the prices, they are given it, while in the store most products are sold to the buyer at a price set by the seller and displayed on labels'¹. However, the use of price lists has important implications in the context of market institutions and routine. For example, it allows for continuous sales of a large number of identical products. The financial market is more similar to the auctions.

The financial market is an important part of the market. It is a set of socio-economic relations, arising from the purchase and sale of financial assets. It has its peculiarities. However, like the auction, the financial market has functions of integration and regulation (for pricing financial resources), distribution (channelling financial resources freed in other sectors), reorganization, stimulating and informing (creation of a single market price for financial assets). Financial institutions and structures (structural financial institutions) ensure the effective functioning of the financial markets by reducing transaction costs for economic agents that operate in this framework. They are its main professional participants, forming the supply of financial resources and financial assets. Institutionalism supporters believe that increasing speculation trends on the financial market create the crisis preconditions².

The institutional theory provides a fuller understanding of the concept of the financial market than any other. The definition of financial market should be linked to the broad set of institutions, relevant not only to legal issues such as installation of ownership of financial assets and judicial and arbitration procedures regarding contracts, but also to the transportation and spreading the up-to-date information for the market functioning.

According to some researchers, the market creates a forum where a common agreement on price can be reached, which is impossible to do via an isolated act of sale. Built-in customs and procedures and other legal regulations contribute to the consensus formation on the market.

D. Hodgson defines the market as a set of social institutions in which there is a large number of regular exchange regulations of a specific type and said institutions to some extent contribute to these acts of exchange and determine their structure.

According to the above-mentioned definition exchange includes contractual arrangements and the ownership change, the market is partly

¹ Chukhno A. A. Institutional and information Economics. — P. 139.

² Basylevych V. D. Development of financial market under current conditions/ V. D. Basylevych // Finances of Ukraine. — 2009. — № 12. — P. 9.

composed of mechanisms designed to determine the structure, organization and legitimacy of these activities.

Financial market is an organized and institutionalized exchange. The main role is played by the institutions that contribute to systemization of prices on financial assets, establishing consensus in connection with them, and more generally the information spreading about the financial resources, prices, volumes, as well as the potential buyers and sellers.

Among the important theoretical conclusions from the above definition of institutional markets, we should be mentioned the following.

Firstly, mainstream economic theory treats the financial market as a kind of natural, normal order, formed via aggregation of individual financial transactions and non-market institutions as something alien to some extent and unnatural. The financial market is seen as certain ether, i.e. a complete environment in which individuals subjective preferences interact with each other, which leads to the physical exchange of financial assets and services. We reject any view on the financial market as a simple set of bilateral exchanges and, in fact, a kind of reflection of set individual preferences and goals. Any exchange, especially market one, happens in the institutional environment and interacts with the latter. Obviously, if the financial markets are social institutions that evolve over time, naturalistic or 'ethereal' approach to them can be considered impossible.

Secondly, the deliberations in this section are very different from the accepted economic theory approach, which is based on a kind of dichotomy, when financial markets are 'free', and institutions (assuming to financial market does not belong to said category) are considered 'restrictions'. In financial market is seen as a source of mobility opposed to the destructive inertia of institutions. Conclusions for financial policy often lie in minimizing or the complete elimination of the deterrent impact of institutions or institutions maintaining solely remedial properties to the alleged inefficiency of the 'free' financial market or inherent elements of injustice. However, if the interpretation of the financial market as one of the institutions is legitimate, it is necessary to wonder whether it imposes its restrictions or it can be completely 'free'.

If we consider that any other institution puts its barriers and imposes its limitations, the same shall be, respectively, true for the financial market. Moreover, like other social institutions, the financial market has the limiting function and creates new financial opportunities. We reject the false dichotomy between 'free markets' and 'restrictive institutions'.

Thirdly, the 'ethereal' and non-institutional concept of financial market allows treating it as an unrivalled means of individual choice expression. Non-market institutions are, on the contrary, proclaimed collectivist in

nature; it is stated that they constrain preference expression and exchange as an activity based on the latter. However, in our opinion, the financial market has incurable social and collectivist aspects. Therefore, on contrary to popular point of view, the tendency to extreme forms of pure individualism cannot be fully reflected in the financial market. Correspondingly, pure individualism and financial markets apologia are not all that compatible.

Fourthly, it is necessary to emphasize the important role of financial markets, as well as other social institutions in transmitting information and forming preferences, expectations and actions of individuals. It is particularly important that the function of financial market institutions is not only to spread information about the price or quantity of financial assets, but also to influence the behaviour and tendencies of other agents gathered under the authority of the financial market institution.

Schematically institutional and market system may be represented as shown on the figure 3.3.

The impact of the financial market as an institution on people is manifested not only in providing information or common restrictions imposing, but also shaping the thought structure of involved agents and real impact on their priorities and beliefs. Thus, the effect of market practices, routines and rules somewhat 'imposes' an individual a specific conduct on the financial market that is hardly noticeable for them. That is, contrary to much of the orthodox economic theory financial market is never completely 'free' in terms of classical liberalism and not necessarily embodies the freedom of an individual.

The fact that orthodox theory is unable to offer institutional definition of a financial market, often leads to its interpretation as a universal category. In orthodox sociology there is a tendency to bring all forms of social interactions in a single column of 'exchange'.

However, since little to nothing opposes the concept of 'exchange', it loses its importance. The financial market is becoming a universal category, also losing any value. Conversely, if to delve into the ideological basis of the orthodox concept of financial market and to give it a specific, not a universal definition, one can appraise the meaning and significance of this main institution of the modern economy and financial system.

In 1930s, John R. Commons (1862–1945) developed a new line of institutionalism — the theory of social institutionalism based on the prevalence of law over the economy and finance. It influenced the financial opinion as well. After all, most financial markets of the developed market economy explicitly or implicitly operate the valid contracts, and provide stakeholders' protection through sanctions and due legal procedures. Legal institutions involved in such cases supplement the financial market institution.

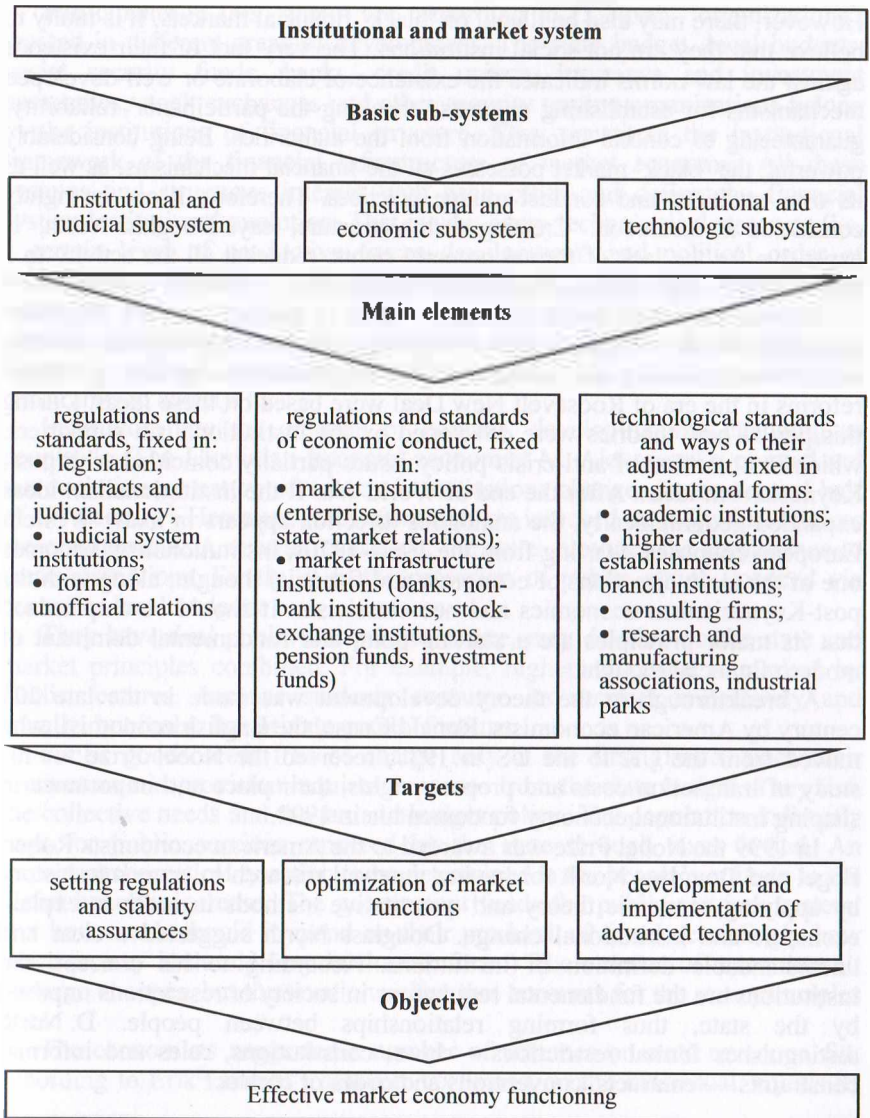


Fig. 3.3. Institutional and market system

However, there may also be illegal or 'black' financial markets. It is faulty to believe that they are not social institutions. The very fact of their existence against the law norms indicates the existence of elaborate or well-developed mechanisms for establishing contacts, checking the participants' reliability, guaranteeing to conceal information from the authorities. Being considerably powerful, the 'black' market possesses all the financial mechanisms, as well as its own traditions and conduct routine practices. Therefore, it can be rightly considered an institution. 'Creating such a structure,' says Douglass North, 'is expensive for the lack of formal property rights, reducing all the activity to a system of personal exchange that can provide contracts' voluntary execution'¹.

Approaching the John R. Commons' ideas to practice, another American researcher Wesley Mitchell (1874–1948) suggested creating a system of state social insurance against unemployment and indicative planning. Major reforms in the era of Roosevelt New Deal were based on these ideas. During this period new theories were developed by the institutionalism supporters, which in a number of anti-crisis policy issues partially coincided with post-Keynesianism ideas. After the end of World War II the institutionalism ideas expanded geographically, the analogous direction appears in many Western European countries. Starting from the 1960–1970s, institutionalism becomes one of the main directions of economic and financial thought, along with the post-Keynesianism economics and neo-classicism. It should be emphasized that its major principles are a starting point and fundamental dominant of modern financial thought.

A breakthrough in the theory development was made in the late 20th century by American economists. Ronald Coase, the English economist, who moved from the UK to the US in 1937, received the Nobel Prize for his study of transaction costs and property rights, their place and importance in shaping institutional economy fundamentals in 1991.

In 1999 the Nobel Prize was awarded to the American economists Robert Fogel and Douglass North for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change. Douglass North suggested a clear and understandable definition of institutions. According to his concept, the institutions are the fundamental regulations in society or restrictions imposed by the state, thus forming relationships between people. D. North distinguishes formal restrictions — laws, constitutions, rules and informal constraints — contracts, conventions and codes of conduct².

¹ North D. *Institutions. Institutional change and Economic Performance* / D. North. — [tr-n from Eng. by I. Dzub] — K.: Osnovy, 2000. — P. 90.

² North D. *Institutions*. — P. 90.

Participants in this 'game' are, according to D. North, 'organizations', created in different areas of development. The state budget, local budgets, social security funds, banks, credit unions, insurance and investment companies, stock exchanges and other security trading organizations belong to the institutions of financial structure. They constitute the institutional framework of the financial infrastructure of market economy. All these systems and structures interact with each other and define the financial system institutional evolution. That is why every technological structure (i.e. a certain level of productive forces development) and political order of society has a relevant institutional structure. If institutions brought into action do not correspond to the economy's actual state, even a perfect structure functioning, can bear a negative impact. Institutions, according to D. North, change gradually, resulting from 'the attachment informal constraints to society'¹.

Institutions are the creation of humans, developing and changing as people do. The Ukrainian financial economist M. Alekseyenko pointed out the evolutionary nature of economic institutions changes in the second half of 19th century². However, restrictions that are imposed on individual choices are omnipresent. A central institution, the state, provides the compliance to these restrictions. Firstly, it is the provision of public goods financed via central or local budgets.

They have dual public and private nature, may develop on the state and market principles combined. For example, higher education is marked by public features, because students consume its services collectively and equally, but it also has private goods' features.

Public goods seem free of charge only at the first glance, since their production and provision requires expenses from the state budget. They link the collective needs and the tax and budget policy. The population indirectly pays for public services rendered by the state through taxes levied. An important theoretical question to be determined is the people's attitude to the social benefits increase. The government funds the public services system. But how much should it spend on their production? (And accordingly how much money it should levy in the tax form.) The essence of taxes doesn't undergo changes, but the taxation policy that accounts for the state principles does.

The economists suggested a number of schemes on state revenues. So, according to Erik Lindahl's scheme, tax levied on the individual, equals its

¹ North D. Institutions. Institutional change and Economic Performance / D. North. — [tr-n from Eng. by I. Dzub] — K.: Osnovy, 2000. — P. 15.

² Alekseenko M. M. About the development of Tax study by the economists, followers of A. Smith, J.-B. Say, D. Ricardo, J. Sismendi and J. S. Mill. — P. XIII.

marginal benefits. However, such system created incentives for people to distort their actual needs. In 1970s, resistant to these distortions schemes have been developed (under certain circumstances).

The financial policy of the state in the public goods production should ensure the following:

- 1) maintaining equilibrium between budget revenues that are generated from taxes, and its expenditures as nationals buying public services at a price equal to the tax;

- 2) accordance of budget expenditure to the public services demand structure;

- 3) increase or decrease in the state budget in accordance with the increase or decrease in the number and range of public goods;

- 4) effective equilibrium of private and public goods.

In the post-industrial economy, where the state is an agent of high-tech production and other public services, its role is increasing. As T. Stonier puts it, 'Today, there are many opinions, supporting the traditional point of view that most state institutions are money spenders. Consequently, no one cares about the state while using roads, seeing a policeman on duty or conducting a conversation with a teacher on child's upbringing. They view the state as an outdated bureaucracy, interfering in their affairs, which makes it unproductive. The reason why the government absorbs the constantly growing GDP contribution is because it can do some things better than others, like the road constructing and repairing, education, healthcare or the coal industry.

None of these services can be given, nor have they ever been given by the private companies'¹.

In the market economy system with its innumerable subjects the state takes over the regulation of a huge number of external effects. Notable among them are those related to the environmental aspects of production. State regulators should prevent negative environmental effects of market competition, namely: 1) establishing rules or standards for dangerous emissions; 2) the introduction of emission fees; 3) sale of temporary allowances for waste disposal.

Thus, for negative consequences prevention or neutralization of the external effects the state should: 1) introduce special taxes, which, along with subsidies from the state budget, enabling to redistribute funds for the ones harmed by the external effects; 2) set prices that include external effects.

¹ Stonier T. The wealth of information. A profile of the post-industrial economy / Stonier T. — L., 1983. — P. 86-87.

An important role in the financial and economic stability, according to institutionalism supporters, is played by the state's countercyclical policy, which presumes that in times of crisis and depression the state stimulates demand for goods and services, investment and employment through the provision of additional financial incentives to the private sector, public spending and investment increase. In terms of long-term growth there may be adverse effects in the economy, i.e. reducing goods reserves, import growth and payment balance worsening, excess labour demand over its supply and hence — unjustified wages and prices increase. The state implements the so-called restrictive levers to stabilize such situation.

State regulation of money circulation in a market economy, according to institutionalism supporters, gains special significance in the modern world. The reasons for this are: 1) the market inability to provide money, that is why emission is recognized to be the state or the central bank's function; 2) government regulation of money circulation contributes to the national currency unit stability and inflation prevention, which is a serious economy hazard. Such regulation is an important part of anti-inflation policy, along with the gradual elimination of unequal proportions in a market economy through structural policy and even direct administrative methods. Among them are the military spending reduction, production investment rationalization, transfer from budget financing of productive investment to the use of enterprise funds, equity capital raising, eliminating monopolistic structure of the economy, etc.

The financial market development showed that market allocation does not guarantee obtaining funds equal to the minimum substance level. So, the function associated with the income redistribution is of great importance in terms of the social market economy. It is carried out via taxes, minimum wage guarantees, and support of the disabled, elderly in order to solve the existing market contradiction: often the income distribution is justified in market terms, but remains unfair in the universal view.

Modern technological breakthrough requires fundamental research, promotion of sectors with uncertain prospects, some areas of scientific and technological process, requiring huge investments with long payback periods, high risk and profits uncertainty. The state is responsible for a real financial support of these important public needs, which it implements via investment policy. The state acts as an investor in the prioritized economy sectors and strategic development and as a regulator, providing the most favourable economic and fiscal and institutional conditions. By doing this, the state facilitates the influx of private domestic and foreign investors as well as monitors compliance to the guarantees given to the investors.

In modern conditions of the information and knowledge society, this function is increasing. The state operates as the 'activator' and a guarantor of high technology, knowledge and information networks development. This is the most important function in terms of post-industrial development, as the state remains one of the main agents that provide proactive development of basic breakthrough areas to new technologies. Through the channel system the state is able to and should facilitate solving the following issues:

a) to develop a sphere of creative potential production of citizens (the main resource of the information economy) as a system of continuous quality education;

b) to build a society of information, i.e. promote creation, ensure universal access, stability and democratic functioning of information systems;

c) to identify priority areas of high technology and expedite investment in this area.

The state as an institution contributes to solving the global problems. In today's world of globalization problems can't be solved without the participation of governments, international changes and supranational institutions and civil society institutes. Moreover, active help to address the system of global challenges is becoming the most important function in the development of post-industrial economy. This requires efforts within a framework of broad international cooperation and in collaboration with a wide range of non-governmental organizations.

The state is a social technology. In this regard, T. Stonier points out that 'from the very beginning the institution of state developed to address issues of legislation, law enforcement and defence. Today there continues to be a significant number of perspectives, which assume that state functions should be limited to law drafting, law enforcement and defence. In the early stages of post-industrial society, most new technologies may require big risky investments. Uncertainty and the longevity of payback term distract from the private sector from the efforts to create risky ambitious enterprises. State may possess both a solid financial base and variety of economic reasons, can take on such investments and justify them. The state can also be an economic policy instrument. For example, the state fiscal policy is an attempt, if not always successful, to manage the economy so as to achieve the maximum effect for everyone'¹.

Meaningful, purposeful realization of economic, financial and social functions of the state directly depends, primarily, on the type of state and the chosen by society economic and political system. According to D. North,

¹ Stonier T. The wealth of information. A profile of the post-industrial economy. — P. 89-92.

'effective institutions are instilled in the state, which is characterized by inherent incentives for creating and guaranteeing property rights'¹. Secondly, on the load bore by its various public institutions in society.

Generally and more detailed according to the realities of modern Ukraine classification of state functions that institutionalism supporters distinguish in a mixed economy, are presented in Table 3.4. According to the table, the widespread state interference in market processes is limited due to consequent failure of transformation economy.

Table 3.4

Economic functions of the modern state and their contents²

Feature	Content features
Regulative	Legislative establishing rules of economic relation rules
Client-related	The state is a customer and buyer of the national economy products for the army, police, judiciary, education, healthcare, culture etc.
Proprietary	Mixed economy maintenance with different correlation of private and public property.
Financial and distribution	Providing funds for the government organization and functioning.
Humanitarian and social	Creating conditions for the reproduction and development of human capital, including social security, education, health care, acquisition of qualification and further training.
Prognostic and planning	Prospective state design of the national economy (excluding the policy planning, and providing the indicative plans that set goals of economic development in general and its individual branches). Central planning authorities exist in developed countries with market economies: Japan (Economic Planning Agency), the Republic of Korea (Central Institute of Planning), France (Subministry of Planning), Turkey (Ministry of Economy and Planning) etc.
Resource and distribution	Implementing limited national natural resources distribution rules.
Coordinative and synchronous	Ensuring balance of the national economy in terms of economic sectors (industry, agriculture, services) and sub-sectors, product groups, markets, social and economic structure of society etc. In the market economy, this function should be carried out by more fiscal and credit methods than administrative ones.

¹ North D. *Institutions. Institutional change and Economic Performance* / D. North. — [tr-n from Eng. by I. Dzub] — K.: Osnovy, 2000. — P. 179.

² *State and market: Philosophy of interaction* : [Monograph] / Malyi I. Y., Dyba M. I., Halaburda M. K.; under general and scientific editorship of I. Y. Malyi. — K.: KNEU, 2005. — P. 183–184.

Feature	Content features
Licensing	The general regulations for the organization of certain activities, its specification in the public interest
Monitoring and validating	Ensuring of accordance of the undertaken rules by the organization to its actual activities.
Investment and technology	Formation of national research, investment, innovation and technology policy.
Certification and standardization	Establishing technical and operational standards, and providing compulsory product unification.
Legal advocacy	Providing legal guarantees and protecting the economic interests of economic agents
Defence and Protection	Defining rules and guarding the economic subjects' property.
Environmentally-oriented	Setting rules and requirements to protect the vital environment.
Medical	Determination of safety requirements, labour and phyto-sanitary protection, etc.
Publicity and incentive	Informing and motivating the public to maintain government initiatives.

In transformational economics the state operates not only as a regulator of created market economy, but also the main subject of regulatory and production process of transition to the market economy system. It affects the economy through a complex of forms, methods, tools, and/or controllers that are shown in Fig. 3.4.

In modern economic literature there are three main forms of state influence on the economy.

1) Economic regulators — via creation of an economic and financial policy of such a favourable economic environment that makes businesses operate in the desirable field.

2) Administrative controls refer to intervention into the economy using the tools of coercion, direct subordination of economic entities by a decision of state authorities (e.g., policy regulation of prices, wages, working conditions, currency and antimonopoly regulation).

In practice, administrative and economic methods are not only contradictory but interrelated. The predominance of a method depends on the historical circumstances and the problems to be solved.

3) Legal regulators refer to creating a legislative framework of 'game rules' and monitoring their implementation. In a market economy, special importance is given to the legal basis of entrepreneurship — the driving force of the market economy.

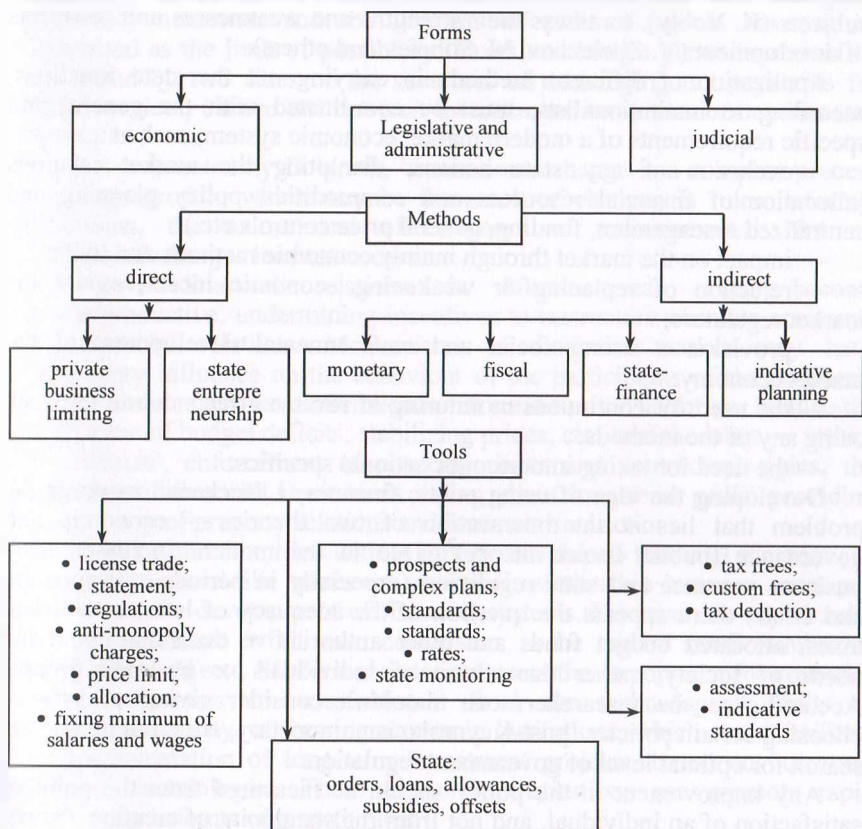


Fig. 3.4. Forms, methods and tools of market economy state regulation

The impact on the economy the state makes by using direct and indirect methods. The latter are mostly realized through efficient financial policy: state-tax, monetary, depreciation, currency, customs and so on.

M. Tugan-Baranovsky outlined positive function of the state on forming institutional structure and infrastructure of the economy.

He stressed the need to study 'the laws of economic forces' free interaction' (meaning, institutional environment)¹. Closer to the modern institutional vision of the role of the state (as the most important institution in the economy) is characteristic of Ukrainian researchers. They believe that only the state can provide reconciling of the interests of all economic subjects (K. Vobly), to assess their strengths and weaknesses and prospects of development (V. Zheleznov, M. Sobolev and others).

Application of different methods in carrying out the state functions, according to institutionalists, must be coordinated with the general and specific requirements of a modern market economic system, such as:

- exclusion of any state actions, disrupting the market relations (allocation of financial resources and commodities, policy planning and centralized management, funding, general price controls etc.);

- impact on the market through mainly economic methods and tools;

- rejection of replacing or weakening economic incentives by the market regulators;

- provision a strong social and environmental development of the market economy;

- the need for continuous monitoring of reverse effects due to the state using any of the methods;

- the need for taking into account national specifics.

Developing the idea of using public finances, J. Buchanan explores the problem that lies at the intersection of two theories — economic and governance (public choice theory)². Due to the modern increased state business presence and state regulation (especially in periods of stagnation and crisis) there appears the question of the adequacy of laws, established taxes, allocated budget funds and other authoritative decisions about the needs of society, rather than those of individuals or business groups. According to the researcher, one shouldn't consider giving priority or choosing certain policies (post-Keynesianism, monetary, etc.), but pursue the search for optimal level of government regulation.

Any improvement in the policy should be measured from the point of satisfaction of an individual, and not from the standpoint of creating a super ideal.

¹ Tugan-Baranovsky M. I. *Essays on the newest History of Political Economy and Socialism* / M. I. Tugan-Baranovsky. — 2-d edition. — St.P-g. : publishing house of the magazine 'Mir Bozhyi', 1905. — P. 156.

² More detail: Buchanan J. M. *Public Finance and public choice. Two contrasting visions of the State* / J. M. Buchanan, R. A. Musgrave ; [tr-n. from Eng. by A. Y. Ishchenko]. — K. : VD KM 'Akademiia', 2004. — 176 p.

The proposed theory of public choice, according to James Buchanan, helps to recognize the principles of forming such fiscal system, which would be agreeable to all the citizens. Any changes in the rules and regulations should be proposed only on a temporary basis and centre around appropriate understanding of political reality. Political choices have to be left in the field of already achieved, and the interests of political agents have to be recognized as the limit of possibility. Taxes and budget penalties should be considered by two sides of the same act of exchanging tax payments for public services, carried out between the state and recipients of benefits (tax payers).

As it was noted by D. North, 'institutional change is a complex process of change growth, which may be the result of changes in rules, informal constraints, the nature and effectiveness of enforcement.'¹ Not all institutional changes lead to success.

Today's financial relations in Ukraine can even become counterproductive, undermining incentives to restructure obsolete economic and financial relations. Mechanisms of financial market may have disciplinary influence on the behaviour of the participants of the economic process under macro- and microeconomic conditions. The former include the elimination of budget deficits, stabilizing prices, etc., and the latter — 'ethics of contracts', enforcement of property rights and contractual rights, the formation of financial institutions caring about long-term goals, providing transparency of property relations and business transactions.

Exploring the countries with relatively developed financial markets (11 countries), James Mille traces no statistical relationship between economic growth and the development of financial systems. However, he expressed a lack of confidence in his own conclusion, as he used a small number of observation subjects. Modern economists stress the importance for countries whose economies are most distant from the technological limits of production capacity, of forming economic institutions, which could facilitate the implementation of long-term investment projects, based on borrowed advanced technologies. These economic institutions can promote rapid catching up in terms of growth rates.

However, countries whose economies are close to the technological limits of productive capacity, can increase the pace of growth only in the case of using the most flexible business rules and institutions. They are focused on a comprehensive facilitation of business initiative and research in the field of new technologies. The latter include the development of financial systems, of which the financial institutions are an important part of — the

¹ North D. Institutions. — P. 15.

maximum possible openness of the economy, financial outsourcing, intensive development of the securities market and venture capital.

In some researchers' opinion, not the size of the market capitalization, but the liquidity of the securities market positively correlates to the economic growth. For Ukrainian stock market in the transition period is characterized by a lower liquidity level. The property relations vagueness, inadequate property rights and contract rights protection, 'distorted' way credit flows and the unreliability of banking services in Ukrainian reality restrict the role of financial markets mechanisms in the transitional economy institutional structure.

Post-crisis economic growth since 2000, the relative stability of the macroeconomic situation positively affected the Ukrainian stock market condition. However, there is no reason for an optimistic assessment of medium term development of Ukrainian stock market. As in previous years, it is unable to adequately serve the transfusion of investment resources. It is characterized by a number of imbalances and features: a high proportion of steel companies in total capitalization; high market capitalization (in fact dominated by a few issuers); objective limitations of possible sources of funding corporations and underestimation of many companies; tendency to promissory Ukrainian market etc.

Previously, the outsiders and non-resident arrival in Ukrainian market shares (in 2005 the contribution of non-residents was about 70%) did not contribute to significant qualitative changes. The unresolved issues of property rights protection and easy for non-residents currency regulation regime led to declining competitiveness of domestic shares and moving centres liquidity agreements with them on global markets and with stable jurisdiction.

According to the EBRD and a number of economists in Ukraine, as in most transition economy countries, legislation on bankruptcy developed weaker than in other areas of business law.

This especially concerns its use efficiency. Express bankruptcy costs procedure helps in preventing bankruptcy costs, which could cause damage to both the debtor and the creditor and the court system reboot. In Ukrainian practice bankruptcy law suits are often protracted and inconclusive. It is necessary to increase the qualification of external managers appointed, and extend their powers. Since the law *On Bankruptcy* (1993) adopting, significant improvements have not taken place so far. The institute of bankruptcy in Ukraine can't yet be regarded as stable and efficient mechanism that promotes management and financial companies recovery, although it's main elements have been formed. One can mention the

declaration of the institution and the lack of effective policy and institutional environment.

The dominant trend at the beginning of 20th century is characterized by increasing expansion of state power, attempts to establish (expand) control of the basic financial flows of Ukrainian economy and, more broadly, to provide business dependence on state institutions despite the declared program of deregulation, privatization and administrative reform. The existence of such a double standard, supplemented with different rules for different market game class members creates significant obstacles for creating a favourable institutional environment in general (in terms of the criteria described above) and for local institutional changes in property rights, corporate governance financial markets, budget constraints etc. This double standards policy leads to lower efficiency of market mechanisms in the limited space of Ukrainian economics. Although long-term task of ensuring stability and adaptability of the institutional environment (concerning market mechanisms) are important, but for Ukraine absolute priority is the formation of the basic prerequisites for their implementation — legislative, procedural, legal and regulatory ensuring common market rules.

In Western literature in the late XX century great attention was paid to widely discussed reasons for the failure of reforms that took place in Russia and Ukraine. As Douglas North pointed out, Ukrainian economics and finance, having adopted formal rules and regulations of the game developed in terms of other economic and financial systems were initially doomed to failure. The prevailing institutional constraints, according to the scientist, determine the system of rewards for political (or economic) activities that do not encourage productive activity.¹

Moreover, the so-called shock therapy and hasty, ill-considered privatization did not only destroy the target planned economic system, but the main motivation of incentives has led to unprecedented corruption in all federal and local administration and the criminalization of society. Sharpest contradictions appeared in the financial and credit institutions sector, causing high inflation and galloping depreciation of national currencies, deregulation of public budgets and balance of payments and were accompanied by the collapse of investment programs and high unemployment. Only the 'evolutional development of institutions, said D. North, creating a favourable environment for coordination in the complex relations of exchange, is considered the foundation of economic growth.²

¹ North D. *Institutions*. — P. 141.

² *Ibid.* — P. 7.

Institutions do not replace politics, but contribute to the success of its implementation in terms of economic performance. The stronger and more sophisticated institutions, replaced the more 'shadow' economy, which is difficult to control and is regulated by the 'shadow' policy. Often the key decisions are made in the 'shadow' area and then coming to the public. The government institutions formation during the next parliamentary elections in 2006 in Ukraine has confirmed that the real decisions are made after informal discussions that take into account the political situation and schedule various interest groups, while official policy is only formal and public tools for implementing reached agreements. We can assume that the proportion of decisions are made de facto in the 'shadow zone' policy, compared to those taken solely through official channels, higher than the ratio of unregistered and non-taxable turnover 'shadow' economy to the volume of official economic agreements. Any analysis and evaluation of current policy in Ukraine should consider this phenomenon, especially in connection with the formulation of recommendations when choosing certain political decisions. The scale of the 'shadow zone' policy depends, on one hand, on the maturity of state institutions, a democratic state and civil society; on the other hand, they depend on a market economy.

In neo-institutionalism supporters' view, the financial policy as an ability to solve large-scale social problems on economic basis. In other words, it is the ability to attract specific game 'finance' all agents — agents liberalized market economy, which should lead to expanded macroeconomic reproduction.

Its purpose is to support the highest possible rate of economic growth and equitable distribution of its results, i.e. a socially accepted method. Fairness or unfairness of this distribution determines the social maturity of Ukrainian society, not financiers and politicians' opinions. Ultimately, the decision on such matters must be made in Parliament while working on laws, budget and other issues, which is related to the taxation system, financial transfers and social policy.

However, the approach to the development of financial policies should consider the following aspects.

Firstly, in order to ensure positive results, the policy must be based on vision and reality. Without prospective vision politics (and politicians) are doomed to incompleteness, indecision and weakness. Long-term financial programs should be ambitious and realistic, correctly guide the development of society and to identify ways to meet its financial needs. This vision should promote their formation, as well as limit the resolution of urgent needs reasonable range so that you can meet prospectively. Ukraine's experience

has shown that the vision of declarative practice creates the illusion of 'positive shocks' or 'civilization leaps'.

Secondly, financial policies should be based on theory, explaining mechanisms of finance and growth. For successful implementation of financial policies in Ukraine, that is extensive knowledge is needed for conscious and deliberate impact on individual and corporate members of financial market game in order to better meet the needs of society by improving the competitiveness of enterprises and their effective financial services. They should not only be based on practical experience, but, above all, on credible theory of finance.

Effective financial policy can't be the result of 'averaging' when some elements taken from a scientific approach, and others, on the other, and is a mixture of neo-Keynesianism and monetarism, neo-institutional economy and the Swedish school, socialism and capitalism for the sole purpose of meeting the wishes of the widest possible panellist. Particularly destructive for Ukraine may be attempts to combine left-wing social democratic ideas with elements of neo-liberal economics.

Thirdly, the effective implementation of proper financial policy requires strong political leadership.

Policy decision makers should know exactly what they want. Without a clear focus on the ultimate goal (clearly about the issues raised) even good financial theory does not work, because very few people understand how to use it. In the correct answer there will be little utility if policy makers do not know the issue.

Fourthly, financial policy is the art of coordination. Financial activity requires solving a variety of countries; the ability to identify which ones are truly important and relevant, and to separate the fundamental and strategic issues of ordinary everyday problems to politics. The policy can be compared to running a huge company or institution where you need to instantly take a variety of solutions (sometimes in a crisis situation) is often based on incomplete information and under external pressure. On the other hand, it is a strategic activity that requires broadmindedness of vision and ability to ponder problems deeply. There should also be creative interaction with their intellectual opponents and experts, foreign and social partners. Effective coordination of all these components minimizes the 'in-formational noise' and friction in the mechanism for making financial decisions, the political machine works.

Finally, policies in all sectors, including finance, is the art of compromise. Creative consensus that combines the necessary with possible reconciles the conflicting interests of society resolves conflicts between short- and long-term interests of specific social groups, between the needs of

the state and the regions between taxpayers and users of funds from the budget between consumers and producers. Experience shows Ukraine, if potential conflicts are not softened using policy tools, it will be difficult to reach a compromise. The compromise that satisfies the majority of society, can serve as a foundation for creating long-term rational design.

Unlike the neoclassical theory, that experienced only two kinds of restrictions: rare, generated by the rarity of resources and technology that reflect the knowledge and practical skills of economic agents, neo-institutionalism supporters introduced another class constraints, which is transaction costs. The latter is the institutional structure of society, and the field of individual choice existence. Economic agents operate in not clearly defined property rights and contracts reliability, risk and uncertainty, requiring significant transaction costs.

The standard neoclassical model also reflects a person as being hyper-rational being, while the neo-institutionalist approach provides a more realistic description of decision making process. This is evident in his two most important behavioural assumptions: bounded rationality and opportunistic behaviour. The first reflects the limitations of human intelligence. Because of this, agents must stick not to optimal decisions, but those that seem to be most appropriate, based on available limited information. Their rationality is expressed in the pursuit to save not only the material and financial costs, but also their intellectual efforts. Other things being equal, they prefer solutions that impose fewer requirements to their predicted, settlement opportunities.

This is an important scientific discovery made by Ronard Coase, who introduced the concept of economic analysis of transaction costs. Based on a thorough analysis, R. Coase failed to reveal the underlying relationships between institutions, transaction costs and initial positions of neoclassical theory¹. It should be noted that he developed his concept in 1932. During awarding the Nobel Prize R. Coase said that it was surprising for him to be awarded this prize at the age of eighty for what you did when you were a little over twenty.

A modern institutionalism theory interprets transaction costs in different ways, sometimes diametrically opposite (Table. 3.5).

Ukrainian researchers (S. Arhiyereyev), based on the fact that the sectoral structure of the economy does not coincide with its structure by institutional sectors, differentiates: 1) field, conducting financial transactions (by the size of gross value added (GVA) coincide with the financial corporations sector);

¹ Coase R. Nature of the firm: origin, evolution and development / R. Coase; edited by O. E. Williamson, S. J. Winter; [tr-n from Eng. A. V. Kulykov]. — K.: A.C.K., 2002. — P. 16.

2) industry trade transactions (three-quarters of GVA trade (including catering) creates a non-financial corporations sector institutional units that specialize in the implementation of transactions and one-quarter of gross value added of this sector generated by households)¹.

Table 3.5

Key definitions of transaction costs

Author	Definition
Kenneth Arrow	Transaction costs are the economic system operation costs ² .
Ja. Vynnytskyi	The costs associated with the creation, modification, consolidation and deployment of business entities.
Douglas North	Transaction costs include evaluation utilities and facility sharing costs, ensuring the rights of forced compliance.» They are caused by the nature of industrial relations (these costs are a source of social, political and economic institutions) ³ .
Harold Demsets	Transaction costs constitute the cost of any activity related to the use of price mechanism. Similarly, management costs are associated with knowledge of resources management. He suggests to use the following abbreviations: PSC (price system costs) and MSC (management system costs), i.e. related costs using the price and management mechanisms ⁴ .
Ha-Joon Chang	In the broadest sense, transaction costs consist of the costs, whose existence can't be imagined in the economy of Robinson Crusoe.
Paul Milgrom, John Roberts	Transaction costs also cover any costs arising from mutual decisions, plans, agreements and established structures inefficiency; ineffective responses to changing conditions; ineffective protection agreements. That applies to them all that reflects on the relative efficiency of different methods of resource allocation and production activity.
Claud Menard	Transaction costs refer to functioning costs related to sharing system or, more precisely, in the framework of a market economy, the cost of a market implementation in order to ensure resource allocation and ownership transfer ⁵ .
Olena Prutska	Transaction costs refer to economic cooperation, no matter what forms it can acquire ⁶ .

¹ Arhiyereyev S. I. Трансакційна архітектоніка / S. I. Arhiyereyev // Economic Theory. — 2004. — № 1. — P. 78-79.

² Arrow K. Possibilities and limits of the market as resources allocation mechanism / K. Arrow // THESES. — 1993. — Vol. 1. — Issue. 2. — P. 53.

³ North D. Institutions. Institutional change and Economic Performance / D. North. — M.: Fund of economic book 'Nachala', 1997. — P. 45.

⁴ Demsetz H. The firm in economic theory: a quiet revolution / H. Demsetz // American Economic Review. — 1997. — Vol. 87. — № 2. — P. 425.

⁵ Menard K. Economy of organizations / K. Menard; edited by A. H. Khudokormov— M.: INFRA-M, 1995. — P. 29.

⁶ Prutska O. O. Інституціоналізм і проблеми економічної поведінки в перехідній економіці / O. O. Prutska — K.: Logos, 2003. — P. 74.

The essence of the concept of R. Coase goes as follows. The economy functioning depends not only on the goods and services prices, as a classical and later neoclassical theory stated. The production agents are firms, suffering significant costs associated with the very process of exchange. Before signing the sale agreement, both contractors must complete a variety of transactions (transactions). They related to the search and selection of the buyer (seller), a serious test of its solvency, financial stability and insurance liquidity, loans, issuance of securities and their placement, as well as arbitration, litigation and other expenses. These include costs associated with the redistribution of property rights. All of the above costs are called transaction costs. This kind of costs arises at the macroeconomic level, especially in connection with the operation of specific and peculiar field of public finance. They are called government transaction costs¹.

The concept of transaction costs has had a great influence on macroeconomic equilibrium theories' development and macro-financial stabilization and economic growth. R. Coase criticizes one of classical theory assumptions, according to which the market price contains all the necessary information available to market participants, and the price is the same for all and known to all. In these circumstances, market participants have the opportunity to really make a decision on the conclusion of agreements for the goods and services sale. But in fact, in the present conditions of the market economy price cannot reflect all information, as market participants pay quite considerable transaction costs to the deepening division of labour and complexity of economic ties are increasing. Hence, it is necessary to obtain information about the transaction and the costs to them and to include them in the price of financial services in the event of a decision on the sale. Since transactions are individual, there can be no single price.

It should be noted that the problem of transaction costs was under research in the 70–80 years of the twentieth century. Russian economists B. Efimov and A. Shapovalov introduced their concept of transaction costs, naming it a «tax sharing».

Conceptually R. Coase has introduced significant changes to the state and corporate finance theory. Firstly, it demonstrated the fundamental importance of law and the legal system for macro-financial (public finance) and micro financial level (corporate finance).

Transaction costs associated with the exchange of goods and services, clearly define: sold, deadlines, place of delivery, currency transactions and other indicators based on institutional agreements signed by the two parties

¹more details : Coase R. Nature of the firm: origin, evolution and development. — P. 133–140.

(may be multilateral). The agreements have the law features (in Roman law states that 'agreements should be executed'). Thus, both parties are protected by law. In case of a contract breach by either party, it turns into lawsuit. R. Coase emphasizes that the legal system should have significant impact on the economic and financial system functioning, controlling them to some extent.

Secondly, financial practices gained the right to include in the cost of the transaction expenses, growing due to a labour division. In 1970 D. North and John Wallis estimated that in USA the transaction costs accounted for about 45% of the national product. In this context, it should be emphasized that this amount constituted public transaction costs. Now these figures outnumber the real data. In addition, the growth rate of government transaction costs is higher than the total in the country. Do not forget that increase in transaction costs leads to decrease in taxable income.

Thirdly, the role of information and, therefore, increase in its purchase cost. The determination of the transaction costs (which is a very complex matter that requires appropriate analytics) require special institutions, economic and financial institutions with their extensive information field (especially at state level) for the concluding agreements, contracts and management decisions, monitoring, analysis and financial controlling areas of public and corporate finance.

Financial concept by R. Coase contributed to a better understanding of financial market and financial services, primarily as a significant component of macroeconomic (macro-financial) level. Importantly, it made it possible to differentiate them more clearly: the role and task-specific functions, field operation and so on. Loan capital is a component of a financial market traded. It is a specific product that is embodied in securities. In the financial services market trading services related to the issue and placement of securities, constituting specific transactions. Investment companies and banks provide the issuer — Joint Stock Company various financial services when placing their securities. They are corporation's consultants in all financial matters relating to the securities issue and their placement, timing, determination of forecasting for sale etc.

These financial institutions obtained from the companies a fee as a percentage for their services. For investment companies and banks received interest is treated as income, for corporations they are transaction costs. All terms of financial services are defined in the contract.

There are two methods of companies' securities initial placement, public or open, and private. In the event of a public offering to the latitudinous community are encouraged to buy securities. The peculiarity of this method is that the securities are sold to unlimited number of market participants.

Unlike public, private method is that the production is transferred to the 'one hand' the great Mediator — the investment bank that buys all of its volume. Investment bank underwriter is actually a guarantee placement, taking a risk in situations where joint-stock company issued securities not in pursuit of investor on whole or in part or their price drops during placement.

An underwriter outstands as the main initiator and guarantor, creates a syndicate, which includes other investment banks, forming a group of financial institutions for securities placement, determined by brokers who are supposed to sell them. In turn, brokers, buying shares in the syndicate members, breaking them to open financial market in which under the influence of market supply and demand current security prices are generated. Consequently, the financial services market ends with the purchase of shares from the syndicate members, then begins the financial market as the market for securities trading.

Neo-institutional theory affects the development of the public finance theory. The concept of transactional services and related costs are essentially macroeconomic, proving that the money from these services is today an important position of financial resources and economic development. In his study of American economists J. Wallace and D. North pointed out the age trend value private and public transactional services. In 1870 private transactions amounted to 86.5%, and the state — 13.5% of all transactions in 1970 the share of private transactions decreased to 74.7% and the government — increased to 25.3%. Special importance of transaction costs into state regulation of market economy, economic efficiency increase should be taken into consideration.

Public institutions providing legislation consultancies, participate in the legislation development, laws on property rights, promoting transparency, economic agreements and financial improvement of economic and financial infrastructure.

In this respect a study by American economist Oliver Williamson (1932) should be noted. Based on R. Coase theory it creates a transactional concept of economic or vertical integration, which provide explanations and justify the need for government transactions expansion in order to protect contractors, ensuring the transparency of financial contracts and, thus, increasing economic efficiency¹.

D. North points out that education consensual ideology should keep to certain rules and regulations, takes place during financial transactions execution within the informal framework that will bring to the ideal of

¹ Williamson O. E. Economic institutions of capitalism: firms, marketing, contract signing / Williamson O. E. ; [scientific editor of Ukr. tr-n S. Bushuev]. — K : ArtEk, 2001. — Chapter 3.

transaction costs that are approaching zero¹. Thus, the magnitude of transaction costs may be considered an indicator of financial market imperfections degree and quantifiable description of institutions' absence.

Transaction costs form the demand for public institutions of higher transaction costs, i.e., higher demand for institutional regulation that is able to minimize the costs of sale, quality guarantee as instrument overcome uncertainty, risk, information asymmetry, contractors' incompatibility.

However, at present there is a threat of raiding a result of collective action that creates the problem of 'free-rider' and leads to additional costs. Therefore, there must be control and responsibility for collective action violation.

Institutional market infrastructure is considered an important theoretical institutionalism contribution, that represents a specific system of generally, legally and traditionally established rules, regulations and restrictions, formation, management and use of which ensures the market system functioning in accordance with the objectives and strategies of economic and financial state policy. Elements of the institutional market infrastructure to its actual functioning equalize economic activity conditions for different economic system operators. Institutional financial infrastructure provides interconnection and connection and interdependence between the economy and finances through the financial market, which is one of the most important economy and finance components, financial sector being characterized by dualistic nature.

Financial institutions are structural institutes belonging to the financial sector and operating in its field.

Institutional financial infrastructure is formed mainly under the influence of basic economic institutions, which include property, transaction costs, information.

Institutional financial infrastructure operates at different levels of economic activity (company, sector, region, country, continent, world economy, the global economy). The financial infrastructure market analysis through its institutional content is most appropriate to the current state of the national economy and the challenges faced before.

Institutional financial infrastructure is much broader concept than the financial market since the financial infrastructure institutions operating in all parts of the economic system, while the market infrastructure provides only market economy functioning.

¹ North D. Institutions. Institutional change and Economic Performance / D. North. ; [tr-n from Eng. I. Dzub] — K.: Osnovy, 2000. — P. 27.

Institutional financial infrastructure is the bearer of the full range of social relations (political, economic, legal, psychological, etc.) and society interaction. The financial infrastructure is the same element, referring to financial relations. However, the social infrastructure that may properly be called personal (subjective) infrastructure associated with relationships, ensuring the human subject reproduction as crucial reproductive process in the unity of production, distribution, exchange and consumption.

It has already been convincingly proved that in today's transaction costs may be low, and primarily zero. The role of the state as the integration start-up the creation of institutional infrastructure facilities varies significantly from the way of supplies functions (infrastructure elements production field financing) to the regulatory authority implementation of rules and regulations for the effective capital and finance infrastructure functioning in the area. These rules and regulations should be, on the one hand, quite strict and protect the interests of society as a whole, and, on the other hand, to create favourable conditions for the capital inflow in infrastructure (such as tax incentives, procurement, etc.).

The institutional approach provides the possibility of redefining the financial infrastructure nature. This is not just a set of elements that ensure the smooth operation of multi-financial and economic relationships, market economy agents interaction, but a way of interaction of aggregate financial institutions, organizations and agencies that provide market free movement of capital, money, finance.

Infrastructure (by generic) reflects the economic relationships having developed at a certain stage of progress and specific to a particular society. Let us consider an analogy between Marx's thought the fundamental difference of economic society not for products produced and used by means of labor for the infrastructures' production and characterization. One economic system differs from the other (e.g., centrally-controlled economy and market one) not by general conditions necessary for normal economic system functioning (infrastructure in overall economic sense), and specific (prescriptive-distributive as to centrally-planned economy and market as to the market economy) infrastructure. In terms of two different economic systems the infrastructure somehow corresponds to the signs of planned market economy, nature of economic institutions and organizations, reflecting the actions content of planned or market mechanism.

During the economy development, mainly based on free competition and pricing, i.e. in terms of market dominance of spontaneous self-governance, the market infrastructure has developed correspondingly. The first function of market infrastructure, function of spontaneous self-regulation dominated. The transition to a mixed economy increasingly strengthens the role of

financial infrastructure regulatory mechanisms. This feature is typical of such financial market institutions as exchange, fairs, exhibitions, auctions, tenders, chambers of commerce, trade houses etc.

Classical infrastructure market is presented in the diagram (Fig. 3.5).

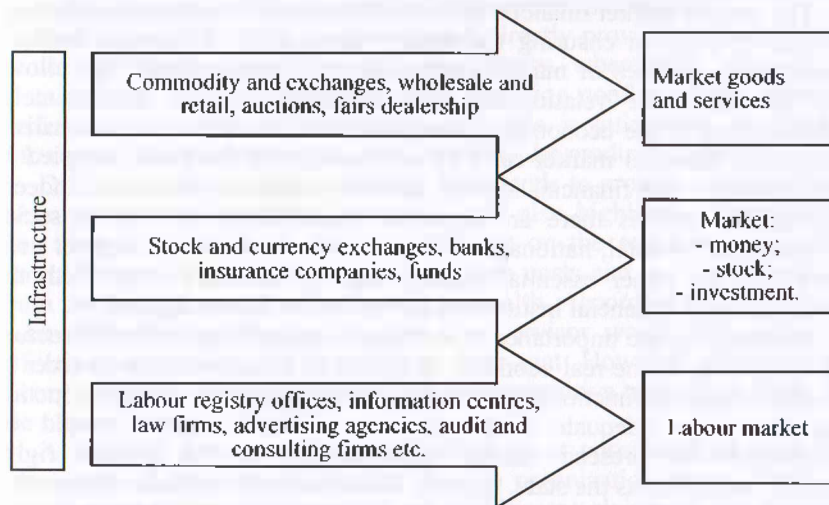


Figure 3.5. Market infrastructure and its components

Classification of market infrastructure and its specific content is determined by the characteristics of markets within which its elements operate.

In modern market economy the exchange (public or joint-stock organization) pertains the following functions: 1) providing a place for trade (where buyers and sellers gather and agree on prices); 2) organizing exchange trading; 3) establishing trade rules, including standards for products sold through a stock exchange; 4) developing packages of standard contracts on purchase and sale; 5) settlement or arbitration of disputes; 6) information activity; 7) providing certain guarantees in transactions with securities or goods, receiving specific commission for this.

Creating organizational, technical, and economic institutions of the financial market infrastructure in Ukraine according to the concept of Ukraine's transition to a market economy mainly has taken place. Though, this does not ensure proper, civilized development of the market economy and the financial market infrastructure. For example, the establishing a significant number of exchanges would encourage business activity increase. However, it did not happen.

Obviously, a significant increase in the number of exchanges without adequate changes in institutional environment of all market transactions and institutional development of the financial infrastructure caused an increase in volume of transactions of new exchanges establishing.

The content market financial infrastructure should be determined through the role it plays in ensuring the proper functioning of financial markets through the activities of market institutions and organizations. This allows you to show the relationship and interaction within the financial infrastructure of the economic system. However, from the institutionalism standpoint, financial market can't be connected with the place occupied in the economic and financial system, and an impact of the latter. Indeed, beyond the analysis there are important social elements such as socio-psychological, mental, national, legal, government, religious and other non-economic, but rather essential factors, that can seriously affect both the infrastructure of financial institutions and the entire market system.

Emphasizing the importance of developed market financial infrastructure for the growth of the real economy, it should be mentioned that in order to provide economy functioning, including technical limits of its production capacity, there adequate incentives for economic agents should be established. The presence of the latter depends on the property rights scheme, which forms the state. Specific incentives and schemes of rights that are required to be developed due to the financial market to bring the economy to its production capacity technical limits will depend on available technologies and a number of other circumstances.

Determining limitations on the economy productive capacity are the following factors:

1) measures by which individuals, making decisions, assume full costs and benefits associated with their actions, leading to increased productivity. In this regard, D. North warns that 'economic organizations, promoting economic growth, may do so through internalization of benefits and externalization of costs, increasing the return rate on a separate' productive 'economic activity, and expenses fell on another population stratum'¹;

2) measure of the property rights definition clarity and their protection reliability now and in future, and to what extent conflicts over property and enforce contracts can be settled at low cost. Clear property rights reservation and reliability encourage investors to increase the substantial production capital of economy;

¹ North Douglass C. Structure and Change in Economic History / Douglass C. North. — New York : W.W. Norton, 1981. — P. 62.

3) measure of the ownership schemes contribution into reducing costs are associated with the changes in the assets and goods parameters, with the transition of financial resources ownership from one owner to another. Creating scheme rights, which reduce the cost of transactional process, can bring the economy to the technical limits of production capacity;

4) the extent to which the government directly provides financial assets ownership for the most favourable opportunity, where high transactional costs prevent voluntary exchange. If in resolving conflicts about mutually exclusive options of resources usage the state is guided by neoclassical criterion of maximizing wealth, it can promote the production growth.

Different causes, due to which the State tends to provide property rights incompatible with economic prosperity, are also highlighted according to this theory. However, all these explications on the one hand arise from contradictions of information and transaction costs and, on the other hand, from the struggle over the distribution of wealth. According to D. North, 'in a situation of zero transaction costs a supervisor would first devise an effective set of rules, and then sell on their rent. However, this economic theory principle of welfare simply ignores the positive transaction costs, but the whole thing is in them'¹.

A financial company on mutual principles is considered an important constituent of the financial market. It is an organization whose clients on mutual grounds are simultaneously residual income claimants. For example, policyholders of mutual insurance companies, mutual fund shareholders and commercial banks' founders have rights for residual income. On their request they have to be paid a certain amount of money according to predefined rules.

In such companies the managers are separated from risk carriers. Claims which have to be paid can be interpreted as inexpensive and effective control means only when residual income claimants withdraw their resources and there is a possibility to liquidate the assets when the costs are relatively low. According to this view, financial companies' equity assets should not be specific, and their sale is not associated with high transaction costs. Thus, the claims which have to be paid can act as very convenient control means of the organizations, dealing with holding of financial assets. Among the variety of all financial institutions, according to Eugene Fama and Michael Jensen, 'financial incorporated companies should be more than mutual companies involved in economic activity that differs from that of financial assets. Majority of these non-financial assets are involved in this activity, the

¹ North Douglass C. *Structure and Change in Economic History* / Douglass C. North. — New York : W.W. Norton, 1981. — P. 28.

change of which is definitely costly¹. However, such restrictions mostly characterize the financial incorporated companies' portfolios. They do not prevent residual income claimants to make decisions based on the principle of maximizing of wealth or market value.

Due to the relatively effective multidivisional control mechanism, typical for financial companies, residual income claimants are only partially interested in keeping control by the administration over decisions making and implementation. The role of the administration, especially in small financial companies, is limited to supervision, because of the agents' relationships. Residual income repayment claims protects against these relationships only to a very small degree (e.g., fraud and theft of financial assets by the agents of the firm).

According to the definition of the incorporated company offered by Armen Alchian and David Woodward, these companies refer not only to financial ones but also to paid nursing homes, country clubs and other secular clubs. The authors consider that the principle of reciprocity allows its members: 1) to prevent the company value alienation by the external stockholders by means of reducing the quality of services; 2) to save income from new members' admission for the officials of the company. However, if people could replace each other in secular ways, there would be no social value to be alienated, just as there is none in those companies where employees are perfect substitutes².

Incorporated companies are the most popular and influential among the economic organizations in market economy. The main reasons for their popularity in modern economy are the following:

1) joint-stock companies provide functioning of large financial institutions that form the financial basis of the economy. Joint financial companies (e.g. banks) are often considered to be the only way to involve large financial groups in the market system;

2) joint-stock companies have more financial stability and larger 'safety margin' in the unfavourable period due to their more extensive accumulation capacity;

3) joint-stock companies can be used in any field of economy and finance (industry and banking, transport and trade;

4) due to shareholdings, the joint-stock companies can form common industrial and financial complexes, thus allowing to control the entire production process and the use of financial assets.

¹ Eggertsson T. *Economic Behavior and Institutions* / T. Eggertsson; [translation from Eng. M. Y. Kazhdan]; scientific editor of translation. A. N. Nesterenko. — M.: Ekonomika, 2001. — P. 201.

² Armen A. *Reflections on the Theory of the Firm* / A. Armen, S. Woodward // *Journal of Institutional and Theoretical Economics*. — 1987. — № 1. — P. 133.

Advanced capital market is considered to be the mechanism of corporatization implementing. For Ukraine it is the issue of future. This problem can't be solved providing only stock trading conditions (legal — legislative and regulatory framework), (material — human resources, computer software), (institutional — exchange, brokerage firms). There is a large difference between the actual capabilities of shares acquisition subjects (investors and issuers).

National capital investors are constrained by high market demands for professionalism and mobility in the securities portfolios management. Foreign capital investors are constrained by a lack of information and high risk. Stable financial situation is not inherent for issuers. That is why they can't offer sufficiently reliable securities.

World experience shows that it is possible to resolve this contradiction due to the collective investing in securities by specialized companies and other intermediaries (investment funds). Having issued and sold the shares, the fund accumulates money of the investors' groups and then invests it into securities of the stock market. However, even the appearance of the investment funds doesn't guarantee the reliability of the Ukrainian joint stock companies. Stability and development of any joint-stock company first of all depend on the real investment, i.e. appearing of the working capital. Investment risks classification is presented in Table 3.6.

Table 3.6

Investment risks classification

Classification criteria	Type of risk
Perception detachment	objective (independent from the perception of events by the person who makes decisions); subjective (depending on the perception of events by the person who makes decisions)
Economic nature	damages, costs
Attribution of activity factors to certain environment	internal, external
Economic content of activity factors	manufacturing, administrative, financial, information, material, labour, legislative, consumer, price, monetary, international.

It should also be noted that transaction costs are influenced by several other factors, such as technology of evaluation and monitoring of the assets physical characteristics and the nature of exchange. According to any other equal conditions, transaction costs are relatively high when:

— complex assets are involved into the exchange (commercial bank, factory etc.);

— exchange includes time factor (e.g., when the entity makes a long-term credit agreement);

— exchange takes place only once between individuals (e.g. between the street vendor and a tourist);

— assets are depreciated in a way that is difficult to measure, and the exchange is not permanent (e.g., when some parts of the equipment are on lease and it is difficult to find out whether the equipment breakdown is the result of the mechanical failure, natural or physical deterioration or poor equipment);

— assets are of special nature and depend on the specific usage (e.g. pipeline that the oil-cleaning company leases for transportation of its products or a plant manufacturing spare parts for incompatible manufacturer).

It should be noted that in all modern financial theories two trends can be seen. The first deals with the increasing role and importance of the law in order to achieve effective economic and financial development. In this case, an emphasis is laid on the legal rules, even the latest ones, which can be powerless if society lacks general moral norms. American researchers say, that corruption at the state institutional level, government relations lobby groups emergence is the result of clannish interests. The ideas of necessary governmental support of certain companies or programs are introduced into the society with the help of mass media using the information asymmetry in order to achieve the intended goals. In this case, laws and rules protect specific interests of certain corrupted groups but the interests of the public. According to the neo-institutionalism supporters James Buchanan, Mancur Olson and Oliver Williamson, only the society with high moral standards can resist corrupted clans and thus protect both society and the State.

The second tendency deals with the financial science convergence, i.e. convergence concepts on micro and macro levels.

In the *History of Economic Analysis* (1954) Joseph Schumpeter focuses on the groundless division of economic theory into economics and business economics¹. According to the scientist, the subject of economics is 'all the facts and analysis tools related to the government conduct as well as the individual firms' behaviour'. In the theory of asymmetric information and neo-institutionalism, a close relationship between micro- and macro-level as two components of the whole i.e. economy is proved. According to Joseph Stiglitz, the dominant macroeconomic model is a firm. The scientist

¹ Schumpeter J. *History of Economic Analysis*: in 3 vol. / J. Schumpeter ; under the editorship of V. S. Avtonomov. — St.P., 2001. — 1666 p.

emphasizes on the integrated approach to the economy and to the finances in general. State finances, as the area of macro-level, are closely connected with the corporate finances at micro level with the help of direct and reverse relations. Thus, neo-institutional theory of transaction costs is inherently holistic and integrative.

3.7. The Concept of Financial Regulation in the Context of Globalization

Considering basic principles of monetarism, we supposedly «tried them on» our national economy. Let us now use neo-Keynesian and monetarist approaches to the analysis of the global financial economy as a whole.

Neo-Keynesian approach is based on the fact that deepening interdependence of national economies makes achieving global equilibrium using the free play of market forces almost impossible. These ideas are the basis for developing models of the world economy, which, however, cannot take into account the whole fullness and versatility of economic financial processes. Models were used to be built in static form, out of balance in the flow of goods and capital as a priority values. Achieving «harmony» in managing the world economy is prevented by different institutional regimes, fiscal, monetary, foreign trade policy. Experience shows that it becomes almost impossible to develop a common strategy, as there is a conflict of interests that is the most controversial concept in economics. Since the late sixteenth century in many European countries there appeared a word derived from the Latin word (interest, interesse etc) and gained considerable popularity. This concept implies fundamental forces based on self-preservation and self-aggrandizement attempt and that motivated or had to motivate the activities of the prince or state, an individual or group of individuals of similar social or economic status (classes, groups, interests). Exploring this phenomenon in the economy, A. Hirschman concluded that «the only definite and predictable characteristic of human affairs was their unpredictability, and it was useless to try to reduce human action to a single motive as, for example, an interest»¹.

Global monetarists propose fundamental changes in to the analysis approach: the global financial economy or global economy is not just an aggregate of national economies but a closed-end international financial system. Such basic macroeconomic indicators like real income (or product),

¹ Hirschman A.O. *Interests* / A.O.Hirschman // *Economic theory* / ed. J. Eatwell, M. Milgroyta, P. Newman; scientific. ed. corr. RAS B.C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 445.

price level, rate of interest, have become features of global processes. This is especially true about developing countries.

In modern times the national balance is not a national problem, but the problem of «global monetary system,» G. Johnson said. Some countries try to shift its monetary (financial) difficulties on the external world through import restrictions, transfusion of capital, which eventually worsens the balance of payments. «Excess money appear from deficit», it is well-captured by M. Bunkina content of what is happening in the monetary sector.¹

Today among economists there is almost no objection as to that a modern financial system as part of the international economy plays an important role in the future global development. However, according to researchers of global monetarism, this area is the most controversial, especially since a great change of social order in the early 70-ies of 20th century marked the transition from state-managed international monetary system (as it is described T. Padoa-Schioppa and F. Sakkomanni) during Bretton Woods (D-MIA) to the current market-driven system (P-MIA)². Today the internationalization of the financial system is gaining a phenomenal pace. The foundation of this process was the development of information technologies, rapid both in volume and in speed that repeatedly reduces the time and costs required for the data transfer and processing. Rapid transfusion of capital from country to country, the explosive expansion of the financial transactions of the international movement of financial assets and the international movement of state bonds is considerably overcoming the growth dynamics for material production and foreign economic relations. For example, in the late twentieth century global GDP growth was only 7–8% of the increase in foreign exchange reserves of central banks.³

According to Russian scientists, «150-year process of allocation of monetary and financial sector in the independent sector of economic activity, that is increasingly separating from the real economy, sometimes acting independently of it and only indirectly affecting economic processes, approached its highest point. The process of the new convergence between monetary & financial sphere and the real economy, the close interpenetration of these areas is objectively inevitable»⁴

¹ Bunkina M. K. Monetarism. — P. 13.

² Yuhhimenko P. I. Forming of the model of global monetarism: theoretical analysis / P. I. Yuhhimenko // Collection of the scientific works. — Edition 36. — K.: In-t's World. Economy, 2002. — P. 17.

³ Russian strategic response to the challenges of the new century / [L. Abalkin, I. A. Logos, N. G. Glowatskyyz et al.]; under the total. ed. L.I. Abalkina. — M.: Examination, 2004. — P. 482.

⁴ Looshin S.I. Financial globalization / S.I. Looshin // Finances. — 2001. — № 3. — P. 62.

Such dramatic changes in the world finance determine relative independence of globalization processes in this area, which are subject to the general laws of globalization, and have their own specifics. Some researchers of monetary globalization conclude that the global economic integration generally occurs as the development of global monetarism, where all countries are linked to each other by cross-flows of money capital, the acquisition of foreign assets¹. In future this process will be a practical issue both of imposing a regional currency like euro and a global currency.

Financial globalization is characterized by high mobility of capital and financial assets, global expansion of freedom of banks, the reduction of barriers to financial flows, increased cross-border mobility of capital. It is characterized by the following features:

— due to widespread internal liberalization of capital movements there is observed internationalization of financial portfolios (total number of MNCs in the early twenty-first century reached 63,000., foreign branches — more than 800,000., their accumulated foreign investment are close to \$6,000,000,000,000, and their global assets made up \$21,1 trillion)²;

— the decline of market relevance of banks as financial intermediary institutions (the growth of number of securities, bonds, derivatives, etc.);

— determination of exchange rates by financial markets because of the growth of international financial transactions with respect to trade (only 10% of foreign exchange transactions serve the foreign trade, and 90% are speculative)³;

— market instability across the financial system;

— market concentration, in which a relatively small group of institutions at the same time deal with trade in international markets, using paradoxical disposition to the effect of exchange rates that do not «teach» them with regard to their internal policies.

Modern scholars of the process of financial globalization distinguish seven groups of factors that influence its development (Table. 3.7).

¹ Shishkov V. Globalization of the economy — a product of industrialization and informatization of the socium / Y.V.Shishkov // Social studies and the present. — 2002. — № 3. — P. 153.

² Stukalo N.V. Globalization and development of the financial systems of Ukraine / N.V.Stukalo Finances of Ukraine. — 2005. — № 5. — P. 34.

³ Stukalo N.V. Globalization and development of the financial systems of Ukraine / N.V.Stukalo Finances of Ukraine. — 2005. — № 5. — P. 34.

Table 3.7

Factors of financial globalization development¹

Group of factors	Contents
Regulatory	<ul style="list-style-type: none"> • shifting of authorities from the state to the interstate level — weakening the state role in finance; • regionalization of financial activities; • free movement of capital; • strengthening the role of MNC; • critics of the role of international organizations, revision of their role
Qualitative changes in finance	<ul style="list-style-type: none"> • securitization; • active innovative development; • global financial crisis and the spread of «crisis contagion»; • speculative financial market; • global financial system is increasingly separating from the real economy
Technological	<ul style="list-style-type: none"> • development of information technology; • the emergence of global electronic market of financial services; • unlimited technological possibilities for financial contracts
Political	<ul style="list-style-type: none"> • the growing influence of political crises on the stability of financial markets
Psychological	<ul style="list-style-type: none"> • increasing influence of psychological expectations of participants of the financial market on development of events on financial markets
Humanization	<ul style="list-style-type: none"> • increasing gap between rich and poor people and countries; • the need to increase the role of an individual in finance; • humanization of finance; • development of ethical market shares
Other	<ul style="list-style-type: none"> • reduction of transaction costs; • growing influence of exogenous factors exogenous to the national economy; • growing impact of the liberalization of financial markets on commodity markets; • the possibility of solving global problems through concentration of resources on global financial markets

Under the influence of these factors over the last decades, there have been some changes in the international financial system. The first concerns the general relations that are coordinated and controlled monetary, fiscal relations and exchange rates, mainly between the main players in the Big

¹ Stukalo N. V. Globalization and development of the financial systems of Ukraine / N. V. Stukalo Finances of Ukraine. — 2005. — № 5. — P. 33.

Three (US, Japan, EU). In practice, this comes down to the definition of the global money proposal and manipulation of exchange rates since the late 70th of 20th century the coordination of fiscal policy is not advanced to pre-plan her economic policies. Attempts to control multinational international liquidity collapsed after 1979 (the foundation of European Economic and Monetary Union). This led to a fundamental management mismatch, which characterizes the current period, namely: institutional gap between the financial system, which is internationalizing more and more, and simultaneously retains its national authority of central banks and national regulatory mechanisms of financial markets and institutions.

Globalization of financial market leads to disruption of relationship between the dynamics of GDP and money supply growth; it can also cause the inflation and endanger all monetary attempts to regulate the economy. The violation of the mentioned dynamics at the end of the 70–80-ies of 20th century A. Kogan linked to a sharp jump in prices during this period (in 10 times)¹.

Formation of global financial and monetary system is also changing the main purpose of money itself: it increasingly turns into ordinary goods, and speculations on the exchange rate fluctuation are the most profitable market transactions. Money turned into goods and renders services for virtual economy. Currency speculations belong to the most profitable market transactions, where the central country of the world dollar system — USA gets the highest profit. Emergency emissions in dollars to cover the negative balance of foreign trade associated global inflation in the US in the second half of the twentieth century. Robert Gilpin notes that the US collects worldwide emission tax, which is the basis for disputes with other highly developed countries². This situation is believed by D. Lukyanenko D. and A. Bakaev to increase the probability of financial crises. Furthermore, such financial conditions stipulate escalating crises into the global ones and wide spreading of «crisis infection» through overestimation by investors and creditors the risk aggregate of their investment and loan portfolios due to losses in the crisis-riddled country that is followed with withdrawal of the most risky assets in other economies³. This result was confirmed by the global financial crisis in 2009.

¹ Kogan A. Money price and the theory of labor value. The new paradigm of the labor theory of cost / Kogan — M: Fin. Statistics, 1991. — P. 12-13.

² See for more det.: Gitman L.J. Investing Basics / L.J. Gitman, M.D. Jonks. — M. Business, 1997. — P. 52-87.

³ See for more det.: Luk'yanenko D. Globalisation of the economic development: financial crises / D.Luk'yanenko, O. Bakaev // Market of the valuable financial papers of Ukraine. — 2003. — № 3-4. — P. 3-14.

The question of infringement of monetary and production dynamics at world markets were the focus of discussion at the summit of the «big three», «seven» and «eight». However, today there is still lack of the appropriate institutional basis when there is no any permanent secretariat during these meetings, they are held in informal manner without rigid procedural rules or formal agenda. There also no corresponding external accounting of decisions and sanctions for national entities if they do not implement the concluded agreements. Therefore, for the control of international liquidity there was adopted a number of special interventional measures and the structure of institutional management had never been established. However, if an international central bank is not part of the P-MIA, the issue of control of cash flow is delegated to a certain country and its central bank. In practice, such managerial regulator adopting measures of control and regulation is US Federal Bureau of Reserves because: 1) International financial system by the end of 1990 continued to speak the language of the dollar (that is why economists will always propose dollar as a world currency); 2) euro was introduced to perform this role during particular transactions in foreign currency and portfolio investments (in 1996 the share of global private investment portfolio in US dollars and euro almost reached parity, and in 2003 this proportion was under 45.5 and 34.3%); 3) Japanese Yen has relatively little value as a currency for international transactions (within the private world portfolio its share is about 16%), but gained some advantages as a measure of assets (mainly due to appreciation of the yen versus the US dollar and German mark until 1996)¹.

The significance of these trends is found in the growing importance of relations between the USA and Europe for international governance and acceleration of development, if the euro will be a rival for the dollar. After the beginning of the 21st century total number of countries and territories that are somehow focused in their exchange rate regime to the US dollar, was 94, Euro — 63²

Thus, the dominance of the two main blocks in the Triad will intensify. The situation will really develop that way, taking into account the problems of Japanese economy in the 90-ies of the 20th century and deterioration of the crisis in the Far East and Latin America in 1998. If Japan does not strengthen its position, the center of gravity of the international system will shift to North Atlantic.

¹ Oleinov A. The currency structure of international economic relations at the beginning of the XXI century / A. Oleinov // Questions of economy. — 2005. — № 4. — P. 45.

² Oleinov A. The currency structure of international economic relations at the beginning of the XXI century / A. Oleinov // Questions of economy. — 2005. — № 4. — P. 55.

Another important aspect of the P-MIA control is international payment mechanisms that characterize the improved institutional arrangements. Interstate payment systems in international financial transactions may not become a particularly important aspect of the international monetary system, but they really needed to do all of the financial activities on bank or stock markets. The effectiveness of this activity depends on the stability and availability of the principle of a strong state that provides a clear implementation of relevant agreements because national central banks play an important role in creating and overseeing payment mechanisms. If this place of central banks remains vacant at the international level then there will grow the risk of default and the turmoil across the financial system. Monetarists explain this phenomenon as follows: «The actions of central banks are deliberately intended to influence the state of the economy, and they are not based on normal business considerations, such as, for example, getting of profit»¹.

Monetarists also believe that the expansion of international financial transactions is caused by the need to improve the efficiency of payment services, which resulted in the growth of the corporate and coordination mechanisms for the monitoring and regulation of encoding operations (delegated to Bank for International Settlements and chaired by the Group of Experts on Payment Systems). Such initiatives of central banks of «big ten» were followed by similar measures in EU that resulted in creation of B-STEM, the center of which was the European Central Bank (ECB), which provided livelihoods of euro. Such system can easily be spread to the new EU members from Central and Eastern Europe².

Fast gain of confidence by ECB was promoted by two important factors: weighed and skillfully implemented monetary policy and the absence after introduction of the euro of internal and external shocks that could call into question the efficiency of the ECB. The latter is indeed a major participant in organized financial markets. According to monetarists, it is «in their assets an important place is occupied by market financial instruments.»³ Skillfully using them, the ECB retains sufficient stability for successful economic development of the countries that are members of the European Union.

However, some foreign economists who objectified a key role to ensure price stability in the medium-term macro-lash balance in the euro zone claim an urgent need to provide more active and closer interaction of the single monetary policy with other areas of economic and financial policy. The main

¹ Lindsay D.E. Monetary policy. — P. 566.

² Yukhimenko P. I. Formation and development of the monetary conceptions: history-economic analysis [monograph] / Yukhimenko P. I. — K.: IAEUAAN, 2003. — P. 212.

³ Tobin J. Financial Intermediaries. — P. 328.

directions of economic and financial policies in the European Union (budgetary, fiscal, structural, social, regional), according to the EU Agency Consultant in Exchange of Financial Technologies A. Maes (Luxembourg), must be as closely coordinated as far it is necessary to support the single monetary policy of the ECB. The lack of unity will have negative consequences in case of shocks (e.g.: significant and long-term increase in energy prices)¹

F. Hankel, professor of Frankfurt University, emphasizes on the internal contradictions and lack of flexibility in monetary policy of the ECB. They are associated with the inability to maintain long-term common interest in terms of significant differences in production structures and trends in the economic cycle development, as well as the approach to the regulation of the labor market in all EU countries. He believes that monetary economics should only serve the real economy but it should not dominate it².

L. Ball, taking into account the high level of trust to the ECB and its monetary policy, proposes that the ECB must be in charge of some issues of regulation the situation in the real economy, including the labor market, since, according to the economist, the policy restriction of central banks of the EU in the late 80's — early 90's were imposed to ensure the compliance of countries-candidates for admission to EMU Maastricht criteria agreements, the parameter of inflation and caused a significant increase in unemployment in these countries. His position is shared by British economist J. Ashley³.

In terms of global monetarism the surveillance over organizations in banking and financial markets is equally important. The decisive one on this issue in modern conditions has become the political initiative of «Basel Concordat in 1975» between countries of «Big Twenty» and «thirty», which defined the leading role of the Bank for International payments in the supervision of international financial institutions. In 1988, on the basis of the adopted declaration, Basel Committee approved the Agreement of Capital, which is now the most important international agreement in the field of banking surveillance. The agreement was a basis for developing further steps and defined the rules to calculate the sufficiency of fixed assets and setting minimum standards of business volume for banks involved in international

¹ Yukhimenko P. I. Formation and development of the monetary conceptions: history-economic analysis [monograph] / Yukhimenko P. I. — K.: IAEUJAN, 2003. — P. 212.

² Дет. див.: *Hankel Wh.* Prospects of the European Monetary Integration and Ukraine. What is Happening to Euro? Center for Monetary Policy within NBU Council / Wh. Hankel // Newsletter. — 2002. — V. 1. — P. 31-35.

³ Pishchik V. Euro and macroeconomic balance in the EU / V. Pishchik // World economy and international relations. — 2003. — № 3. — P. 27-28.

activities. Later, credit risk evaluation methods were supplemented by market risk and derivatives assessment as well as other procedures. Basel Agreement became a basis for the EU financial system formation, which adopted a directive determining the sufficiency banks' fixed assets back in 1989¹.

It should be noted that the work of the Basel Committee from the beginning of the summits was similar to the «Big three», «Seven», «Eight». The meeting was held as a forum for exchanging ideas in an informal setting, without any rules, procedures or powers. However, under the influence of global monetarist's ideas general rules were developed and the committee monitored their implementation. The Committee does not intend to do further liberalization of capital and banking market, it is prerogative of national governments' policy. The organizations conducting activities in international finance and central banks associated with them are in its focus during the economy and world financial markets' liberalization. The Committee follows needs of banks, institutions involved in securities transactions, governments being interested in codified and duly made international financial environment during the period of global monetarism establishment. The work of the Basel Committee regarding international banking system is complemented by the International Organization of Securities Commissions (IOSCO), which was created following the pattern of the Basel Committee in 1986 and deals with other aspects of international financial transactions, mainly supervision of securities market.

IOSCO contributes to harmonization and cooperation between different national regulatory environments. Among the main issues discussed during their last meeting were capital adequacy standards, supervision of financial conglomerates, international standards of auditing, coordination between the markets of real goods and the markets of derivatives, money laundering, counter-backroom deals, transparency of transactions on secondary securities markets. The organization established a number of technical committees to study these issues in order to harmonize regulatory principles²

However, the question is for what purpose in the liberalization of international economic relations and financial market, which is the main ideology of modern monetarism, new coordinating agencies that regulate financial cycles and operations and manage them are established. As pointed out by some researchers (V. Kepstain, E. Hellayner etc.), the purpose of the Basel Committee was meeting both the needs of governments as expressed

¹ Theory of finances / ed. O.D. Vasylyk. — P. 297-298.

² Gerst P. Doubts of globalization. International economy and the possibilities of management / A.P. Gerst, G. Thompson; [trans. from English. A. O. Voytyvych and O.Orlenko]. — K.: K.I.S., 2002. — P. 265.

through their central banks and commercial companies involved in financial intermediation¹.

It is extraordinary, that financial innovations in the emerging global monetarism, caused by national liberalization and deregulation of financial markets in 80s of the twentieth century as well as by technological development of information and communication systems, made central banks and managers of financial institutions feel out of control. The development «off-balance sheet» activities of banks and other organizations, based on meetings (options, swaps, forwards and futures), distorted stable and clear methods of commercial management of firms and countries. New technologies, expected to provide necessary data for managers, actually led to a feeling of loss of control over financial activities. Business entities were not aware of their «capital basis» i.e. the way it operates in the sphere of credit and market risks. This understanding was violated by modern financial engineering of the 80s.

The system of global monetarism formation rate and, accordingly, the introduction of new monetary instruments that arose in terms of the need to make urgent decisions by stock exchange dealers led to the fact that even managers of commercial banks were afraid of the dangers and risks of loss of their companies' fixed assets. Central banks in such circumstances felt the necessity to restore the transparency of international activity due to the improvement of a new international monetary system and its penchant for speculative transactions. The problem in 2000 was in the focus of the Washington Conference «The Future of monetary policy and banking»².

According to the mentioned above researchers, such uneasiness among central banks, governments and major commercial banks in the emerging global monetarism was caused (and later was strengthened) by a number of banking crises / crashes of the 70–80's (Bankhaus Herstatt in Germany, Franklin National Bank in New York, British-Israeli bank in London, Banco Ambrosiano 1982–1983, BCCI in 1992, Barings in 1995). These banking crises strengthened the interaction between national governments and international financial agencies. Especially this cooperation had an impact on supervision and monitoring in the monetary area.

The contribution of national governments in creation of R-MIA and the necessity to comply with international financial management requirements was emphasized by E. Hellayner, W. Capstan, V. Champ and M. Friedman and many other scholars of global monetarism. According to them,

¹ See for more det.: Classen E.-M. Global Monetary Economics. — P. 223-227.

² Future of Monetary Policy and Banking. Conference in Washington D.C. [Електрон. ресурс]. — Access: <http://www.worldbank.org>.

dissociation from D-MIA MIA to P occurred under the influence of powerful economic and technological forces, not political change, not just change P-MIA further weakened the ability of national governments to manage modern financial system. This is actually so because the West declares an approach of the «cashless society». However, modern monetarists are optimistic about these changes. According to the academician A. Chukhno «electronic money» significantly elevate the role of banks, increase their influence on the money turnover. «The relationship 'bank vs. client' are transformed from sporadic into permanent»¹.

Transition of the mot of countries to liberalized national financial and monetary system was held in the 80's of the twentieth century due to deliberate political decisions made despite the views of politicians. However, according to V. Capstan, natural development of a new international regulatory system was also accelerated by the governments that were crucial to its life. For example, the United States took the lead in ensuring Basel Agreement of 1988. Under these conditions the supervision of financial institutions by the countries of origin of a company began prevail over the countries where the company worked, V. Capstan calls this an international cooperation under the control of the country of origin, which gradually gained recognition of all members and remains decisive in the current global financial system performance².

In practice, there is a misconception regarding the rights of control between resident countries (the source countries of the company) and the countries where the company operates, as well as between multinational organizations that claim to regulate and supervise financial institutions, but the role of the resident country in this process is crucial. It was proved by the actions of Singapore government towards Baring bank crisis in May 1995, which headed the investigation and subsequently punished the bank administration. This procedure was approved by the Government of the United Kingdom and London Supervisory Board. The collapse of the US guarantee fund — the Fund for long-term capital controls — in October 1998 is another consequence of growing crisis. Federal Office of US stocks guided salvation of the Fund and succeeded in it.

The validity of Basel Agreement is indicated by termination of efforts of most countries, which were not directly involved in its concluding, to accede to the regulatory base. This is due to the desire of the central banks of other countries to get some «credit status», comparable to the status of accredited

¹ Chukhno A.A. Postindustrial economy: theory, practice and their significance for Ukraine. — P. 545.

² Ibid.

banks of «Big Twenty», which is determined by adhering to the Basel Agreement terms. However, the financial crisis of 1998 and 2009 revealed imperfect regulation mechanism of short-term bank loans for new market countries. The fixed assets indicators, according to the Bank for International Accounts (BIA), require fewer reserves than the long-term one for short-term international bank loans, which encourages short-term rather than long-term investments in developing countries.

The 1998's and 2009's financial crises revealed a number of irregularities, concerning international loans, in particular capital flows — a rapid transition from completely controlled to entirely free movement of capital. It looks like the transition from trade quotas for industrial goods to a completely free trade without undergoing tariff phase. That means that capital flows (including short-term) should be regulated with tariffs again. At present, the work of international financial system is to subsidize short-term capital flows and to «punish» long-term deposit capital, which is actually followed by the BIS. «Rescue» activities of the IMF that were taken in response to the crisis were particularly devastating because they somehow provided targeted short-term funds and simultaneously forced long-term capital and the real economy to obey to all the regulations.

Mechanisms of fare application to short-term loans include low taxes on short-term capital flows (Tobin tax), non-profit reserve requirements on new short-term capital inflows (as in Chile) and the proposal of J. Soros about International Corporation of credit insurance, which guarantees international loans to countries at reasonable charges¹. Consequently, the 1998 and 2009 financial crises revealed a need for more effective management and reform of the regulatory mechanism for more effective supervision of financial markets under financial globalization.

Describing the efficiency of the system, Bergsten proposed the idea of a new multinational agency for regulation and supervision of all types of marketing activities under the same roof (Agency for capital markets Supervision)². The current system of national cooperation based on the country-resident control works well when it comes to banking supervision, and is quite ineffective in securities markets. Therefore, in our opinion, it is necessary to strengthen both sides rather than put an obstacle in the form of another hierarchical international institution.

New conditions of formation and development of the world market have induced national governments to unite in order to organize supervision in the new situation. However, this market supervision in the international

¹ Yukhimenko P I. Formation of the model of global monetarism. — P. 21.

² See for more det. Hurst P. Doubts in globalization. — P. 132-134.

economy remains limited. The regulation does not involve price changes established by markets or directions of financial flows. Currency markets remain free and exchange rates find their levels themselves. Consequently, the unsolved problem is speculative short-term capital flows, which could impede implementation of reasonable national economic policies, cause chaos in their financial sectors, which proves the necessity to strengthen existing mechanisms of control over redirection of financial flows. As 1998's and 2009's financial crises demonstrated an outright irrationality of speculative activity and potentially destructive and dangerous nature of completely equivalent markets in international financial area.

According to M. Friedman, R. Mandella, D. R. Atkinson, R. Kill and others, under the new conditions it is advisable to create «reasonable corridors for exchange rates where currencies are allowed to fluctuate». However, these corridors should be wide since they act only as «indicators» of stability of economic fundamentals. For example, «currency corridor» between dollar and euro, according to Mandell, may be as follows: a lower limit for the euro is the exchange rate of \$0.85/ 1 euro and the upper is \$1.15/ 1 euro¹. Due to certainty wide corridors have an advantage over floating rates. They are easier to install than to fund the exchange rates partially, they do not create many kinds of speculative activity during periods of crises or transition (as adapted obsolete fixed exchange rates EMU). This is a new management strategy of financial markets for implementing taxes on short-term (speculative) foreign exchange transactions by the countries with major financial centers due to the reduction of possible profits from turnover.

It is clear that the tax can be quite efficient as a means of income rather than an instrument to prevent speculative operations, but it can cause additional complications in determining the recipient of these revenues and how they should be used. Some modern scholars of global monetarism suggest that a floating exchange rate with a clear fluctuation to the end of the period can be considered perfect². This reference point may be one of the stabilizing factors of economic activity, which is extremely important for Ukraine at this stage of development. Note that for its implementation large foreign currency reserves of the central bank are required.

In the period of economic stabilization in 2001–2004 Ukrainian exchange rate government policy and the National Bank were characterized as close this policy. This meant to stabilize inflation expectations and minimize fluctuations of RER (real exchange rate) of hryvnia against dollar as the main currency of foreign payments in Ukraine. However, as it is noted by

¹ Yukhimenko P.I. Formation and development of monetarist conceptions. — P. 219.

² Kosoy A.M. Modern Money / A.M. Kosoy // Money and the credit. — 2002. — № 6. — P.51.

Ukrainian researchers, fixation of hryvnia exchange rate against dollar in terms of easing its exchange position in world markets actually caused significant devaluation of hryvnia exchange rate against currencies both of leading countries and of Ukraine trading partners¹.

In their studies, G. Holtham and P. Kennan admit the possibility of some «controlled» speculations that can really reduce risk, stabilize currency and reduce uncertainty². The task is to prevent speculative activity itself, and although «target reference points» may be useful in connection with the Tobin tax, legal governmental constraints are also required for institutions authorized to conduct foreign exchange transactions. Restrictions for business with derivatives, arranged according to institutional framework (e.g. restriction of the right for the business only to regulated banking organizations) will enhance the possibility to control it. An example is hedging funds. When they functioned as basic intermediary (a kind of insurance policy against fluctuations), their activity was economically justified and useful. In the period of expanding the boundaries of the business, such as the operation at its own expense, the problems began. It touched both their stability (increased fluctuations when compared to ordinary fluctuations in exchange rates and interest rates) and the countries whose currency they speculated with.

Equally important is the question of how to prevent capital «outflow» from one market to another. The development of financial globalization, according to monetarists, leads to «collateral» contagion from one financial sector to another that is similar to the relationship between foreign exchange and securities markets, and also causes panic and crisis. The policy should regulate this process. To ensure a successful integration process, according to B. Balassa there must be a transition to fixed rates, «though exchange rate flexibility is required precondition for compensation of differences in tax systems, it is believed that integration should be followed by transition to fixed rates. However, the success of such activities depends on coordination, and then there should be the uniting of monetary and fiscal policy, because otherwise there appears the pressure, which leads to changes in exchange rates. Fixed exchange rate should therefore be considered as the end result of economic policy coordination rather than as an intermediate step towards economic integration»³.

¹ Vakhnenko T. Optimization of exchange rate policy in Ukraine / T. Vakhnenko // *Economy of Ukraine* — 2005. — № 1. — P. 28.

² Yukhimenko P.I. Formation model of global monetarism. — P. 23.

³ Balass B. *Economic Integration* / Balass B. // *Economic theory* / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. ed. Corresponding second reading. RAS B.C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 231.

This way was used by Central European post-socialist countries during transformational changes. Oriented on the course of market economy, they had to introduce exchange rate systems to ensure participation of their economies in global economic system, including: free navigation system (Romania), a system of target zones, a currency basket fixed rates system (Czech Republic, Hungary) and others. For Ukraine, as it is noted by Ukrainian researchers, the problem of optimal exchange rate choice still exists.

To implement such regulation, according to U. Akouzi, R. Garber and other, it is necessary to sign a number of agreements, at least between the «Big Twenty» (even an agreement of «big three» can provide validity of some measures)¹. Some experts in international monetary issues and central bankers begin more often to talk about the limited, controlled foreign exchange multilateral relations under the slogan of «new Bretton Woods». The use of this term means to restore functions and objectives of the former international institutions to promote the growth of industrial production and full employment rather than some mechanisms formed at the height of the system. The issues occurring in modern conditions of global monetarism are much more complicated than in the period of 1958–1971. Here is a problem of a possible hegemon, the role played by the United States since 1964 to 1972, and the analogy with full convertibility. In fact, these issues are not technical, but political since they require political will of developed countries.

So, by nature, mobility and the use of modern communication facilities the most favorable conditions for development of globalization are created in financial markets. To conduct effective financial policies it is necessary to consider modern structural changes and trends of financial markets. They are as follows:

- changes in the international financial sector, which is characterized by formation of not only the euro zone, but also by internal changes — merging of banking and insurance business;
- certain changes were in functions of financial institutions. In addition to lending and deposit services — traditional sphere of their activities — they run investment business that requires solving problems of unified currency payments to avoid speculative motives;
- under the influence of privatization and development of an appropriate infrastructure share capital market expanded;
- in modern conditions of capital movement intensification there appeared new forms of investment securities (modern versions of futures, options and other secondary and hybrid securities);

¹ Klochko V.P. Financial Globalization: positives and negatives for economic transition / V. P. Klochko // Actual problems of economy — 2002. — № 5. — P. 46.

- at global financial market the new institutions deal with financial insurance and redistribution of the financial market (hedging funds, etc.);
- during general weakening of the national central banks role, the role of intermediaries and speculative nature of their activities grows;
- modern microelectronic technologies that are used by financial institutions ensure their 24-hours work on world markets, which requires increased control over their activities within national states and internationally.

All of the mentioned above changes in the process of financial globalization have positive and negative aspects. The latter include, firstly, greater opportunities for speculating changes in exchange rates, shares and other financial assets and, secondly, strengthening elements of instability, which can lead to serious consequences for the global financial system. To mitigate these negative effects, it is necessary to promote publicity growth of national economies by means of mobilizing international financial institutions to overcome crisis, ensure transparency of financial transactions (of course, subject to trade secret), building new production factors, information and intellectual resources.

Among positive sides of the global financial market there are: 1) reducing cyclical fluctuations for participating countries; 2) increase of the efficiency of the common economic policy; 3) the use of EU budget funds to align economic development and restructure depressed sectors of economy, support of national currency by means of common monetary policy measures; 4) reduction of tax and customs barriers. It is clear that for their implementation it is necessary to create a multi-level management structure of coordinated national and global links, which would be able to reconcile the interests of subjects at different levels, to prevent the negative impact of globalization phenomena. Especially it is so for the countries in transition to a market economy.

Another important aspect of global monetarism attention is the development of world money and monetary relations concept. It is closely related to the innovations that J. Keynes enriched economic theory.

For a long time the institutional basis of the concept ideas was the gold standard. The process of leveling the balance of payments in terms of metallic monetary systems seemed to be simple and reliable. In case of deficits: the outflow of gold — reducing the quantity of money in circulation — price cuts — stimulating effect on the country's exports and inhibitory on its import — balance is aligned. In case of a significant surplus in balance of payments — the reverse process: the influx of gold — the increase in money circulation — rising prices — shifting of customers to cheaper foreign goods — increased imports — the outflow of gold — equaling of balance.

History of Bretton — Woods system ended in abolition of dollars exchange for gold according to the official parity for foreign governments and central banks by the US government in 1971. In the process of searching a way out of the situation neoclassicists and neo Keynesians put forward three main doctrines of stabilizing monetary sphere — neo-metallic internationalization of exchange rate mechanism and «floating» rates. Some economists saw the main cause of monetary discord is in reducing the role of gold. Their arguments were fully set forth in the writings of a French economist Jean Ryueff. He substantiated three negative effects of transition from gold to currency, and later — to the dollar standard: 1) covering their external obligations by paper money led to the loss of gold impact, automatic adjustment mechanism of balance of payments was locked; 2) the gold and foreign currency standard leads to the government use of reserve currencies of the countries whose national currencies have no international status; 3) US balance of payments deficit and debt accumulation abroad leads to instability of reserve currencies and discord of all the international finance — a currency crisis as a result.

The way out is seen in return to international accounts based on gold. The program of J. Ryueff supposed to give all countries the right at any time to exchange foreign currency for gold. According to him, in such circumstances of accumulation of large short-term debt of some countries to the others would have been impossible. Their implementation is likely to limit opportunities of the US economic expansion. However, these proposals were not supported by most Western economists and the IMF, which adhered to the course of gold demonetization.

Economists again returned to J. Keynes proposals that were described in his work «The general theory of employment, interest and money» (1936). It is known that the author moved away from the traditional opposition of money to only commodity prices and advanced a thesis about interdependence between the amount of money in circulation and the level of national income. The main force restoring the balance of payments is not the price movements due to changes in the quantity of money in the country, but changes in the level of business activity, employment and income, which directly affects the state foreign trade.

G. Keynes's and A. Hansen's ideas in the period of disconnection between dollar and gold were officially supported by many modern monetarists (e.g., L. Krause, W. Willet, M. Friedman, G. Haberler, etc.). The difference between their beliefs was that the release channel of dollars into international circulation, instead of importing gold to the United States, became known as imports of goods and services and the acquisition of material and financial assets abroad. In its most general form these opinions

were outlined by John. Polk in his book «What happens in international business» (1971), recognizing dollar a really valuable international means of payment (world money), and the Federal Reserve (dollars issuer) as a global creditor, whose task was to increase dollar supply in international circulation in accordance with boost trade growth and international investment¹.

Despite the fact this scheme was more realistic in comparison with the neoclassic, based on price changes, its disadvantage was that it contradicts the basic Keynesian position maintaining high employment. Keynes predicted decrease rate of interest, the growth of money in circulation, demand payment stimulation, encouraging investment as a means to combat unemployment. Meanwhile, in case of payments balance deficit governments have to take opposite steps — to raise the rate of interest, to restrict money supply to stimulate demand, reduce government spending. In practice, the balance of payments deficit reduces the level of business activity and employment, but the deliberate elimination is achieved by rising unemployment. So we have a conflict between internal stability and international balance, which negates the whole «efficiency» of Keynesian doctrine.

To overcome this contradiction, J. Keynes proposed the idea of forming a «controlled power» and creating international liquidity reserve by mutual credit support. Their use should provide each country with an additional time limit within which the process of restoring the balance of payments would occur without violation of inner balance that stimulated unemployment. The plan to create «an international clearing union» that would issue its own international currency («bancor»), had to implement Keynes' idea.

Based on the above ideas, the neo-Keynesians, in particular R. Triffin, proposed a system in which, firstly, countries can increase their holdings in national currencies of other countries higher than a certain value (15% of total reserves) and secondly they must keep not less than 20% of the total value of reserves as a reserve deposits with the IMF (for the rest of the country's stocks retain the right to choose between gold and deposits and the IMF). This approach meant that the overall level of international liquidity will be regulated according to the economic needs with the negotiated prices of member countries².

R. Triffin's monetary reform, according to the author, retains the core of Keynes plan, but it contains measures that block the inflationary impact. First of all, as to American economists, strict control over the size of IMF loans and providing its member states with the right to exchange money on

¹ Yukhimenko P.I. Formation and development of monetarist conceptions. — P. 224-225.

² See for more det. Sarkysyants A. The role of the banks in the economy. — P. 4-8.

deposit accounts of IMF if they exceed the required minimum level for gold. In financial and academic circles the doctrine of currency internationalization mechanism found its adherents. It was supported by R. Harrod, D. Angell, A. Leigh (UK); L. Krause, W. Martin, R. Solomon (USA); F. Peru, J. Denise (France), since Triffin's proposal generally meet the global trend towards internationalization of economic life.

A disadvantage of R. Triffin's doctrine is that the gold standard system role reassessment in the development of inflation and a sharp disequilibrium of international payments in the capitalist world. The experience confirmed that the basis of these phenomena is of deeper reasons, including internal. One can hardly reject challenges of internationalization and monetary system that are associated the level of development and the interest of some conglomerate farms mismatch, despite the trend towards integration of the world economy. The above reasons are the basis for special attention to review works of monetarists — the major theoretical Keynesian opponents M. Friedman's works implemented a program of economic reform of this monetary stream. As noted by M. Kawai, «the assumption of inflexibility of prices and wage rates served as a basis for M. Friedman reasoning in favor of floating rates and for further development of the of optimum currency areas theory»¹. The author of this theory was R. Mundell. During the years of many different discussions many different proposals were drafted to reform international monetary system (tab. 3.8).

Table 3.8

Proposals for reforming the international monetary system

Stream of economic opinion	Authors	Offers
Orthodox Keynesianism	E. Hansen (Harvard University, National Office of Resource Planning USA)	Active macroeconomic policy under existing international agreements, compensation program of fiscal policy and international monetary policy. Strengthening adaptation mechanism based on great flexibility rate for all countries except the largest. Prevention of depression based on cooperation
neo-Keynesianism	P. Samuelson and R. Solow (Massachusetts Institute of Technology), D. Dillon (US Treasury)	Preservation of existing fixed rate, rigidity of direct control of prices and wages, foreign trade restrictions

¹ Yukhimenko P.I. Formation and development of monetarist conceptions, historical and economic analysis. — P. 227.

Stream of economic opinion	Authors	Offers
The approach of «key currency» theory	J. William (Harvard University)	Multi-slogan standard — some unsecured key currencies are a rated «anchor» for the rest of the currencies The stability of the monetary system is supported via coordination of national monetary policies and schemes of mutual international crediting
Commodity reserve standard	F. Graham (Princeton University)	Holding commodity standard and creating a «Federal Reserve Corporation» for commodity reserve currency issue, on which the other countries fix exchange rates of their currencies Domestically, the central bank will hold the money supply targeting The stability and development of the international monetary system will be supported through the «demonstration effect»
Chicago School	M. Friedman, G. Johnson, H. Simons (Chicago and London Universities)	The floating exchange rate, full liberalization of the foreign exchange market and foreign trade. The minimum state interference in market economy. The introduction of rules of monetary and fiscal policy for stable and predictable public policy
'Expanding international liquidity' approach	R. Griffin (Yale University), R. Ruza (American Association of Finance), P. Jacobson (IMF) and others.	Saving the international system of fixing rates, transformation of IMF in the world central bank, conversion of international reserves in the universal currency
Austrian School	F. von Hayek, L. von Mises, Rothbard M., H. Hazlitt, W. Röpke	Introduction of commodity standard (Hayek), a return to the gold support and free banking (Mises), restoration of classic gold monometallic (Rothbard), the creation of international money and the international monetary constitution (Hazlitt and Röpke)
Eclectic approach of «Bellagio Group»	F. Mahlup, R. Griffin, W. Fellner et al.	The overall increase of exchange rates flexibility, the removal of price and foreign trade restrictions
The optimum «currency area»	R. Mundell (IMF)	Restoration of the gold standard, or alternatively, the formation of areas susceptible to financial integration and common currency, including creation of a single European currency. The coordination of economic and financial monetary union policy

On the basis of methodological orientations of neoclassical trend in economics there appeared an idea of the necessity to create efficient mechanism to automatically align the balance of payments that would put in order the payment and settlement relations between major countries. It was assumed that formation of such a mechanism to provide adaptation of macroeconomic situation in countries to changing external factors. This, in turn, would exclude the possibility of prolonged, unacceptable in its scale international imbalances and excessive accumulation of foreign debt.

The mechanism of the balance of payments equilibrium could to some extent compensate the lack of generally accepted, universal world money. After using this mechanism actual or alleged indebtedness of some countries to others will be spontaneously recovered because of transferring real wealth, not only as a single cash commodity, but as a set of varieties of goods and services, which act as «multiplicity of world money.» So, in this case there is no need for unified world money, and the function of current international currencies is reduced to a simple mediation of private trade and financial transactions.

In the current context of exchange rates instability, according to M. Friedman, to adjust the economy of some countries to the global financial market it is possible to automatically maintain the balance of payments by using the market exchange rate — focus on the «floating» under the influence of supply and demand of currency exchange rates. This opinion is defended since 1953¹. According to the monetarist doctrine author, the market will perform work of currency speculation much better than the government. When the practical limitations of national means of currency regulation and exhaustion of possibilities of manipulating international liquidity were ascertained, the idea of «floating» rate regained vitality. It was supported by D. Mead (Great Britain), A. Mueller Armach, L. Erhard (Germany): since the mid 70 s, almost all major currencies are compared according to the «floating» rates. Their main argument, as stressed by M. Kawai, was that «the countries that are bound by strict limitations of prices and wages, floating rates are required to support both internal and external balance.»².

Initially this helped to a certain extent to defuse tensions in international monetary relations. However, in the next decade it appeared that floating

¹ Kavae M. Optimal currency zones / M. Kavae // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B.C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 644.

² Kavae M. Optimal currency zones / M. Kavae // Economic theory / ed. J. Ytuella, M. Mylheyta, P. Newman; scientific. Ed. Corresponding second reading. RAS B.C. Avtonomov. — Moscow: INFRA-M, 2004. — P. 645.

exchange system is not effective enough as an automatic balance of payments regulator, it does not provide their sustainable equilibrium.

Floating exchange rates are characterized by sharp, unexpected fluctuations mainly caused by of currency players' deals who are guided exclusively by speculative motives and by purposeful influence of governments that are trying to achieve competitive advantages for their countries. At the micro-level exchange rates volatility multiplies the risk of foreign exchange losses, complicates international comparisons of cost inputs. These phenomena create tangible obstacles for entrepreneurship and investment process.

At the macroeconomic level the jumps of exchange rates could cause inflationary impulses, causing an imbalance of payments. So they could have negative consequences for the domestic economy of the country and for international economic relations. But, according to neo-classicists, it was national money that corresponds to globalization process in which the highest value is given to macroeconomic level. Nominating some of them to the role of international currencies should take place only by «natural selection», which carried out in the process of revitalizing the economy by agents of foreign transactions. In its most radical version such a position is supported by M. Friedman, who now opposes creation and expansion of supranational organizations and changes in national currencies by any collective «technocratic and thoughtless» currency¹.

The theory of world money is developing on the basis of forcing processes of the world economy globalization. Concerning the US dollar as the world money, it is closely related to the US economy and provides the «American» nature to globalization, although the latter due to the spread and consolidation of the euro is problematic.

In solving of the problem of the world money and monetary relations, there is another approach that is supported by mainly Keynesian tradition. The representatives of this trend come from the fact that the logics of economic activity globalization does not only meet the functioning of national currencies as the world money, but, on the contrary, ultimately undermines the basis of such functioning. According to them, globalization at the micro level requires adequate reaction in international macroeconomic policy, in particular in the form of restructuring the international monetary liquidity, creating a collective monetary unit that would perform the functions of a universal means of international payments. That is an

¹ Friedman M. The Case for Flexible Exchange Rates / M. Friedman // Foreign Trade and Finance. Essays in International Economic Equilibrium and Adjustment // W. R. Allen, C. L. Allen, (Eds.). — N. Y.: The Macmillan Company, 1959. — P. 314.

objective necessity that will somehow manifest itself. Implementation of this idea, according to P. Volcker, which he expressed in Bangkok in January 2000, would lead to creation of the world, «in which targets of economic growth, efficiency and stability are in harmony with each other»¹.

Proposals of modern economists and practical actions for improving Jamaican international monetary system and neutralization of negative aspects of the mechanism of floating exchange rates can be grouped in several directions.

First, to provide a more stable market exchange rate of major Western currencies the impact of the officials on these rates is increased through currency interventions in order to adjust the directions of movement and limit the amplitude of their fluctuations (in 1985 in New York «Plaza agreement was accepted», which assumed a joint large-scale foreign exchange intervention to reduce overvalued at the time dollar exchange rate; in 1987 in Paris the «Louvre Agreement» between Ministers of Finance of the «Seven» about common measures to stabilize exchange rates was adopted, in 2000 — an agreement between the European Central Bank and the central banks of the US, Japan and Canada on common interventions to support the euro market).

Second, the co-regulation is complemented by a broad exchange rates regular internal coordination of macroeconomic policies between the leading Western countries (annual meetings of state and government heads of the «Big Seven», activities of the «Group of Ten», which brings together leaders of financial and central banks of the leading developed countries of the West). Regarding this trend a famous western economist J. Polak wrote: «Although coordination of monetary policy and exchange rates was previously paid attention, in the spotlight of economic policy coordination problems, of course, is the general coordination of macroeconomic regulation and policy demand management in particular»².

Third, J. Tobin's proposal of 1972 about special unified international tax on exchange operations (0.5 per cent from total sum of the contract) is still in focus. According to Tobin such tax should curb the short-term speculative transfers of capital. This idea was supported by the former Vice President of the World Bank J. Stiglitz and the Deputy of US Treasury Secretary L. Summers. It is widely debated in governmental and parliamentary circles of a number of countries, as well as UN agencies and many international NGOs. In order to prevent the opposite result in implementing the idea it is

¹ Yukhimenko P.I. Development Concept of world money and currency relations / P.I. Yukhimenko // Coll. of science. works. — Vol. 38. — K.: Inst world. Economy, 2003. — P. 50.

² Polak J.J. Coordination of national economic policies / Polak J.J. — New York : Group of Thirty Occasional Papers, 1981. — P.9.

necessary to introduce a tax simultaneously in all countries and regarding all types of foreign exchange transactions and determine an authority to collect this tax and the purposes to direct the received income for.

Introduction of the euro and nomination of the European Central Bank — the issuer of the currency — for the role of an international «emission center» had a revolutionizing impact on global currency area. It was in the following areas: 1) the euro weakened the US resistance to implementation of institutional changes in the structure of foreign exchange; 2) it encouraged the process of single currency formation on the basis of several independent currencies; 3) it was an example of the world future model.

Modern economists (F. Bergsten, P. Walker et al.), led by the Nobel Prize Winner in Economics in 1999 professor of Columbia University (New York) R. Mandell supported the idea that two or three major modern currency areas should agree and form a common monetary policy to use it as an anchor for the global currency (the theory of optimum currency areas). And in the future to convert the five currencies undergoing inflation into a single one, which will remain permanently stable within its purchasing power. This opinion is shared by Harvard professor R. Cooper. Academician A. Chukhno believes that «the establishment and functioning of supranational currencies is an attempt to solve a contradiction between the economic life internationalization, the development of the global market demand and the national currency, which is an international reserve and a payment means»¹.

In their writings, P. Kennan and E. Crocket put forward the idea of using SDRs (Special Drawing Rights) — an international settlement and reserve funds introduced by the IMF (1969) that perform some functions of world money and of regulating the payments balance, replenishment of official reserves and payments to the IMF, regulation in international liquidity on macro-economic level requires an adequate reaction in the sphere of international macro-economic policy in the form of structure reform of international currency liquidity, creation of collective currency which would perform functions of universal means of international payments. It is an objective necessity which will be exposed. The implementation of such idea, according to former representative of American FRS P. Walker, which he forwarded in Bangkok in January/2000, would result in creation of the world, «where the objectives of economic growth, efficiency and stability are complying each other...»².

¹ Chukhno A.A. Postindustrial economy: theory, practice and their significance for Ukraine. — P. 548.

² Yukhimenko P.I. Development Concept of world money and currency relations / P.I. Yukhimenko // Coll. of science. works. — Vol. 38. — K.: Inst world. Economy, 2003. — P. 50.

Despite different opinions since 1974 M. Friedman's idea became increasingly widespread. Due to exchange rate policy, according to J. Schultz, «markets, not governments are responsible for exchange rates»¹. As it was predicted by the founder of monetarism, after the collapse of the financial course system there was no return to the policy of «harry the neighbor» (export of unemployment) through systematic competitive devaluation. In practice, as a result of adopting monetarism ideology by the central banks competitive appreciation due to higher interest rates to fight inflation became widespread. M. Friedman argued that flexible rates will facilitate the free movement of capital. Indeed, international capital mobility has increased considerably, creating a challenge for monetary power of short-term migration of «free money.» The Great monetarist managed to put international monetary system «out of the shadows into the light.» Previously it was ruled by the central bank Areopagus, then as the scientist expected, with flexible currency exchange transactions became open to the public.

Thus, among theoretical economists there is no unanimity on creating a mechanism of international payments, based on the use of a single monetary unit. It is an expression of the existing significant differences of individual states interests, as evidenced by the complexity and inconsistency of the problem. Its solving should be carried out by means of gradual pragmatic solutions, it requires a long time. However, this does not diminish the responsibility of national authorities to ensure macroeconomic equilibrium exchange and continuity of payments of the country with the world. The development of modern economic relations requires providing the point at which the «rules» imposed by national authorities in the field of international payments, would clearly regulate «remote» actions of private partners by international economic agreements, but that the measures taken by some countries without causing losses for other participants in the transactions. These «rules» will meet universal standards of expediency and fairness.

¹ Moiseev S. Unknown Friedman: contribution of the great monetarist into the crash of Bretton Woods / S. Moiseev // Questions of economy. — 2005. — № 3. — P. 97

Section 4

UKRAINIAN FINANCIAL THOUGHT: GENESIS AND EVOLUTION

4.1. Kyiv Scientific School of Finance: Origin and Development.

The study of the predecessors' achievements, namely the representatives of the Kyiv Scientific School, which has become the founder of the Ukrainian financial thought, is of great importance for the reviving of the financial science in Ukraine along with the critical comprehension of foreign economic doctrines. It should be noted that it had never been a separate and isolated entity. The financial science in Ukraine of that period was possible to be developed in line with the global economic thought. Emission of the progressive economic knowledge in Ukraine during the Russian Empire rule in the nineteenth and at the beginning of the twentieth century was primarily associated with long-time training of Ukrainian students and scholars in the West, particularly in Germany, England, France and Switzerland. Updated translations of the publications of the best known western economists into Russian were an important factor.

According to the finance research, Ukrainian scientific school proved to be quite dynamic in its development as well as favourable to innovations. The Kyiv Scientific School, which, in fact, was the national school of finance was established in the early twentieth century in Ukraine despite the fact that Ukraine was the part of Russia. Scientific, teaching and methodical manuals developed by its scholars were on the same level as the European financial thought, studied and generalized in relevant sources. It should be emphasized that those developments were not mere copying of the achievements of Western European and American economists. Ukrainian scientists made their own significant contribution to the development of finance theory on the basis of the achievements of global financial thought. Later, at the boundary of the centuries, some schools and scientific areas were developed in Ukraine being not only on the same level with the world's ones but even surpassing them in many fields.

Formation of the Kyiv Scientific School was primarily characterized by the fact that Ukrainian scientists having been trained on textbooks and manuals by foreign scientists (mainly German ones), in the middle of the

nineteenth century began actively develop their own courses. Some of them were so unique, that in some areas concerning finance as well as in the number of related disciplines the theories of the Kyiv School were pioneering. Primarily, it concerned business education. Fundamental nature of the researches by Ukrainian scientists working in the field of classical finance theory is proved by the fact that some of their works are still being reprinted today. In particular, works by O. Antsiferov, M. Baludyansky, I. Tarasov, P. Migulin, J. Kulisher, M. Tugan-Baranovsky and others.

Analysing the scientific achievements of the Kyiv School representatives one should take into account two circumstances. Firstly, many finance experts, who taught at universities in the late nineteenth — early twentieth century, were not office scholars. They were scientists with extensive practical experience who often combined teaching with working in banks, ministries and departments. Secondly, all researchers in finance, the graduates from the universities of Ukraine, as noted before, did mandatory training abroad that ensured appropriate adapting and use of scientific achievements of the European scientists. It was the key to the appropriate level of studies and their compliance to the world standards of that time.

In pre-revolutionary Russia and Ukraine, the university course on finances since its beginning was practiced within the established Adam Smith's tradition, i.e. teaching within the course of political economy. With this purpose in 1804, the Ministry of Public Education initiated the invitation of famous scientists of that time to Russia for teaching economics. Therefore, for teaching political economy St. Petersburg Main Pedagogical Institute invited a Ukrainian financier and economist of Pest University, Doctor of Law, M. Baludyansky; Moscow University invited Doctor of Law of Göttingen University C. Schlotzer (1774–1834), son of A. Schlotzer (1735–1809), the famous explorer of Russian chronicles. The first one was more known for the development of public administration reform projects (co-author of *Finance Plans*) having become the first scientist in economics studying the problems of Russian (Ukrainian) finances; the second scientist was known by his work *The Foundations of the State Economy or Science of National Wealth*, which was published in 1805 in Riga in German and in 1805–1806 it was translated into Russian.

It should be noted that the Schlotzers, father and son, made a significant contribution not only into Russian, but also Ukrainian science and education. Augustus Schlotzer (1735–1809), the famous historian, statistician and publisher of Russian chronicles, was a representative of Göttingen school of statistics. His work *The Theory of Statistics* (1804) had a significant influence on the development of statistics as a science and shaped the views of the Kyiv school in this area of expertise. On his initiative in 1760–1764,

statistics was introduced in Russia and Ukraine as the university discipline titled as *Knowledge of Homeland*. He is known among statisticians for the famous saying: «History is statistics in motion, and statistics is fixed history».

The abovementioned work of C. Schlotzer in Russian version *The Foundations of the State Economy or Science of National Wealth*¹ was also studied in Ukrainian universities. It became the basic textbook for future founders of the Kiev school until the mid of the nineteenth century. It served the first source for the concept of finances. «...Finance policy argues about the means of acquisition, enhancement and management of the property and income needed by government to meet public spending» — it was mentioned in the preface. By the way, for a long time this book has served as a textbook in European countries. It was published in German and French.

However, the representatives of the Kyiv School had a critical approach to C. Schlotzer's theoretical justification of Russian serfdom order of that time. According to the German scientist, Russian serfdom was not similar to the feudalism of western countries. He approved of large landowner economy, considered capitation as a reliable and significant source of state revenue. In the early independent works on these issues the representatives of the Kyiv School (T. Stepanov, M. Bunghe, M. Aleksyeyenko, D. Zhuravsky and others) rejected those cameralist's ideas and supported Adam Smith's ones. They developed the concept of financial management based on market economy principles.

The study of the Ukrainian financial thought evolution during the period from its beginning until the events of October 1917 demonstrated passing through certain formation and development stages. The establishment of Ukrainian classical economic doctrine starts from the beginning till the 60's of the nineteenth century.

This period began with systematization and generalization of domestic experience in learning and teaching finance. Financial science started to develop in Ukraine (Kyiv School). Its development (as well as development of other fields of science) contributed, in particular, to changes in the General university statute, under the rules of which lived «Ukrainian universities». Thus, the 1804 Statute constituted great autonomy. The Board of Professors determined the educational process. At that time the Smith approach to teaching financial science in the course of political economy has been consolidated. One of the first who started to teach a course of political

¹ Schlotzer Kh. A. *The Foundations of State-Owned Economy or Science of the People's Wealth*: in 2 volumes / Schlotzer Kh.A.- M., 1805. — Part 1. — 196 p. Schlotzer Kh.A. *The Foundations of State-Owned Economy or Science of the People's Wealth*: in 2 volumes/ Schlotzer Kh.A. — M., 1806. — Part 2 — 366 p.

economy like Adam Smith did was T. Stepanov (1795–1847) in Kharkiv University. His two-volume work *Notes on Political Economy* (1844) in 40's of the nineteenth century was the only original course of political economy in Russian literature. T. Stepanov's work was highly estimated by A. Storch, although he did not treat the Ukrainian scientist friendly¹. T. Stepanov is considered to be one of the founders and popularizers of economic and financial science in Ukraine and Russia.

In spite of the abolishing the university autonomy by Statute of 1835, according to which the university management was transferred to the Board of Trustees of educational districts, subordinated to the Ministry of Public Education. Teaching finance was separated from teaching political economy and statistics by this Statute. Departments of public service law and finance were established. Certain differences in law and economic aspects of financial science took place: financial law was taught at the Faculty of Law in the universities of Ukraine and some elements of finance were considered in the context of political economy at the Faculty of Philosophy.

The second stage was a period of 60's — 90's of the nineteenth century, the main event of which was the abolition of serfdom, solution of economic and financial problems, connected with the liberation of peasants. An important event of this stage was the restoration of autonomy of the Board of Professors by the University Statute of 1863, that had a positive impact on the development of science, particularly in Ukraine.

Finally, the third stage of the evolution of financial thought in outlined historical period — this is the time from the end of the nineteenth century until the events of October 1917, characterized by the beginning of industrialization in Russia and the increasing influence of Marxism. It was the first Russian revolution which summed the end of the nineteenth century.

Concerning the development of science at this time, it should be noted that «Temporary rules. August 27, 1905» restored the autonomy abolished by University Statute on August 23, 1884. It promoted increasing of the researchers and the number of publications, including representatives of financial science.

The financial science at the Kyiv School developed irregularly. There were different reasons for this — political, economic, administrative and cultural. However, each of the abovementioned periods are a part of the historical development of the scientific school and scientific thought.

The works of the Ukrainian scientists (I. Yanzhul, G. Sydorenko, M. Baludyansky, I. Tarasov and others) in the field of financial science and

¹ Lortykyan E. L. *History of Economy and Economic Concept of Ukraine. Evolution of Market Economy*/ Lortykyan E.L. — Kh: Konsum, 2004. — P. 21-22.

finance law repeated the structure and logic of teaching material that have been proposed by C. Schlotzer. This was explained not only by the priority of the German School of Finance, but also by historically close contacts of the Kyiv School representatives with German scientists, which have developed during their training and writing doctoral theses abroad. Dissertations and monographs of almost all the students of that school were mainly devoted to foreign experience in finance.

The end of the nineteenth century is characterized by the development of the Ukrainian financial thought. At the same time the first courses in finance were prepared by V. Lebedev¹ — in Russia and I. Patlayevsky² — in Ukraine. These were the author's lectures taught at universities. However, those were the first courses in Financial Law of Russian and Ukrainian scientists in Russian. The course presented by I. Patlayevsky is distinguished by covering the wide range of material and focusing on the idea of independence in this field of science. At that time they did not have enough authentic sources of Russian and Ukrainian authors on finance and there was no clear understanding of the role and importance of financial science for practice³. Therefore, they continued to consider financial science as a branch of political economy in Ukrainian universities. I. Patlayevsky was one of the first Ukrainian scientists who supported the idea of Russian colleague V. Lebedev about independence of a new field of science.

V. Lebedev argues that political economy does not engross the financial science — each has its own task: «political economy studies the general laws of the national economy; financial science studies the structure of public financial system, its mechanisms and techniques to meet the state needs»⁴. I. Patlayevsky even suggested the branches of this science⁵.

The works of I. Patlayevsky, I. Tarasov, S. Ilovaysky on financial law can be considered as the first courses of the Ukrainian financiers in financial science. Considering this issue, the abovementioned Russian financier V. Lebedev described the difference between «financial law» and «financial science» in the following way: «Legal and dogmatic doctrine of financial legislation is a financial law, and studies in financial system from economic

¹ Lebedev V. A. The Finance Law. — SPb., 1882. — Vol 1 — Issue 1.

² Patlaevskyy I. I. Course on Science and Finance Law. — 411 p.

³ Gorlovi.Ya. The Theory of Finance / Gorlov I. Y. — 2nd ed. — Kazan, 1845; Tolstoy D.A. History of Russian Financial Institutions Since State Formation Till The End of the Empire of Catherine II / Tolstoy D.A. — St. Petersburg. : Zhernakov Press, 1848; T. Stepanov Notes on Political Economy / T.Stepanov — H: University Press., 1845. — Part 1; T. Stepanov Notes on Political Economy / T. Stepanov — H: University Press, 1848. — Part 2; Sydorenko G.D.The Finance Law / Sydorenko G.D. — Zhytomyr, 1888; Yanzhul I. I. Basic Principles Finance Science. The Science of National Revenue / Yanzhul I. I. — SPb., 1890. — Vol. 1-2.

⁴ Lebedev V.A. The Finance Law. — P. 86.

⁵ Patlaevskyy I. I. Course on Finance Law. — P. 22.

and political standpoints, is the financial science»¹. The abovementioned publications of the Ukrainian financiers combined the analysis of two issues.

The German economic thought had an impact not only on the Kiev School. J. Schumpeter's point of view as to the priority of German School of Finance has been universally recognized since the mid of the nineteenth century. Confirmation of this, in particular, was the use of the works of German professors in all European universities as basic textbooks. Thus the abovementioned work of J. Zonnenfels *Fundamentals of trade policy and financial science* (1765), which had been reprinted many times and till the mid of the nineteenth century was a universally recognized guidance to study political science in most European countries, including Russia and Ukraine². Later on, the book by K. Rau *Basic Principles of Financial Science* was also rather popular (1832, Rus. transl. 1867)³. Obviously, Ukraine (Kyiv School) and its university education, which has been developing, was influenced by German financiers.

In general, the second half of the nineteenth century was a period of consolidation of university education in Ukraine and a period of systematic teaching of financial science according to the German school of finance. Relations between the scientists of the Kyiv School and the leading representatives of the German one led to the rapid growth of the large number of Ukrainian financiers and also to publication of the original textbooks and manuals in the field of finance.

Foreign schools were a source of innovation and university teachers and students — their representatives. Having been appointed to key positions in selective universities of Ukraine, they tried not only to popularize the achievements of science, but implement into practice the autonomy in choosing a rector, professors, curricula, publication of statutes.

Historically typical autonomy of Kyiv University has definitely affected the content of the curriculum and courses. Concerning economics, the first progressive ideas in political economy, law and finance at the Faculty of Law in Kyiv University were declared in 40's–50's of the nineteenth century by professors I. Vernadsky, M. Bunghe and others.

It should be noted, that some elements of financial science were traditionally analysed in the course of political economy and classical views in the field of finance dominated in the Kiev School at that time. In particular, finances were defined only in the context of political economy. This approach was described in the works of Adam Smith, whose

¹ Shavrov A.V. the Finance Law of the Russian Federation / Shavrov A.V. — 7th ed., ext. and rev. — M.: EAOI Press Centre, 2008. — 318 p.

² Schumpeter Y.A. History of Economic Analysis. — T. 1. — P. 218.

³ Rau K.G. Basic Principles Finance Science.

competence was too high, and his ideas were used by many scholars in European universities and Ukraine.

This approach was of primary importance for a long period of time. Even publications of German cameralists and Ukrainian economists in financial science (M. Aleksyeyenko, M. Bunghe, C. Ilovaysky, G. Sydorenko, I. Patlayevsky, I. Yanzhul and others) in which this field of science has been already considered as an independent one, were not able to change the standpoints of a large number of economists. This was also typical for European scientists. Similar point of view, in particular, was presented in the popular work of the famous Italian scientist F. Nitti, in the late nineteenth — early twentieth century, which states, that contemporary science is the branch of political economy¹.

Singling out the financial science as an independent one, including teaching it as a university subject in Ukraine, will take place in the second specified period.

One of the first attempts to separate teaching of finance from the course of political economy and statistics in Ukraine and establishment of the Department of Public Service Law and Finance as part of the Faculty of Law took place at Kharkiv University. The new statute of the University of 1834 consolidated political and administrative motives (restriction of the university autonomy), and took into account demand in economics.

One of the priorities at that time was the need to expand the applied financial knowledge in the country. Therefore, at the Faculty of Law of the University the Departments of Economics and Cameral Sciences were established.

Cameralistics as the science of management of the state property and public unions appeared in the mid of the eighteenth century owing to the efforts of German scientists. The Ukrainian financier I. Patlayevsky pointed out, that in Germany, they began to transform income from domains and regalia into a rational system. He mentioned, that income management from domains and regalia was entrusted to the Board of Cameralists². They consisted of three areas of economic management: 1) economic science (trade, mining, wood manufacturing, etc.); 2) police science (security measures and welfare); 3) cameralistic science, that is financial science as the study of taxes and expenses of state revenue.

First departments of cameralistics were established in 1727 in Gullies and Frankfurt an der Oder in Germany. That was the beginning of forming

¹ F.Nitti Basic principles Finance Science / Nitti F. — M.: M. and S. Sabashnikov Press, 1904. — P. 13.

² Patlaevsky I. I. Course on Science Finance Law. — P. 10.

the financial science as systematic knowledge. Later, due to the combination of fundamental principles and scientific methods of this area appeared classical finance theory¹. In Ukraine such departments began to establish in a century. However, they began differentiation of economic subjects, in particular, financial theory.

The structure of cameralistics contributed to the rapid formation of financial science at the universities in Ukraine. The famous Italian financier and historian of economic thought Luigi Cossa (1831–1896) assessed their significance in the following way: «One of the branches of cameralistics called the police, contained the basic theories which form today the science of administration, mainly economic one. Another area, called financial science, dealt with theories which differ greatly from modern financial theories mainly because they did not have sufficient basis of current economics, the essence of taxes has not been investigated properly, and government loans and repercussion des impots lacked attention»².

So, the subjects in cameralistics, taught at the Faculties of Law in Ukrainian universities (public law, financial law, political economy, statistics, agronomy, etc.), existed until 1860, and then they were replaced by «administrative» (public) ones.

Economic aspects of financial science started to manifest in the period of establishing the department of political economy and statistics in universities. In 1888–1902 D. Pihno, the student of M. Bunghe, delivering lectures at this department in Kiev University was the first to differentiate the main parts in economics. In his work *Principles of Political Economy* (1899), he singled out the following three components: politics; public regulation science; public finance. This was the beginning of the rapid scientific research of the Kiev Scientific School in financial science as a separate field of study.

Unlike «pure» financiers of the late nineteenth century, who focused basically on describing the ways of replenishing the treasury, «pure» economists, substantiated and formulated the Laws of Economics Development, D. Pihno paid significant attention to the role of finance in economics and production and operations management. Thus, this formed the basis of the independent science in Ukraine, known today as financial management.

The teaching of financial science in the system of university education in Ukraine was the same as in Russia. As financial science of that period

¹ Kovalev V.V. Finance Management: Theory and Practice / Kovalev V.V., Kovalev V.V. — 2nd ed., ext. and rev. — M: Prospect, 2007. — P. 68-74.

² Cossa L. History of Economic Studies / Cossa L. — H: Yuzh.-RusJohanson F.A. Press, 1900 — P. 15.

mainly focused on the research of replenishing the treasury (taxes, custom duties, duties, collection of which was regulated by law), obviously, this area started to develop at the Faculties of Law. However, the economic aspect of financial science could not have been completely ignored, and this will lead to further differentiation of «financial science» and «financial law» as a science.

On the second stage of the evolution of financial science in Ukraine the Departments of Finance were established at the Faculty of Law. That was a period of new liberalization of university education (in 60's of the nineteenth century). They were basically organized at the Departments of Public Service Law and Finance. However, formation of the abovementioned departments was the impetus for further development of financial science in the courses in financial law. During this period Ukrainian scientists have issued the number of textbooks, which were famous worldwide — *Course in Financial Law* (1885) by I. Patlayevsky, *Science Essay on Financial Law* (1883) by I. Tarasov, *Textbook on Financial Law* (1893) by S. Ilovaysky, etc.

After analysing these works it can be argued that, in fact, all the representatives of the Kyiv School were students of K. Rau, A. Wagner. From the biographical essays in second volume of our publication you can see that they were either trained by these scholars, or used their books in the course of studies. In the preface to the Russian-language edition of *Basic principles of financial science* by Professor K. Rau of Heidelberg University it was noted that «it is the only work in all European literatures, which is a complete presentation of science in all its parts». Multiple releases indicate the great success of this tutorial, as well as the fact that the famous German economist Adolph Wagner did not substitute it, but rather rewrote it to include a new scientific knowledge.

Since 1870s the works of A. Wagner had a significant influence on the worldview of Ukrainian financiers, especially the representatives of the Kyiv School. In Europe of this period (late nineteenth century) there were two directions in the theory of economic policy: Manchester Liberalism, which insisted on the idea of absolute non-interference of the state in economic life, and Cadet Socialism, which followed the opposite beliefs. A. Wagner was a representative of one of the Cadet Socialism sub-movements, the so-called State and Christian Socialism, the basic idea of which was that the modern economy was based on three foundations: the interest of private capitalism, social and economic interest and the interest of goodwill (altruism). These ideas were closer to Ukrainian scientists of the late nineteenth — early twentieth century, which explains the influence of this scientist in Ukraine. In addition, there is no denying the strong points of his scientific works on the theory of money and public finance. Some of them are still relevant

today. The confirmation of this impact becomes clear when analysing the structure and themes of the first works by famous Ukrainian financiers in the financial law field.¹

The works of Ukrainian scientists on financial law, as the first independent courses taught in Ukrainian universities, continued to argue the standpoint of K. Rau and K. Aberg about the necessity of rejecting the interpretation of financial science development given by Adam Smith.

This idea was based on the fact that Adam Smith considered a financial institution only as a part of the national economy, and analysed the tax system mostly in terms of its economic consequences. Most Ukrainian scientists supported the opinion of K. Aberg that «for further financial science progress it was necessary to, firstly, separate it from the excessively close connection with political economy, in which Adam Smith had put it, and secondly, adapt it to the views on the state and its activities, which were continuously changing.»²

Ukrainian scientists, especially the representatives of the Kiev Financial School did not diminish the importance of Adam Smith in the development of financial science in their writings. According to one of the founders of the Kiev School, M. Bunge, Adam Smith's ideas had a significant influence not only on the teaching methods of his followers, but also on economic reforms, especially those in the first half of the nineteenth century. These changes in the spirit of the doctrine of free enterprise bore special characteristics. The works of the famous English scientist did not contain direct recommendations on economic and financial system building, but M. Bunghe believed that they encouraged reforms and acknowledging their social significance. Later, another Ukrainian scholar I. Yanzhul noted that «Smith's main merit in terms of our financial science was that he had developed the economic basis of the financial science and paved the way for organically processing this branch of knowledge.»³

The representatives of the Kyiv Financial School argued for the independence of the new scientific direction in their writings. The same idea was supported by the Russian financiers. Until the emergence of the classical school, the financial science often only described the already existing phenomena and provided «recipes» for this or that occasion. I. Ozerov

¹ Див.: Патлаевский И. И. Курс науки финансового права / И. И. Патлаевский. — Одесса : Типогр. «Одес. вестн.», 1885; Тарасов И. Т. Очерк науки финансового права: Введение. Общая часть. Особенная часть. — Ярославль : Типогр. Губерн. правления, 1883; Иловайский С. И. Учебник финансового права / С. И. Иловайский. — Одесса : Типогр. Соколовского, 1904.

² Эберг К. Т. Курс финансовой науки / Эберг К. Т.; пер. с нем. — СПб.: Типогр. А. Розена, 1913. — С. 25.

³ Янжул И. И. Основные начала финансовой науки. — С. 3.

stressed that classical school of economic theory — particularly Adam Smith and David Ricardo — theorized financial science. The school's mission was to restore the natural order and destroy the barriers delaying the «economic life, hence the doctrine of fair taxation.»¹

In general, the Ukrainian universities organization to teach the financial science in the traditions of German financial School was typical for the second stage of financial science development in Ukraine.

At the same time, the first steps in the formation of their very own school were made. At the European level Ukrainian scientists, teachers, and books written by them began to make themselves known. The appearance of the original scientific and educational literature indicates the genesis of the Ukrainian Financial School, which began to develop and implement all the best achievements of the Kyiv Economics School. Finally, it should be noted that the importance and promise of the new direction was recognized by not only Ukrainian and Russian scientists, but the government as well. Financial law was part of curriculum taught privately to the members of the imperial family. M. Bunge, one of the founders of the Kiev School, taught political economy and finance to the son of Alexander II in 1863–1864.

After the reforms of 1860–1880 a new stage in the development of financial science in Ukrainian universities began. In the late nineteenth and early twentieth century Russia, Ukraine of which was a part of, belonged to one of the largest countries in Europe. The country's budget was second in size only to that of Germany. This explains the dynamism with which financial science developed in the scientific centres of Ukraine and Russia. Therefore, according to F. Nitti, the understanding of financial phenomena could not be as widespread in other countries as it was in Russia². The second half of the nineteenth century marked the start of prominent financier's establishment in Ukraine. The Ukrainian financial school in no small part contributed to the increase of scientific potential in this area of the economics.

In the second half of the nineteenth century the national financial science was rather sophisticated when it came to the development and use of financial instruments. The Ukrainian researcher of economic thought P. Leonenko identified a number of milestones on the way to such success.

First, since 1803 political economy (a part of which was the financial science) and statistics were categorized as sciences, development of which was designated to the best scientific centre of the country in the regulations

¹ Озеров И. X. Финансы // Энциклопедический словарь Ф. А. Брокгауза и И. А. Ефрона / Озеров И. X. — СПб., 1902. — С. 872.

² Нитти Ф. Основные начала финансовой науки. — С. XXXII.

(statute) of the Russian Academy of Sciences. This accelerated the research activities in the field of financial science.

Secondly, having received autonomy in 1804, an independent course of political economy became obligatory for studies (in Ukraine since 1805). It was taught by the best economists, and was later taught in gymnasiums and lyceums.

The third milestone was the opening of the departments of political economy and statistics at the universities (Moscow University in 1804, Kharkiv University in 1835, Kyiv University in 1842).

Fourth, the establishment of new political economy societies, the publication of new magazines (*The Economic Indicator* by I. Vernadsky (1857–1861) and its additional outlet *Economist* (1858–1864), *New economist* by P. Migulin (1913–1917).

Fifth, active and varied participation of scientists in the field of economic and financial policies (M. Bunge, I. Yanzhul, M. Baludyansky T. Stepanov, D. Zhuravsky and others)¹.

As the well-known researcher of the history of economic doctrines L. Cossa said, the elimination of serfdom and the economic crisis caused by it, changes in tax system and the growing number of corporations (especially the railroad ones), the establishment of the State Bank and changes in monetary relations were impetus to increased study of economics and finance in Russia since 1865. The Italian scientist called it «a strange phenomenon of Russian economic literary exuberance»².

By the end of the nineteenth century the financial and credit system with a network of public and commercial banks was created, the domestic financial market was formed, modern forms of trading developed, the role of commodity exchanges increased, foreign trade was rapidly expanding, and a monetary reform was conducted in 1895–1897, which provided the normal functioning of the monetary system. All this helped the development of financial science and was formed by the state, causing scientists and financiers to pay special attention to the financial management of the state. They substantiated the idea of the public finance importance in economic development, admitting the need for developing market relations.

The development centres of financial science in Ukraine at the stage of its inception were mainly universities, and the teachers and students of these universities were the representatives of financial thought. Kyiv School had

¹ Леоненко П. М. Методологічні аспекти історії української економічної думки (XIX—XX ст.). — С. 53–54.

² Косса Л. История экономических учений. — С. 395–397.

the most major achievements and gained worldwide recognition. Some of their achievements were spread to other Ukrainian scientific centres.

There is a world experience in distinguishing the economic and financial schools using the geographical criteria: Vienna (Austria), Lausanne (Swiss), Stockholm (Sweden), Cambridge, London, Freiburg, Harvard, Chicago, etc.

The name of each aforementioned school is equated to the leading universities in the city (country). It is, of course, an exaggeration, because not all scientists and economists who graduate from a certain university belong to the same school. However, it is justified in relation to the majority, which determines the existence of university school. Therefore we can identify the Kiev School, which is unified by the common historical traditions, standpoints, methodology, views of its members, although they have different themes, range of interests and particular investigation fields.

However, there is another important feature of each individual school, which is developing a certain direction of financial thought: Vienna, Cambridge, and Lausanne schools form the core of the neoclassical approach of the 19th — early 20th century, Freiburg schools — of the neoliberal one, etc. According to this criteria, most of the Kiev School representatives were supporters of unregulated commodity market type of economic system (classical school); some of them supported the ideas of the classical school, tried to reduce the government intervention (German historical school, Utopian and Marxist socialism, etc.). Some of the scientists (I. Yanzhul, A. Myklashevsky, and others) strongly emphasized the crisis of ideas of the classical school. This showed the pluralism from the representatives of the Kyiv School. However, its origin and formation was a direct reaction to the crisis and decay of classical political economy in the 1860s. The «marginalism revolution» was the way out of it in the last third of the nineteenth century. It led to the simultaneous emergence of several schools of neoclassical economic theory, which were united by a common methodology and a number of fundamental theoretical positions in different countries. The Kyiv School holds a prominent place among them.

Kyiv University should be called one of the first founders of this school. It has gone from the Imperial University of St. Vladimir (1834) to Kyiv National University of Taras Shevchenko. An important role in the organization, formation and development of the financial theory at Kiev University was played by its graduates: Professor I. Vernadsky, who apart from the scientific activities was the head of the Kharkiv branch of the State Bank in 1869 and in 1870 was appointed chairman of the local Society of Mutual Credit, where he worked until 1876; Professor M. Bunge, who was the Minister of Finance in 1881–1886, Head of the Government of the

Russian Empire in 1887–1895. They trained plenty of famous economists and financiers who later worked in Kiev and other Ukrainian universities.

We consider them both founders of the Kyiv School of Economics, as V. Ikonnykov back in 1884 argued that M. Bunge was its founder,¹ although he did not provide any evidence. Thirty years later this statement was repeated by A. Bilymovych, «All the mentioned specifics of the general economic views of D. I. Pihno make him a typical representative of the Kyiv School of Russian economists. M. Bunge should be considered the founder of this school.»²

I. Vernadsky and M. Bunge are considered the founders of Kyiv political economy school that received international scientific recognition. This is a clear indication of Ukrainian financial thought coming to the forefront of the global financial science. Its researchers examined the issue of credit, monetary policy, government and commercial banking, exchange activity, however, according to M. Bunge, «all issues depend on solving the problems of taxes»³. He contrasted the Kiev School to Moscow one, which was associated with the name of Professor O. Chuprov (1842–1908).

I. Koropetsky argued that the hall of fame of Kiev economists started with I. Vernadsky.⁴ Despite the global recognition, he denied the existence of the Kiev School because its scientists had no uniformity in methodological approaches. For example, I. Vernadsky was an economist of classical orientation, M. Ziber was a supporter of Marx and D. Pihno was a supporter of marginalism.

In our opinion, the study of the Kyiv School should be started with I. Vernadsky. In his work *The Prospect of Political Economy* (1858), he substantiated the need for liberal economic order in the spirit of the first Russian economist I. Babst, indicating the variation in individual needs. He concurred that their unobstructed development forms the foundation of economic and cultural development of society. This argumentation was included in the textbook by M. Bunge *Fundamentals of Political Economy* (1870). The Ukrainian scientist leaned towards the conclusions of «younger» historical school on the influence of temporal and regional factors on economic activity.

¹ Иконников В. С. Бунге Николай Христианович / Иконников В. С. // Биографический словарь профессоров и преподавателей Императорского университета Св. Владимира (1834–1884). — К., 1884. — С. 77.

² Билимович А. Д. Пам'яті Д. І. Піхно // А. Д. Билимович, Н. М. Цигович. — СПб., 1913. — С. 13–14.

³ Степанов В. Л. Н. Х. Бунге: Судьба реформатора / Степанов В. Л. — М.: Рос. полит. энциклопедия (РОССПЭН), 1998. — С. 81.

⁴ Koropetskyj I. S. *Academic Economics in the Nineteenth-Century Ukraine* / Koropetskyj I. S. // *Selected Contributions of Ukrainian Scholars to Economics*. — Cambridge, 1984. — P. 168.

However, he also protected the liberal approach from attacks by socialists and pointing out, not unlike I. Vernadsky, the free development of individual needs. This argument can be seen in works of other representatives of the Kiev School, who in spite of all methodological differences were united by a common trait — they defended liberal economic approach, noting the unobstructed development of individual needs as the foundation of civilization. These features of economic science development in Kiev extended to Ukrainian financial thought that began to develop in the wings of political economy and finance.

All Kyiv financial economists after I. Vernadsky had a methodological conflict based on the adoption of the concept of German historical school, according to which economic laws should not be considered as independent of time and place on the one hand, and the justification of political liberalism by means of the arguments based on believing in 'natural order' on the other hand. Such similarity supports unifying finance scholars from different scientific centres of Ukraine into Kyiv (Ukrainian) school.

Such known scientists of that time as A. Antonovych (1848–1917), K. Vobly, O. Bilimovych, V. Zheleznov, P. Kovanko, I. Tarasov, M. Tugan-Baranovsky, G. Sydorenko (1832–1899), G. M. Tsekhanovetsky, N. Tsytovych, M. Yasnopolsky and L. Yasnopolsky and others, who worked in other scientific centres of Ukraine and Russia also once lectured on economic subjects at Kyiv University. They studied various areas of finance. Their students worked at almost all Ukrainian and Russian universities, colleges and institutions of that time.

Kyiv School was extremely important for economic policy of 1880–1890 Russia. While in Moscow and St. Petersburg the impact on society by «left» intellectuals has reached the highest point, the discoverers of new routes largely providing economic growth in 1890 were recruited from Kyiv School of Economics, which did not take to the labour theory of value and socialism. The works of M. Bunge and D. Pihno, in fact, became a scientific foundation of financial policy of both M. Bunge and S. Witte.

Scientific philosophy and practices of the latter, by the way, were formed in Ukraine. After graduating from the Department of Physics and Mathematics of Novorosiysky (Odessa) University S. Witte worked on various positions in public and private rail companies during 1869–1889: in the Office of the Governor-General of Novorosiya and Bessarabia, in the Department of Railway Constructions in Odessa region.

In 1877, he was already the chief manager of operating the said rail, and in 1886, he became the managing director of Southwest railroads. In 1880, having moved to Kyiv he practiced organization of rail transportation. The

basic ideas for the effective organization of this activity he mentioned in his book *Principles of Railway Tariffs on Freight Transportation* (1883).

In 1892, S. Witte was appointed as the Minister of Communication Lines, and in September of the same year, he was promoted to the Minister of Finance. In 1903, he was a Chief Minister, and from October 1905, he occupied the position of the Chairman of the Council of Ministers of Russia. Among the reforms implemented by him was the monetary reform of 1895–1897, progressive for Ukraine and Russia. It strengthened the financial and credit system of the country, contributed to national economy development, expansion of trade and strengthening of foreign economic relations. Later S. Witte wrote of this reform as follows: «One of the biggest reforms that I made ... was the monetary reform that finally strengthened Russia's credit and placed Russia next to other major European states in terms of financial situation»¹.

In his reform efforts, S. Witte was most supported by Ukrainian representatives of economic and financial thought. However, even among Ukrainian scientists and financiers there was no unity on Witte's certain positions. For example, his special circular, forwarded in 1891 to Russian ambassadors, where he justified forced return to protectionism, was taken ambiguously. In the circular Witte mentioned it as the necessary measure since the «empire's produce is not well allocated on the international market; factories are bankrupt or on the verge of it; coins are taken abroad and trade houses, most reputable, are at the breaking point».² Witte's ideas were supported by P. Migulin, M. Sobolev and others.

A significant part of Ukrainian scientists in finances supported the idea of one of the founders of the Kiev School I. Vernadsky about the free trade.

The scientist believed that tariff rates freed an entrepreneur from «anxious competition that causes stress, does not allow to rest, and always keeps moral and mental strength strained».³

According to P. Migulin, I Yanzhul, and other representatives of the Kyiv School, the supporters of protectionism, high customs duties would contribute to the import of capital instead of commodities. According to Witte, industrial development could be achieved mainly through attracting foreign capital. This idea was supported not only by P. Migulin, but also I. Yanzhul. In his articles he mentioned that participation of foreigners in

¹ Лортняк Э. Л. История экономики и экономической мысли Украины. — С. 30.

² Витте С. Ю. Национальная экономика и Фридрих Лист / С. Ю. Витте // Вопросы экономики. — 1992. — № 2. — С. 158.

³ Вернадский В. И. О внешней торговле / В. И. Вернадский // Русский вестник. — 1856. — Т. 2, Кн. 4. — С. 603–604.

industry in general was highly desirable. This idea was constantly present in his reports, while he was a factory inspector of Moscow region¹.

Pihno D. was one of the proponents of active foreign capital involvement in order to solve the problems of Russian economy. This is why Witte appointed him as his closest adviser. In this sense, the solution to currency issues under Witte's guidance can be considered an indirect contribution from the Kyiv School. The implementation of the fundamental requests of Kiev economists in the field of agricultural policy (the Ukrainian community was dismissed earlier than the one of central Russia, therefore futility of keeping the communal land tenure there became apparent earlier), namely dissolution of the communities, rendering the land to peasants and reducing the tax burden, commenced with M. Bunge. It was then vigorously continued by P. Stolypin (1862–1911). The representatives of the Kyiv School had a significant influence on the formation of the other research centres views in Ukraine and Russia. This explains the dominating presence of the Kyiv School of Economics and its followers in other regions of Ukraine in this issue.

4.2. Formation of Main Centers of Financial Thought

Remarkable step in development of financial thought at Kiev School was the foundation of Kiev Higher Commercial Private Courses in 1906 (since 1908 — Kiev Commercial Institute, now — State Higher Educational Establishment «Vadym Getman National Economic University of Kiev»). M. Dovnar-Zapolsky, whose Master's and PhD thesis were supervised by prominent historian V. Antonovych, became the first rector of the University. From the financial point of view, the most valuable is his Master's thesis «State-owned economy of Great Principality of Lithuania under Yagellons governance» (1901). During certain periods M. Dovnar-Zapolsky held the positions of Associate Professor at Moscow University, Professor and Chief of Department of History at Kiev University and rector of Kiev Commercial Institute for 12 years. He was the author of Constitution of Byelorussian People's Republic (1918).

The beginning of 20th century was marked with new type of educational establishment aiming to the comprehensive training of economist being skilled both theoretically and practically in commerce. The graduates of law faculties at universities possessed substantial but only secondary economic

¹ Янжул И. И. Отчет за 1885 г. фабричного инспектора Московского округа проф. И. И. Янжула / Янжул И. И. // Отчеты фабричных инспекторов за 1885 г. — СПб., 1886. — С. 87.

education and law training. Economic realities required new profile specialists with diversified commercial education.

It is known that any merchant had been trained professionally only in practice for a long time. They were knowledge and experience that were handed over by father-merchant or were obtained during training sessions. It was enough on small markets. But after development of market relations in Russia and Ukraine these practical skills were ultimately insufficient. There appeared a number of complicated questions: where to get raw materials from; what the requirements to merchandises for customers' satisfaction are; quantity of goods to be produced; logistics and marketing; steady sales and supply. The experience itself here was not enough; the success depended mainly upon relevant organization of commerce: from taking into consideration the preferable sales conditions i.e. the ability to analyze market competitiveness and factors influencing its contents. For this purpose one has to be aware about economic laws i.e. theory of finance, credit, cash turnover etc. To obtain such knowledge it was necessary to organize appropriate economic education. This vivid requirement of creation higher economic educational establishments, which were called commercial institutes, became then a bare necessity.

At the beginning of 20th century the network of such commercial institutes was found in St Petersburg, Moscow and later in Kiev and Kharkiv. The prominent Ukrainian financier M. Sobolev highlighted their meaningfulness in Ukraine. Due to him, these institutes would facilitate «full scientific education for merchants, arm them with methods of scientific research and render scientific comprehension of all complicated problems within trade and credit turnover»¹.

Both in Ukraine and Russia the commercial education was sustained by relevant trade organizations and establishments. The most chambers of commerce, stock exchange committees as well as associated with it communities promoted the local authorities to gain the commercial trainings, were founding and donating the newly appeared commercial schools of different types. The governmental support of such schools was of minor character restricted to general surveillance and control after adherence of pedagogical mandate.

The foundation of mentioned educational establishments was promoted by extreme necessity of higher management for the economy. Russian minister of Finance, S. Witte, the mentioned above graduate of Novorossiysk University, being well aware of scientific insights of the most representatives

¹ Sobolev M.N. *Essays on Economic Policy of Industry and Trade* / M.N. Sobolev. — Kh., 1916. — P. 247.

of Kyiv School, wrote: «The absence of people with such broad economic education will paralyze the activities of government for a long time till elevation of our commerce and industry to necessary level and application of diversified methods in economy unless the efficient measures to found such school rendering special economic education are taken».¹

Such prominent scholars in the sphere of economics and finance as K. Voblyy, Ye. Slutskyy, P. Kovan'ko, L. Yasnopolsky worked here in the first years after foundation of Kyiv Commercial Institute.

In general, the studied period is regarded to be a distinctive stage in development of higher educational establishments, organization of network of system to deliver financial science that promoted the activation of relevant thought in Ukraine. The third period was the most important and fruitful both in development of financial knowledge in Ukrainian higher educational establishments and in history of academic chairs of financial law. It was the period when the understanding of logics and training programs of specialists in the sphere of financial law (science) were formed, the contents of corresponding subjects was determined, the authentic manuals of finance, which would then become classic ones, were published, the methodological basics of conducting for financial disciplines were developed, as well as lectures were delivered by known representatives of Ukrainian and Russian financial thought. The formation of Ukrainian (Kyiv) scientific school of financial thought was completed.

Financiers in Ukrainian scientific centers were developing the ideas of their predecessors. Here, the typical thought about development of economic and financial science belongs to professor of Kyiv University O. Bilimovich. The scholar considered the purpose of research to be the promotion of intellectual activities in the field of processing of simple financial notions and correction of those ones which had been invented for narrow practical goals and regarded to be useless for construction of scientific scheme. Another aim was the conformation of economic phenomena to more simple and general reasons as well as taking into consideration their certain impacts.²

This period was marked with great contribution of M. Mitilino to achievements of Kyiv School. He was the author of fundamental manuals «Elements of Financial Science» (1926) and «Basics of Financial Science» (1929). Financial & Economic Faculty of Kyiv Institute of National Economy, which had been founded in 1906, became the center of financial thought. Besides the mentioned-above M. Mitilino, P. Kovan'ko and

¹ Lortikian E.L. Ukrainian economists of the first third of the twentieth century. — P. 36-37

² Bilimovich A.D. Several pages for those who begin to study political economy. — P. 92.

L. Yasnopolskyy worked at Department of Financial Law (later — Department of Finance) at this faculty.

Thus, Kyiv Institute of National Economy (now — Vadym Hetman Kyiv National

Economic University) contributed remarkably into development Kyiv School. From its very beginning it became the center of financial science and has not lost its status for more than a hundred years of existence.

Kharkiv National University, which is one of the oldest universities in Eastern Europe, was another center of Ukrainian financial thought. It was founded in November, 1804 after the initiative of outstanding enlightener, representative of psychocratic school in Ukraine V. Karazin (1773 — 1842) due to decree of Alexander I. The formal ceremony was held on 29th of January, 1805.¹ V. Karazin was one the most active reforms promoter in the educational sphere of Russian Empire. Economic Faculty of V. Karazin Kharkiv National University was founded in 1933.

Economic science was developing considerably within Faculty of Law. Among prominent representatives of financial thought there were M. Alieksenko, O. Antsiferova, K. Hattenberger, P. Migulina, M. Soboliev, P. Sokal'skyy, G. Tsekhanovetskyy, P. Tsitovych, L. Yasnopolskyy. They went on developing the ideas commenced by representatives of Kyiv School contributing to development of financial thought in Ukraine. Their research projects promoted the domestic social progress during transition period from traditional to industrial type of social-economic development.

It was M. Tugan-Baranovskyy who studied at Faculty of Physics & Mathematics and Faculty of Law of Kharkiv University. This scholar being one of the first Ukrainian economists and financiers, having been recognized world-wide, was unreasonably criticized in Soviet times. Due to S. Zlupko, the heritage of the scholar was «...buried I special archival depositories, and his name was only mentioned during ideological campaigns»² M. Bukharin was the first to slander Ukrainian scholar: «...besides the ethnic buzzing, which cannot be comprehended seriously, we don't know anything»³

The scientist nowadays is regarded to be the honor of national economic and financial science⁴, his name is well-known among scientific community

¹ V.N. Karazin Kharkiv National University. -www.univer.kharkov.ua: Our university [screen name]. Access free

² Zlupko S.M. Michael Tugan-Baranowsky (Ukrainian economist of world fame) / S.M. Zlupko. — Lviv: Kameniari, 1993. — P. 3

³ Bukharin N.I. Political Economy of the rentier. The Austrian School and the theory of value / N.I. Bukharin. — M.: Orbita, 1988. — P. 182

⁴ Horkina I.P. Mykhailo Ivanovych Tugan-Baranowsky — a thinker, scholar, citizen. Preface / L.P. Gorkin // Tugan-Baranowsky M.I. Political Economy: The popular course. — K.: Naykova dumka, 1994. — P. 3-35

of Ukraine and the world. He undisputedly displayed in his last research project «Banknotes and metal» (1917, re-published in 2004 under the promotion of Vadym Hetman Kyiv National Economic University) his unique capabilities in financial science having avoided any worldview speculations. M. Tugan-Baranovskyy brought up a great number both Ukrainian and Russian financiers during his work in St Petersburg.

At the third stage of development of financial thought in 1893 due to initiative of Kharkiv Merchant Partnership there was founded Alexander III Kharkiv Commercial School (now — Kharkiv National Economic University). The most scholars, namely O. Antsiferov, M. Soboliev, P. Fomin, and others were working at both educational establishments in Kharkiv. They promoted both training of scientific generation of economists and formation of another center of development of financial thought which would reinforce the existing fundamentals of Kyiv School.

One of the biggest centers of distribution and development of financial science in southern region at the beginning of 20th century was Odessa. I. Mechnikov Odessa National University (Emperor's Novorosiyskyy University) from its foundation on 1st May, 1865 has been taking the leading place in formation of educational system, development of scientific research in the sphere of finance commenced by founders of Kyiv School. There worked such prominent financiers as S. Ilovayskyy, V. Tverdokhliebov, G. Tiktin, I. Patlayevskyy, L. Fedorovych, P. Tsytovykh and others. They imposed here the high level of culture, experience and founded the center of development of Ukrainian financial thought with its traditions. There attended lectures of mentioned scholars the future statesman and reformist S. Witte.

It should be also mentioned that I. Yanzhul, who is regarded to be the only representative of «young» historic school, comes from Ukraine. Despite the fact he was a professor of Moscow University, academician of Petersburg Academy of Science, he deferred from representatives of Moscow School in two features. During 1870–1880 almost entire crew of economists within Central Russia were taking care of the Russian peasants, meanwhile I. Yanzhul, who comes from Ukraine, had no doubt that the future of Russia would be industrial. He was the first of economists who had paid attention to the necessity to increase the purchasing power of factory workers not only to improve their wellbeing but also the domestic economy. Another thing is that when Moscow economists were doing their best to synthesize the classics, Marxism and «young» historical school I. Yanzhul considered this approaches to be contradictory and became consistent adapt of historic & ethic method in development of financial science.

The prominent finance scholar was born in Kyiv province.¹ I. Yanzhul is associated with the adapts of «state socialism» theory who substantiated the necessity of active governmental interference into economy via efficient monetary policy. I. Yanzhul, the author of «Basics of financial science: The essentials of governmental revenues» (1890) which is still relevant and was re-published in 2002. The scholar was rewarded with Grieg Award in Academy of Science for this research project. He was also the author of a number of manuscripts and scientific articles in the sphere of finance.

In scientific research «Issues on English indirect taxes. Excise duties» (1874) he, on example of English tax system, confirms the quotation of Ferdinand Lassalle (1825–1864) that cancellation of indirect taxes was caused by elite intention to hand its tax burden over the poor. Due to him, «disregarding Marx»² the English elite succeeded by such means to form the tax system which would always satisfy their interests³

I. Yanzhul investigated economic and political interests in his articles. Entrepreneur unions enabling more efficient usage diversified capital are interpreted (that is typical for the representatives of Historical School) both as «product relevant to time and current industrial conditions»⁴ and key to get out of troubles caused by general industrial mess⁵.

The scholar defined the subject of financial science as «research of methods for the best satisfaction of governmental demand»⁶, i.e. the subject was restricted with governmental revenues but other financial branches were not taken into consideration. I. Yanzhul excluded governmental expenditures from lectures of financial law delivered to students of Moscow University. Simultaneously, his views were more intrinsic to Kyiv School that authorizes the authors to determine him as Ukrainian-Russian scholar.

This also concerns M. Baludiansky (1769–1847), who was born in village of Vyshnia Ol'shava of Austrian-Hungarian Empire and studied at Vienna University where he obtained the degree of PhD in Law. According to invitation of another Ukrainian scholar I. Orlay, in 1804 M. Baludiansky arrived to St Petersburg and took the position of professor of Political Economics in Pedagogical Institute. Alongside with other Ukrainian V. Kukol'nyk he became a teacher of future Emperor Nikolay and his brother Mikhail. In 1819 he was elected as a dean of Faculty of Law and in

¹ Yanzhul I.I. Basic Principles of Fiscal Science. — P. 15

² Ozerov I. Yanzhul Ivan / I. Ozerov // Brockhaus and Efron Encyclopedic Dictionary.— St.Petersburg, 1904. — V. 82 — P. 668.

³ Yanzhul I.I. British indirect taxes research experience. Excise. — P. 295-300.

⁴ Yanzhul I.I. Industrial syndicates and business associations to regulate production in the United States of North America. — St. Petersburg, 1895. — 374 p.

⁵ Ibid. — P. 16.

⁶ Yanzhul I.I. Basic principles of financial science. — P. 43

the same year he became the first rector of St Petersburg University. M. Baludiansky sustained the progress of all science; he was the first in Russia and Ukraine to introduce the term «political economics» and an honorable place among the best teachers and scholars of both countries. His ideas concerning modernization of social-economic and financial systems in Ukraine considerably overcame the time. Active communication with Ukrainian scientists influenced remarkably upon his worldview. His mental abilities and system university education in the sphere of finance promoted reforms in Russia. He directly participated in elaboration of plan for reconstruction of Russian financial system («Financial Plan»).

Yu. Kulisher was another known financier born in Ukraine, who became the founder of economic History. The scholar was born in Kyiv in 1878. His father, an attorney, was a reporter to Kyiv, Odessa and St Petersburg newspapers. In childhood his family moved to St Petersburg but his parents' philosophy of positivism approximated his views to those of Kyiv School. Yu. Kulisher considered that industrial progress can and has to alongside with improvement of social wellbeing of employees. He was a follower of economic liberty principle where responsibility of its creation is delegated ob government. Such understanding of governmental role in economy is close to point of view formed by inventor of neo-liberalism V. Oaken (1891–1950) and laid into the basement of «social market economy» concept. Yu. Kulisher respected I.Tugan-Baranovskyy very much, who submitted referee notes on his articles pretty often.

In Russia Yu. Kulisher is considered to be «a world scientific celebrity to be proud of»¹. Here, in Ukraine there is hardly anyone to know that our compatriot was the first to substantiate the existing system of nations where less developed countries play the role of agrarian and raw materials periphery and developed ones take the prize to be a center which historically changes its location. Such views brings us to the concept of global economy elaborated by F. Bordel who often quoted Yu. Kulisher².

The authors din not deliberately set the goal to describe Ukrainian financial thought in emigration though they understand its importance and meaning in evolution of financial science originating from Kyiv School. The review of economic researches of Ukrainian Diaspora was reflected in

¹ Vinogradov S.M. I.M. Kulisher: Essay on the life and work / S.M. Vinogradov // News of the St. Petersburg University of Economics and Finance. — 1995. — № 3-4. — P. 131-143.

² Braudel F. Material civilization, economics and capitalism. XV-XVIII centuries: Vol. 3 / F. Brothel. — Moscow: Mysl, 1992. — V. 3. — P. 9.

articles written by B. Vynar¹ L. Gorkina and M. Chumachenko². That is why we are to give just its general characteristics.

At the beginning of third decade of 20th century there was founded Ukrainian Free University in Vienna and M. Grushevskyy (1866–1934) was elected as rector. For the short period of university existence its academicians issued a lot of researches in economic and financial sphere. One has to mention the articles written by M. Timofeyev «About our economic prospects» and O. Odarchenko «Basics of nominal currency» (1924–1925). The first one deals with comprehensive review of European issues concerning money and monetary policy. The author investigated statistic data about state and private banks as well as mechanisms of emission. The second author substantiated the necessity to impose nominal currency in Ukraine due to deficit of gold on international market. Then the University moved to Prague alongside with such academicians as S. Bodayevskyy, R. Dyminskyy, V. Domanytskyy, P. Lysiak, O. Mytsiuk, O. Odarchenko, K. Osaulenko, V. Tymoshenko, V. Chaplia, F. Scherbyna and others.

Ukrainian Economic Academy in Podebrady was founded in 1922 and became another center of financial science. There were 3 faculties including economic one which comprised departments of finance, accounting, local governance and other³ There also worked Publishing House which published scientific essays by R. Dyminskyy «Money and Banks», M. Dobrylovskyy «Customs», «State Credit» and «Brief Course of Financial Science» (1924), I. Ivasyuk «Banking Business» (1925), Ya. Marylevych «Financial Accounting. Bank Accounts and Calculation» (1924) and others.

M. Dobrylovskyy is considered to be the most remarkable scholar who worked at Ukrainian Economic Academy. His main research project is «Finance of Ukraine»⁴ but one can hardly find it in Ukraine and abroad. Though his «Brief Course of Financial Science» is available in V. Vernadskyy Ukrainian National Library.

M. Dobrylovskyy is also the author of a number of articles: «Taxation of Farmsteads in Soviet Ukraine» (1927), «Concerning the Influence of Economic Competition upon Tax Collection» (1929), «History of Economic Policy of Independent Ukraine» (1930), «Carpathian Ukraine» (1939) and

¹ Wymar B. Materials on the history of economic research on emigration (1919-1964) / Wymar B. — New York; Munich, 1965. — 119 p.

² Gorkin L.P. In the world scientific space: economic achievements of Ukrainian Diaspora scientists (20-80 years of XX century.) / L.P. Gorkin, M.G. Chumachenko // Actual problems of economy. — 2008. — № 5. — P. 3-20.

³ Wymar B. Materials on the history of economic research on emigration (1919-1964). — P. 21.

⁴ Ibid. — P. 33.

others. M. Dobrylovskyy investigated tax system of former Russian Empire and Soviet Union on massive statistic database. The scholar used different scientific data of confidential character. He followed West-European tradition of identification of state finance with state economy in his scientific concepts; hence financial science to his mind has to study the ways to collect revenues and to fund state expenditures.

Ye. Golovinskyy (1894–1964) started his scientific work in Ukrainian Economic Academy. His first position was an Assistant of Department of Financial Science where his scientific interests were the financial system of Ukrainian Soviet Socialist Republic and economic relations existing in Soviet Union. His articles «Problem of Balance of Payments in Ukraine» (1928), «Money and Credit in USSR on the last stage of New Economic Policy», «Money and Credit in USSR during the first five-year-plan», «Ukrainian National Economy during the 4th year of seven-year-plan» and others were published in Czechoslovakia. In the first article the author on the statistic database for 1922–1929 reviewed historically the exports and imports emphasizing on balance of payments. Ye. Golovinskyy studied the trading between soviet republics and with foreign countries. He is the only author of mentioned above to be represented in this issue because he investigated the ideas of regional policy formed by Kyiv School.

The scholar analyses the consequences of credit reform in 1930–1931 and criticizes «centralism of Soviet credit system» in his article «Money and Credit in USSR on the last stage of New Economic Policy». Ye. Golovinskyy presents interesting information about money turnover in Soviet Union and points out the mistakes in monetary policy that slow down the economic development of Ukraine.

One has also to mention the monograph «Finance of Ukraine» (1938–1939), which is called «an outstanding research project»¹. This monograph consists of 11 chapters and summary, it critically reviews the finance of Ukraine during 1917–1920 in the times of military communism and New Economic Policy period. The special attention is put on tax reform in 1930, its peculiarities and reasons for implementation. The author investigated the income tax levied on individuals and entrepreneurs, tax on turnover, and taxation of peasants. Ye. Golovinskyy presented interesting details about government debt of USSR, government expenditures as well as local budget and budgetary law.

One of the most valuable chapters of the monograph is «Financial exploiting of Ukraine» where «the problem of geographic and regional

¹ Wynar B. Materials on the history of economic research on emigration (1919-1964). — P.60

division of government revenues and expenses»¹ was defined. With this article Ye. Golovinskyy proceeded development the theory of financial colonialism in Ukraine, which was launched by M. Yasnopolsky, M. Dobrylovsky and others.

Besides Ukrainian Economic Academy and Ukrainian Free University there functioned M. Dragomanov Ukrainian Higher Pedagogical University in Czechoslovakia. One of the greatest specialists of state budget and state controller of Ukrainian People's Republic I. Kabachkov worked in the Institute. The control after formation and usage of centralized monetary funds as well as budget systems of Ukraine and Czechoslovakia were his scientific interests. His most known research project was «Reconstruction of Tax System in USSR» containing the critical analysis of tax reform in 1930.

Ukrainian Scientific Institute in Berlin was founded in 1926. There worked well-known economists and financiers K. Lebid'-Yurchyk and V. Tymoshenko.

K. Lebid'-Yurchyk is one of the statesman and specialists in financial affairs during 1917–1923 in Ukraine and a historian of economics at the beginning of 20th century². K. Lebid'-Yurchyk held the positions of director of department of State Treasury, Chairman of Budget Committee and Deputy Minister of Finance. His main research project is «Budget Law» (1927) published in Lviv and devoted to problems in finance in young state. The author substantiated the directions to improve state finance.

Ukrainian Economic High School was founded in West Germany in September, 1945. M. Velychkovs'ky and L. Popovych delivered such discipline as «Financial Science». But there is no information about their scientific contribution.

So far the issues of K. Kononenko, the reader of Ukrainian Technical Economic University in Regensburg and later in Munich, remain unstudied. K. Kononenko investigated money turn-over and its reform in his article «Monetary reform in USSR», organization of state finance in «Budget System», and monograph in 1965 «Ukraine and Russia. Social and Economic reasons of Ukrainian National Idea, 1917–1960».

It should be mentioned that a lot of Russian scholars worked in Ukraine and P. Genzel in particular.

P. Genzel (1878–1949) was a well-known financier, professor at Moscow University, dean at Moscow Economic School, Member of Board at State Bank of Russia, chairman of Financial Section at Institute of Economic

¹Hlovinskyi E. U.S.S.R. Finance / E. Hlovinskyi. — Warsaw: Ukrainian Research Institute, 1938. — P. 266.

²Hai-Nyzhnyk P. Lebid'-Yurchyk — Director of the State Treasury of Ukraine in the years 1917–1919 / P. Hai-Nyzhnyk // Bulletin of the National Bank of Ukraine. — 2003. — № 9. — P. 68.

Research within Committee of Finance of USSR. He also held positions of professor at Tavriyskyy, Chicago, North-West (Evanston, the USA), and Graz (Austria) universities, corresponding member of Financial Section of Institute of Comparative Law at Paris University, institute of State Finance at University of Mexico, one of the founders of International Institute of State Finance, a member of American Economic Society, Royal Economic Society of Great Britain as well as some economic, literature and student societies.

P. Genzel was invited to Ukraine during the period of crucial social changes. On 9th of October, 1917 the Academic Council of St Volodymyr Kyiv University adopted the Decree about opening Crimea Branch of the University with Faculty of Law as a constituent part. However the revolution then interfered in the implantation of Decree. On 30th of August, 1918 Crimean Regional Government headed by S. Sulkevich affirmed «Regulations about Tavriyskyy University». The Faculty of Law started to function at the same time where professor of financial law P. Genzel was performing the duties of its dean during 1918–1920. This fact is mentioned in book written by N. Bagrov «Professors of V. Vernadskyy Tavriyskyy National University. 1918–1920».

The question about who was the founder of financial science among the representatives of Kyiv School is likely to be still open. One can point out the following:

— J. Bodin is considered to be the father of financial science. It was him to «directly introduce scientific term ‘finance’ in 1577 in his research project ‘Six Books about Republic’¹

— «the first entirely Russian page of financial science in Russia was opened with research written by M. Turgenev ‘Experience of Tax Theory’. He deserved to be considered the founder of Russian financial science»²

Generation of financial science in Ukraine is associated with such figures as M. Bunge, I. Patlayevskyy, M. Alekseyenko. I. Tarasov («An Essay on Financial Law», 1883) and I. Patlayevskyy («Course of Financial Law» 1885) became the first authors of manuals investigating finance.

Thus, four scholars studied the problems of finance. Who of them should be regarded to be the founder of financial science in Ukraine?

Our idea M. Bunge is the mostly likely figure to answer the question. Classics was the starting point for him. During 1852–1860 M. Bunge became the follower of Kerry’s classic interpretation under influence of discussion about «older» historical school [due to quotation of P. Struve

¹Finance: textbook. Edited by S.I. Yurii, V.M. Fedosov. — K: Znannia, 2008. — P. 57.

²Pushkareva V.M. Formation of financial science in Russia (1801-1860) / V.M. Pushkareva // Finances. — 2006. — № 1. — P. 74.

(1870–1944)]. There were spotted some contradictions in Bunge's early issues on finance as he wrote in the form of dispute between «a practitioner» and «an economist». But one would hardly ever deny that his «Theory of Credit» (1852) had draw attention of the most Ukrainian scholars-economists to financial science. His ideas would be developed by I. Patlayevskyy, I. Tarasov and others.

I. Patlayevskyy's «Course of Financial Law» was published in 1885. The scholar thought that finance, as a science about state economy, «would be better divided due to its internal contents into three parts:

- 1) doctrine of government expenditures;
- 2) doctrine of government revenues and
- 3) financial policy»¹

The first part is authentically called a doctrine of government expenditures; the second one studies the sources for rising of funds necessary to satisfy the government requirements. In the third part concerning revenues and expenditures balance, I. Patlayevskyy studies general essentials of financial management, financial system, budget, control and government credit.

We can find the stratification of financial science, which is similar to one proposed by I. Patlayevskyy, in the issue by professor G. Sydorenko from St Volodymyr University. His book «Financial Law. Part 1. Theory of Finance. Synopsis of Lectures» was published in 1888. The author defines three constituent parts in finance: a) doctrine of government financial requirements; b) doctrine of government ordinary and extraordinary revenues; c) doctrine of financial management i.e. an instrument of monetary turnover and order of consumption.² Professor I. Tarasov determined in 1883 the subject of financial science in the same way as G. Sydorenko did.

Ukrainian financiers I. Patlayevskyy and G. Sydorenko defined doctrines of government revenues and expenditures as separate directions of finance i.e. financial science in 1880–1890 was developing as a science of government finance. The main attention was paid to formation of budget revenues and expenditures and partially to government credit.

I. Yanzhul wrote that «in most manuals the finance is divided into two parts: doctrine of government expenditures and revenues where the former takes the leading place as the volume of expenditures is a crucial moment in state economy»³. He determined «studies of the ways for the best satisfaction of government financial demand» as a subject of financial science⁴, so he came nothing more than studies of government revenues exclusively.

¹ Patlayevskyy I. The course of science of financial law. — P. 22

² Sydorenko H. D. Lectures on Russian financial law / G.D. Sydorenko. — Zhytomyr, 1888. — P. 8.

³ Yanzhul I. I. Basic principles of financial science. — P. 52

⁴ Ibid. — P. 43

Professor of Novorossiyskyy University S. Ilovayskyy in his «Manual of Financial Law» (1904) stated: «...the financial science has to deal with investigation of public revenues and expenditures as well as summarizing about main laws of national economy»¹. The scholar studied the finance and application of «financial studies» emphasizing the necessity of general conscious legal studies. Consequently, S. Ilovayskyy quoted K. Zacharias: «All other sciences would be dead without finance»². The scholar did not present the financial science but set a great store to government expenditures, financial management, government revenues and municipal finance and taxes etc.

Another Ukrainian scholar K. Voblyy defined the subject of financial science as «doctrine of government revenues and expenditures, government credit, financial management and control»³. He interpreted the financial science as a special group of practical disciplines.

Y. Kulisher made a considerable contribution into development of financial science due to a number of issues devoted to local taxation and theory of finance. His issue «Sketches of Financial Science» started with statement «state budget is a reflection of entire national economy or government finance»⁴. There are no other definitions for «finance», which proves the discrepancy of the research of methodological essentials of financial science.

M. Sobolev in «Essays of Financial Science» (1925) did not restrict himself to studying only revenues and expenditures of government. The book comprises 12 chapters that pay attention to financial science and its subdivisions (II), government expenditures and revenues (III), taxes (VI–XIII), budget and budget law (XIV), financial management and control (XV), local finance (XVI), and government credit (XVII). The author thinks that «financial science is not only theory. It also contains other parts like financial policy, financial law, and financial history»⁵.

To his mind, in 16–17th centuries the scholars introduced the notion «finance» to identify government resources and national economy: «when we talk about finance we understand national economy and government resources»⁶. M. Sobolev called finance to be special science studying national economy comparing the ideas of his colleagues and predecessors:

¹ Ilovayskyy S.I. Textbook of financial law. — P. 3

² Ibid. — P. 3.

³ Voblyy K.G. Basic course of political economy. History, theory, finance. — P. 6

⁴ Kulisher I.M. Essays of financial science. Issue 1. — P. 5

⁵ Sobolev M.N. Essays of financial science (public talk) / M.N. Sobolev. — Kh.: Proletariy, 1925. — P. 20.

⁶ Ibid. — P. 5.

«financiers at the end of 19th century defined financial science as one to study the best way to retrieve revenues for the government».¹

M. Mitilino was the first in Ukrainian financial science to define elements and branches of finance like history of financial economy, theory of state or financial economy, financial statistics, financial law and financial policy. Ukrainian scholar in his «Elements of Financial Science» (1926) defined these elements and forms accordingly the structure of the book: «the contents of financial science are the following:

1. Expenditures.
2. Revenues.
3. Government Credit.
4. Financial Management (budget, control).
5. Local Finance»²

According to M. Mitilino, financial science studies the economy of public organizations. Its subject is «national economy, economy of departments, regions, communities, districts and other forms of political cooperation»³

In his issue «Essentials of Financial Science» the scholar emphasized on necessity of correlation between theory of finance and financial practice: «Financial science has both theoretical tasks as to cognate the laws of financial phenomena and practical ones as to organize financial institutions on the basis of identified rules and correlation of finance and other factors of social environment»⁴.

Thus, development of financial science at the end of 19th and first half of 20th centuries took place within the government finance and finance was defined as a science which studies national economy and corresponding economic relations.

The majority of issues written by Ukrainian financiers were devoted to evolution and theory of finance, money and money turn-over as well as government finance and finance of foreign countries. The only fundamental research of K. Voblyy «Essentials of Insurance Economy» (1915) was dedicated to insurance questions.

One of the most important constituents of financial science is theory of finance; it was predominantly developed in issues about financial law as there was not any clear distinction between finance and financial law. The following Ukrainian scholars investigated the essence, structure and

¹ Sobolev M.N. Essays of financial science (public talk) / M.N. Sobolev. — Kh.: Proletaryi, 1925. — P. 19.

² Mitilino M.I. Essentials of financial science / M.I. Mitilino. — K: Ukraine state publishing house, 1926. — P. 11.

³ Ibid.

⁴ Ibid.

methodology of financial science, its development and correlation with other scientific spheres:

- I. Patlayevskyy «Course of Financial Law», 1885;
- G. Sydorenko «Financial Law. Part 1. Theory of Finance. Synopsis of Lectures», 1888;
- V. Tverdokhlebov «Finance due to Doctrine of Absolute School and Departments of Socialists», 1904;
- S. Hovayskyy «Manual of Financial Law», 1904;
- K. Voblyy «Initial Course of Political Economy: History, Theory, and Finance», 1915;
- Y. Kulisher «Sketches of Financial Science», 1919;
- M. Soboliev «Sketches of Financial Science. Comprehensive Interviews», 1925;
- M. Mitilino «Elements of Financial Science», 1926;
- M. Mitilino «Fundamentals of Financial Studies», 1929.

At the break-point between 19th and 20th centuries the group of followers of sociological direction (V. Tverdokhlebov, P. Genzel and others) played the leading role in Ukrainian financial science. Unlike their predecessors, who had not been interested in contents and methodology, had accepted the settled in European literature ideas without any criticism and had followed Historical School in research methods, the latter tried at first to review the contents of financial science and then to determine its methodology.

The followers of sociological direction strictly distanced financial law from financial science and tried to clean financial science up from financial policy.

Ukrainian scholars of 19th and 20th centuries devoted a number of issues to studying of historical aspects of development in the sphere of financial relations both in Ukraine and other countries in various times:

- V. Nezabytovskyy «About Tax System in Russian Empire in the Times of its Formation...», 1852;
- G. Sydorenko «An Episode from Financial History of Austria», 1859;
- M. Bunge «Banknotes and Banking System of North American States», 1867;
- V. Hovayskyy «Indirect Taxation in Theory and Practice», 1892;
- P. Kovanko «The Most Important Reforms Accomplished by M. Bunge in Financial System of Russia. Experience of Critical Assessment for Activities of M. Bunge as Minister of Finance (1881–1887)», 1901;
- M. Dovnar-Zapolskyy «National Economy of Great Principality of Lithuania during Yagellons», 1902;
- L. Yasnopolskyy «Essays on Russian Budget Law», 1912;
- P. Genzel «Essays on History of Finance. Part 1. Ancient World», 1913;

P. Kovanko «Reform of 19th February, 1861 and its Consequences from Financial Point of View (Purchasing Operation of 1861–1907)», 1914;

L. Nemanov «Financial Policy of Ukraine (7th of November, 1917 — 4th of February, 1919)», 1919;

In comparison with French, English and German literature in particular, Ukrainian financial literature has not many issues reflecting domestic financial affairs and the history of financial institutions, but the research level of this articles is not lower from those of West-European origin and in many cases it is even higher. The manuals written by P. Kovanko and L. Yasnopolsky played the important role in science. The only issue in Ukrainian financial literature during this period dedicated to history of domestic financial institutions and national economy is an investigation made by M. Dovnar-Zapolsky «National Economy of Great Principality of Lithuania during Jaigellons», 1902.

Studying foreign financial thought was an undisputed element of most scientific researches during the last decades of 19th century. It was the time when financiers thoroughly investigated the issues on taxation, government expenditures and credit:

I. Patlayevskyy «Course of Financial Law», Part 3, 1885;

M. Alekseenko «A View upon Doctrine of Tax by Adam Smith and others», 1870;

P. Genzel «Bibliography of Financial Science», 1908;

G. Tiktin «Essays on General Theory of Public Finance. Experience of Construction for Theoretical Financial Science on Public and Economic Basis», 1926;

M. Mitilino «Main Features of Modern Japanese Tax System», 1929.

The research made by M. Alekseenko is likely to be the most unique from listed above. Though his theoretical views were pretty unstable, this issue, no doubt, was written under the influence of Historical School and the issue by L. Stein (1815–1890) «Financial Science» particularly. Simultaneously, it makes the feeling about attention to critics of current social conditions is available here. He was close to Old Testament Manchester doctrine.

The problems of money and money turnover during the mentioned period were described in the following issues:

I. Patlayevskyy «Monetary Market from 1700 to 1762», 1968; «Ricardo Theory of Money Turnover and His Investigations», 1871;

M. Bunge «About Restoration of Contemporary Currency in Russia», 1878;

L. Fedorovych «Theory of Money and Credit Turnover», 1888;

O. Myklashevskyy «Money. Experience of Studying Main essentials of Classic Economic Theory due to History of Monetary Issue», 1895;

O. Myklashevskyy «Monetary Issue in literature and Real Life Phenomena», 1896

D. Pikhno «About Reform of Monetary Turnover», 1896;

M. Bunge «About Simplification of Banknotes Course», 1897;

P. Migulin «Reform of Monetary Turnover in Russia and Industrial Crisis (1893–1902)», 1902;

K. Voblyy «Introductory Course of Political Economy; History, Theory and Finance», 1915;

A. Antonovych «Theory of Banknotes Turnover and Government Credit Obligations», 1883;

I. Franko «Talk about Money and Treasures», 1883;

Ye. Glovinskyy «Money and Credit in USSR during the First Five-Year-Plan», 1934.

The attention of Ukrainian scholars was drawn to the development of credit relations and banking system at the end of the 19th — beginning of the 20th centuries:

M. Bunge «Theory of Credit», 1852;

D. Pikhno «Commercial Operations of Central Bank», 1876;

L. Fedorovych «Theory of Monetary and Credit Turnover», 1888;

P. Migulin «Our Banking Policy (1729–1903)», 1904;

A. Antsyferov «Retail Credit, its Organization and Meaning in Russia», 1903;

L. Yasnopolskyy «Commercial Banks and Their role in Modern Economics», 1914;

K. Voblyy «Introductory Course of Political Economy; History, Theory and Finance», 1915;

M. Sobolev «Credit and its Role in National Economy», 1917;

A. Antsyferov «Central Banks of Cooperative Credit», 1918;

I. Ivasyuk «Banking Business», 1925;

Ye. Glovinskyy «Money and Credit in USSR during the First Five-Year-Plan», 1934.

Government finance developed within general theory of finance. Ukrainian scholars set the greatest store to taxation, government credit and national debt, budget policy and local finance.

Ukrainian scholars of the end of the 19th — beginning of the 20th centuries in made an important contribution to elaboration of issues associated with budget, budget policy and allocation of Ukrainian budget within total budget of the USSR:

I. Franko «Tax Power of Galicia», 1883;

I. Patlaevskyy «Course of Financial Law», Part 3, 1885;

M. Yasnopolskyy «About Geographical Distribution of Government Revenues and Expenditures in Russia», 1890;

S. Illovayskyy «Manual of Financial Law», 1904;

Y. Kulisher «Essays of Financial Science», 1919;

P. Kovanko «Local Budget of Ukraine in 1912», 1923, «Local Budget of Ukraine in 1912 in Modern Territorial Boundaries and Administrative and Territorial Division», 1925;

M. Mitilino «Elements of Financial Science», 1926;

Ye. Glovinskyy «Finance of Ukrainian SSR», 1938, «Finance of Ukrainian SSR in Financial System of USSR», 1955.

M. Yasnopolskyy is likely to occupy the extraordinary place here as he was an extremely talented researcher. In his literary activity he demonstrated a unique character and scientific independence being at the same time rather distant from existing European financial knowledge. Additionally his issue has been mentioned despite all its disadvantages, it is regarded to be the best research in the sphere of geographical distribution of revenues and expenditures both in Ukrainian and Russian literature as well as in West-European one.

During the studied period the attention of Ukrainian financiers was drawn with the problems of financial supply of local authorities and functioning of local finance that was described in the following issues:

M. Tsytovykh «Local Expenditures of Prussia due to the Theory of Local Expenditures», 1898;

P. Genzel «New Type of Local Taxes. Special Tax Levy in England, America, Germany and other Countries», 1901;

S. Illovayskyy «Manual of Financial Law», 1904;

Y. Kulisher «Municipal Tax Levy in Germany in its Historical Development», 1914;

K. Voblyy «Introductory Course of Political Economy; History, Theory and Finance», 1915;

P. Kovanko «Local Budget of Kyiv Province», 1925; «Financial Problems of Land Ownership in Russian Towns», 1919;

G. Tiktin «Essays on General Theory of Public Finance. Experience of Construction for Theoretical Financial Science on Public and Economic Basis», 1926;

V. Tverdokhlebov «Local Finance», 1927.

The fact practice preceded the theory was the main peculiarity of development of financial thought concerning the local finance among Ukrainian scholars. One has to mention the research project of M. Tsytovykh among the issues summarizing the practice. The mentioned issue is the only one in Ukrainian and Russian economic literature which was dedicated to

economic expenditures. Despite the later research project made by P. Genzel, V. Tverdokhlebov, Y. Kulisher, it remains as one of the best articles concerning this question. The main disadvantage of these issues was the fact that listed scholars were following German literature, practice and financial theory. P. Kovanko and G. Tiktin were trying to solve this problem but formal method did not give them many results, but a number of interesting remarks, scattered in their articles, are still relevant.

Representatives of Kyiv school paid considerable attention to the problem of government credit and national debt in the following issues:

M. Alekseenko «Government Credit. Essays on Increasing of National Debt in England and France», 1872;

I. Patlaevskyy «Course of Financial Law», Part 3, 1885;

S. Illovayskyy «Manual of Financial Law», 1904;

P. Migulin «Russian Government Credit (1769–1899)»;

K. Voblyy «Introductory Course of Political Economy; History, Theory and Finance», 1915;

V. Tverdokhlebov «Government Credit», 1924;

M. Sobolev «Essays of Financial Science», 1925;

M. Mitalino «Elements of Financial Science», 1926;

G. Tiktin «Essays on General Theory of Government Finance», 1926;

M. Mitalino «Essentials of Financial Science», Part 8, 1929.

In this group of scholars one has to emphasize first of all P. Migulin. He, like M. Yasnopolskyy, was very synergetic scholar. His listed above issue is considered to be the best abridgment of data and it will be valuable item as a source for acknowledgments with true history of Ukrainian and Russian credit due to loss of corresponding archive materials. P. Migulin was the only open and sincere follower of imperialistic policy in Russia.

4.3. Formation of the Ukrainian financial doctrine

In the last third of the XIX — beginning of XX century a great number of brilliant scientists-financiers appeared in Ukrainian financial thought. They formed national financial science which took an important place in the world economic thought. Overall, such situation was connected with the reforms which took place in the second half of the XIX century in Russia and affected Ukrainian reality. In Ukraine, capitalism started to develop faster than in other regions of the Russian Empire. It caused the social thought development, actually as well as financial thought development.

A transition from one century to another influenced the state and the specifics of Ukrainian financial thought of that time. This fact, as it was noted by the researchers, is usually associated with serious economic, social and political shock in the lives of nations and folks. So, in such conditions the creative thought of each country had was trying to comprehend the nature of those events. The events of this period (both political and economic events in Ukraine and in Russia, where the significant part of our countrymen worked) by their nature did not fit into a national framework. Primarily we mean the series of economic crises and the Russian-Japanese War, which involved all the economic potential of Ukraine and the revolutionary events of 1905–1917, also the political response of the country for that situation, attempt to conduct political and economic reforms, the World War I, and, finally, two revolutions of 1917. This was the stressful time when the most of the Ukrainian financial thought representatives had to work. Thus the financial problems which were connected with these events became the center of scientific research.

As it is known in West-European economics the reconsideration of objectives and methodology took place in the last third of XIX century. This situation reflected the financial opinion. The majority of the representatives of the Kyiv School, having joined the Western scientists, overcame the crisis, which the economic thought of the time had experienced. M. Tugan-Baranovsky, one of the representatives of Ukrainian financial thought, whom P. Struve called «the greatest economist in Europe»¹, wrote about these phenomena: «In political economy (financial science was its integral part. — Author.) the capture by general formulas dominated.

In these formulas the contemporaries saw the expression of changes and eternal laws of economy. However, later many of these so called laws turned to be superficial; sometimes they contained wrong generalizations of partial and transient phenomena. The fact that economic theory had lost the connection with the reality was the consequence of extreme addiction to broad generalizations and abstractions was. A significant part of the structures of economic theory had acquired scholastic character. That is, they turned to become purely verbal definitions which rotated in a circle of conditional terms having no influence on knowledge of reality»².

At the beginning of XX century this crisis actuated the representatives of scientific thought of financial science to develop new economic trends, which were based on marginalist's methodology (nowadays this theory is entitled as «Economics»). In financial scientific thought a complete rejection

¹ Struve P.B. Economic system of M.I. Tugan-Baranowsky / Russian thought. — 1910. — № 1.

² Tugan-Baranowsky M.I. Principles of Political Economy. — M., 1998. — P. 22.

of the traditions of the classical school could be observed. In such situation the generation of domestic economists-financiers of late XIX — early XX century started working.

Promotion of Ukrainian financial thought achievements of the second half of XIX — early XX centuries does not mean a conscious choice of political position against the far-fetched inclination to the West in defense of «national values». This is caused by the fact that only in the first half of the 90-ies of XX century some researchers started to study the cultural heritage. This work was not completed. The interest of Ukrainian elite to these issues is still growing.

On the basis of the past studies of scientific thought we can understand the current financial environment, propose scientific approach to the strategy of reforms which will maximally reflect national cultural traditions without any destruction. We do not mean the superiority of «Ukrainian Financial Doctrine» of the mentioned period against Western liberalism of «economic ideology». We want to emphasize the identity and originality of financial thought of Ukraine. However, it should be noted that, as well as in the Western financial thought some individual scientific achievements could legitimately become the financial world treasury if the circumstances and approaches to national values had been different.

I. Vernadskyi was one of the first scientists who applied to the analysis of economic thought in the Russian and Ukrainian economic literature. In his «Essays on the History of Political Economy»¹, he had launches a debate. It still continues in the Ukrainian economic literature. The main thing we should pay attention to is that he was the first who discovered the H. Gossen's ideas². In Germany H. Gossen remained practically unnoticed until the late 70-ies of the XIX century. These are the first two features that are common to all members of the Ukrainian financial thought: the presence of new controversial issues in financial science; the saturation of factual and theoretical material by practices of financial management and the works of foreign researchers who were mostly used for the first time.

The next thing in common which is typical for works of representatives of financial thought of Ukraine was their critical orientation. So, I. Vernadskyi, having spoken about the merits of A. Smith in the development of the labor theory of value, pointed to the weaknesses of this work. According to I. Vernadskyi, A. Smith ignored the value of intellectual work and the role of the entrepreneur in the manufacturing process³.

¹ Vernadsky I. Essays on the history of political economy. — P. 1.

² Ibid. — P. 161.

³ Ibid. — P. 142.

Scientist critically evaluates the works of A. Smith's followers who absolutised the conclusions which were received by deductive method. Those were the conclusions about the restraint of state in economic matters. They classified them as «speculative» direction (D. Ricardo and T. Malthus). I. Vernadskyi highly appreciated the work «Principles of Political Economy of Taxation» (1817), which is, according to him is «the great and intelligent analysis of the main provisions of science». At the same time he pointed to the lack of touch with practice of that work¹.

And here is the last thing that is common to the works of representatives of Ukrainian financial thought. That is a vision of innovative ideas which were developed in their works. I. Vernadskyi was the first who started a critical analysis of the works of «our fellow citizens», including the works of G. Shtorch. He noted the originality of G.Shtorch's theory of internal goods and praised «this extension of the boundaries of science» as «extremely important one for the proper evaluation of its principles»². It was a predictive understanding of the emergence of such new direction in science as marginalism and confirmation of the fact that the part of our scientists economists-financiers have become pioneers in the financial science. This fact we will describe later. Now we should pay attention to the creative perception of new commitment to its development by Ukrainian scientists.

M. Bunge³ was one of those who continued the tradition to appeal to the analysis of economic thought. He was not only an outstanding theoretician, but a reformer: his proposal to reduce capitation taxes eased the life of peasants and started the policy of protectionism in foreign trade. These were the important steps. They were similar to the reforms which were carried out later by S. Witte and P. Stolypin.

M. Bunge's work is full of contradictions between historical relativism and political liberalism (to be exact, its rational version). Some researchers call it eclecticism. It cannot be denied, but at the same time it was his attempt to find the correct path of knowledge, which gives him an image of a man who is in search.

The originality of scientific views of M. Bunge is in justification of an idea to achieve the harmony of coordination of private and public economic activity⁴. Similar ideas can also be found in the book of John Stuart Mill⁵. Calling for active government policy through the use of public funds,

¹ Vernadsky I. Essays on the history of political economy. — P. 156.

² Ibid. — P. 170.

³ Bunge N.H. Essays on the political and economic literature. — St. Petersburg, 1895. — P. 1-200.

⁴ Bunge N.H. Police law. In 2 volumes. — K., 1869. — Vol. 1. — P. 3.

⁵ Бунге Н. Х. Джон Стюарт Милль как экономист // Журнал Министерства народного просвещения. — 1868. — Т. 140. — № 10. — С. 28.

M. Bunge refers to the authority of John Stuart Mill, as he is also «a friend of freedom». This fact, however, does not prevent him from promotion of government intervention into «where the public good demands it»¹. Later, in some decades this idea would be developed by John. M. Keynes in his theory of effective demand. During the life and work of M. Bunge those were the attempts to find a way out of the crisis theory of the classical school.

Some scientific conclusions of the scientist regarding the economic crisis even nowadays stay actual ones. In particular, M. Bunge noted that banks were not the causes of the crisis, but rather a barometer of the overall state of the economy. He argued that the acute crisis which accompanied insolvency of private banks is easier perceived by society and makes less damage to the economy than the chronic crisis. The chronic crisis was inherent to the privileged banks that due to the help of state continued to operate but did not fulfill their obligations. This observation of Ukrainian scientist remains relevant even today because those government actions that aim at artificial maintaining of economic stability often impede the restoration of market balance with the consideration of conjuncture changes.

D. Pikhno, who was M. Bunge's apprentice, because of disagreements with I. Vyshnegradskiy in 1887 regarding financial policy, had to return to Kyiv. Only when the reformers led by S. Witte (who appealed for a help to more progressive views of Ukrainian scientists-financiers) came to power, D. Pikhno was appointed as an adviser of the Minister of Finance in 1890. The scientist again had the possibility to influence the financial policy of the Russian Empire.

The identical title of his main work, which was released twenty years after the publication of teacher's work indicates M. Bunge's influence on D. Pikhno's works². However, D. Pikhno made some progress as he developed some individual themes independently. In matters of theory, he was closely guided by the aspects of classical economy. Division of all financial phenomena on the «private» and «public» is the most characteristic feature of his methodological work «Principles of Political Economy.» It was D. Pikhno who pointed to «organic relationship» in the financial system of private and public finance, which unite «joint and several relations»; their totality is the basis for the development of national economy³.

Critically estimating the labor theory of value, D. Pikhno, due to the tradition of Ukrainian classical economists, considered «cultural and

¹ Бунге Н. Х. Джон Стюарт Милль как экономист // Журнал Министерства народного просвещения. — 1868. — Т. 140. — № 10. — П. 2.

² Bunge N.H. Foundations of Political Economy / N.H. Bunge. — K., 1870. — Volume 1. Pikhno D.I. Foundations of Political Economy / D.I. Pikhno. — K., 1890. — Volume 1.

³ Pikhno D.I. Foundations of Political Economy / D.I. Pikhno. — Volume 1. — P. 5.

historical forces of people» to be the fourth factor of production along with nature, labor and capital¹. He was one of the last scientists-financiers of the XIX century, who accepted Storch's doctrine about the internal good. With this fact he emphasized the identity of the Kiev school. Unlike the Moscow school, which completely broke with the Russian version of the classic doctrine, Kiev school proves its commitment to these ideas. The scientific heritage of D. Pikhno who was the supporter of private property, is a clear indication of not only methodological, but also of economic opposition to Moscow scientific school. The state, in his opinion, should direct budget costs to support «the most advantageous form of industry which is factory-machine production» and in no case the primitive home industry².

D. Pikhno positively assessed the role of the banking system, the main task of which he had seen in the concentration of financial resources to solve practical economic problems. In foreign trade, he took a liberal position, although he recognized the need for protective duties for the young industry³. Unlike his teacher M. Bunge, whose views on finance in the late phase of his work became similar with the ideas of «young» historical school, D. Pikhno kept following classical traditions.

Ukrainian scientist M. Ziber is a notable figure in Ukrainian financial opinion. He was one of M. Bunge's and G. Tsekhanovetskyi apprentices. He is considered to be the representative of «pure type of scientists»⁴. He gave deep and detailed analysis of the theory of Karl Marx. M. Zieber's scientific interest to Marxist doctrine, which was categorically rejected by the economists of Kyiv School, was caused by D. Ricardo works. In 1873 the scientist made a translation of the work of D. Ricardo «Principles of Political Economy and Taxation»⁵, and in 1882 he translated the collection of his works⁶. So, it is not surprising that M. Zieber called Marxist theory (firstly, the theory of value of K.Marx) not more than the «supplements and thoughts» for Ricardo's theory of value⁷.

In his works, M. Zieber was the first to criticise the method of identification of «individual» and «social» economy and the lack of consideration of temporal and regional aspects of economic activity in the

¹ Pikhno D.I. Foundations of Political Economy / D.I. Pikhno. — Volume 1. — P. 68.

² Ibid. — P. 102.

³ Pikhno D.I. On freedom of international trade and protectionism. Speech delivered at the solemn act of the University of St. Vladimir 8th January 1889 / D.I. Pikhno — K., 1889. — P. 12.

⁴ Kleynbort L.M. Nikolai Sieber / L.M. Kleynbort. — Pg., 1923. — P. 20.

⁵ Sieber N.I. Works of David Ricardo. Principles of Political Economy / N.I. Sieber. Translation edited by N.I. Sieber // University news. — 1873. — № 1-7. 9-10.

⁶ Works of David Ricardo. Translation edited by N.I. Sieber. — St. Petersburg, 1882.

⁷ Sieber N.I. A few comments about Y. Zhukovsky's article «Karl Marx and his book on capital» [1877] / N.I. Sieber // Selected economic works: in 2 volumes. — M., 1959. — Vol. 1. — P. 562.

classicalism. According to the scientist, the economists of the classical direction, focusing only on single economy, do not notice that the results of labor cooperation manifest only in the totality of the economies¹; efficiency of the economic process is largely driven by interdependence of individual economies², and private industry constantly has to obey the public economy³. That is, he was the first in the economic literature who pointed out the relationship of subsystems in the financial system of the country, their mutual influence.

According to M. Ziber, K. Marx revealed «specific conditions» of occurrence of the net income⁴. He offers a purely evolutionary and deterministic interpretation of K. Marx's theory. In his philosophy of history, as M. Ziber says, K. Marx proved that form of society cannot freely be chosen, the change of forms happens in accordance with strictly defined development scheme, which has «no breaks or jumps»⁵. «Laws of history, which lead the humanity ... from one stage of cooperation to the next one, from one form to the second one which is more complex,»⁶ are crucial ones. So he was a supporter of the idea of compulsory passage of stage of capitalism by Russia. That is, he started the evolutionary approach to the study of the financial system in the Ukrainian financial science.

M. Zieber advocated the expansion of the influence of public finances. He was guided by the idea of integrity which was more typical for Russian economists. According to this idea «the state and economic cooperation of the society may merge into one indivisible thing»⁷. However, he spoke out against the populist interpretation of the teachings of Karl Marx, which was typical for the Moscow school. Due to his interpretation of Marxist theory, M. Ziber is one of the few representatives of Kyiv School who can be considered as the predecessors of the so-called legal Marxism.

Among the Ukrainian economists S. Podolynskyi, who studied in the University of Kiev, was the supporter and promoter of economic doctrine of K. Marx. In 1879 he published the book «Life and Health in Ukraine». In 1880 he published another work «Crafts and factories in Ukraine». These

¹ Sieber N.I. David Ricardo and Karl Marx in their socio-economic studies [1885] / N.I. Sieber. Editor A.L. Reuel. — M., 1937. — P. 16.

² Ibid. — P. 17.

³ Ibid. — P. 19.

⁴ Ibid. — P. 315.

⁵ Ibid. — P. 416.

⁶ Sieber N.I. German economists through B. Chicherin's glasses / N.I. Sieber // Collected Works: in 2 volumes. — St. Petersburg, 1900. — Vol. 2. — P. 642.

⁷ Sieber N.I. German economists through B. Chicherin's glasses / N.I. Sieber // Collected Works: in 2 volumes. — St. Petersburg, 1900. — Vol. 2. — P. 633.

books became the first attempt to apply the economic doctrine of K. Marx to Russia and Ukraine.

M. Tugan-Baranovsky was one of those who according to M. Kondratyev brought the economic science along with the European one¹. His vision of cooperative socialism in the late phase of restructuring was perceived as if it was written by our contemporary. In the theoretical aspect M. Tugan-Baranovsky, exploring the problem of value, came up to the theory of marginalism, trying to combine the theory of marginal utility with the labor theory of value. With his work concerning industrial crisis in England² that brought him worldwide fame, he proved that the subject of the dispute as for the inability of capitalism in Russia has been exhausted, since it has already had all the signs of a capitalist economy. Scientist in the spirit of Kant's ideas about the differences between practical and pure mind believes that science is surely obliged to practical cognitive process³ for its existence.

M. Tugan-Baranovsky was the first in world economic literature who tried to combine the theory of marginal utility with the theory of labor value. He thought that the marginal utility is subjective side of the same phenomenon, that is, it is a dependent thing on the will of man. Production costs, on the contrary, become an objective side of same phenomenon, that is, it is an independent thing on the will of man. »The theory of marginal utility and labor theory are the opposite ones, but not contradictory theories. Ricardo and Menger focused their attention on different aspects of the same process. Ricardo's theory emphasizes the value of objective factors; the theory of Menger shows the subjective points of assessment⁴. «Those were the first attempts to eliminate the limitation of the approach of classical and Austrian schools that claim to the universality of their theories.

The described by M. Tugan-Baranovsky model of work is understood as a homogeneous substance and is the only factor of production. Productivity of labor depends on the «degree of power of a man over nature»⁵. On the basis of synthesis of two approaches for determination of the value the scientist deduced theorem which is known in the economic literature as

¹ Kondratiev M.D. M.I. Tugan-Baranovsky / M.D. Kondratiev. — Pg., 1925.— P.112.

² Tugan-Baranovsky M.I. Industrial crises in modern England, their causes and influences on lives of people / M.I. Tugan-Baranovsky. — St. Petersburg, 1894. Tugan-Baranovsky M.I. Industrial crises. Outline of the social history of England / M.I. Tugan-Baranovsky. — 2nd edition. — St. Petersburg, 1900. Tugan-Baranovsky M.I. Periodic industrial crises. History of English crises. General theory of crises / M.I. Tugan-Baranovsky. — 3rd Revised Edition. — St. Petersburg, 1914.

³ Tugan-Baranovsky M.I. Principles of Politic— P. al Economy / M.I. Tugan-Baranovsky. — St.Petersburg, 1909. — P. VII.

⁴ Tugan-Baranovsky M.I. Principles of Political Economy/ M.I. Tugan-Baranovsky. — M., 1998. — P. 71.

⁵ Tugan-Baranovsky M.I. The doctrine of marginal utility of economic goods as a determinant of their value / M.I. Tugan-Baranovsky // Legal Bulletin. — 1890. — Vol. 22. — № 9. — P. 220.

‘Theorem of Tugan-Baranovsky». It says that « utility should be inversely proportional to the relative amount of products which are produced per unit of time, in other words, it should be directly proportional to the labor cost of the same products»¹.

It should be noted that Tugan-Baranovsky does not agree with all the ideas of Austrian economists. Thus, he indicates that they incorrectly interpret the problem of distribution. He also says that from their general theory of prices it is quite impossible to understand the essence of profit. According to Ukrainian scientist, theory of division of marginal utility scale is devoid of «any kind of scientific significance»².

The first edition of M. Tugan-Baranovsky’s work «Principles of Political Economy» was published in 1909 along with the manual of another Ukrainian scientist and economist V. Zhelyeznov «Essays on Political Economy» (1902) and Russian scientist-economist O. Chuprov «The course of political economy» which was based on students’ lecture notes of 1884/1885 1891/1892.» They were the main teaching materials. Studying of the course of political economy in Ukrainian and Russian universities until the mid 20-ies of XX century was possible only thanks to these books. The work of M. Tugan-Baranovsky was awarded by Academy of Sciences in 1915.

The work of M. Tugan-Baranovsky «Principles of Political Economy» can be a model for modern scholars. It especially stands out with the multifaceted analysis of economic life of society, which also has purely political-economic, historical-economic, historical and political and economy approaches. The author of the manual was an expert in the questions of the history of economic thought. He respected the ideas and works of his predecessors and contemporaries. You can feel it from the first lines if you read his work. In the preface to the manual he wrote that he dedicated that work to F. Quesnay, G. Gossen (1810–1858) and Karl Marx. He also emphasized that he felt the greatness of their ideas.

F. Quesnay who was not a professional economist made the first attempt in the scientific literature to analyze the social reconstitution («Economic Table» (1758)). Herman Gossen is professional scientist-economist, the author of the book «Development of laws of social exchange and rules of human activity that arise from them» (1854). The principles that are known in modern economic literature as the first and the second «Gossen laws» are described in this book. Karl Marx, who was a philosopher, historian, legist, always suffered from financial difficulties. However this fact did not prevent

¹ Tugan-Baranovsky M.I. Principles of Political Economy. — 1909. — P. 69

² *Ibid.* — P. 396–397.

him from writing one of the most popular among the economists work «Capital» in three volumes (vol. 1, 1867, vol. 2, 1885, vol.3, 1894). M. Tugan-Baranovsky had the greatest debates with K. Marx. As a result of this controversy M. Tugan-Baranovsky developed a number of new ideas in the theory.

The idea of synthesis of labor theory of value and marginal utility coincides with that described in the book «Principles of economics» by A. Marshall¹. Noting the identity of ideas of synthesis of these two theories, we can say that M. Tugan-Baranovsky was the world's first economist, who started such a synthesis. In the same 1890 Henry Dittsel almost simultaneously had the same idea about synthesis. He was the author of the idea about the lack of unresolved disputes between labor theory and the theory of marginal utility². But he did no attempt to solve this problem.

Marshall extended the model of Tugan-Baranovsky. He introduced the production factor «capital» and analyzed the difference between the short and long term. Therefore A. Marshall's approach was more complex than Tugan-Baranovsky's one. However taking into consideration the age of the Ukrainian scientist (at that time he was only 25 years old) and the significance of the problem he had raised, the importance of his research is still notable.

The theory of crises of Tugan-Baranovsky is the most original achievement of Ukrainian financial science of XIX century. Scientist considers comprehensively the question of economic crises under the capitalism and offers an explanation of their causes³. Each of them has not lost its relevance even today. Especially «a tendency to an unlimited expansion of production as a means of capital accumulation» is noted. M. Tugan-Baranovsky affirmed the identity of the Kyiv School with this theory and with «theory of markets». His conclusion that the crises «arise from the totality of the phenomena of social life»⁴ is unsurpassed in the world economic thought. The main cause of cyclical fluctuations the scientist saw in the disparity between the movement of deposits and investments. He was a decade ahead to express the basic idea of the Keynesian theory of effective demand. Unlike the neoclassical causes of the crisis, he considered that

¹ Marshall A. Principles of Economics: in 3 volumes / A. Marshall. — Moscow: Progress, 1993. — Vol.2. — P. 195.

² Tsvaynert J. History of economic thought in Russia in 1805-1905 / J. Tsvaynert, translated from German; under the scientific ed. V.S. Avtonomova. — M.: Publishing house GUVSHE, 2008. — P. 334.

³ Tugan-Baranovsky M.I. Periodic industrial crises. History of the English crises. The general theory of crisis [1914] / M.I. Tugan-Baranovsky. — M., 1997. — P. 315.

⁴ Tugan-Baranovsky M.I. Periodic industrial crises / M.I. Tugan-Baranovsky. — Smolensk, 1923. — P. 279.

imperfectability of market mechanism led to breakage of proportionality. It can be prevented only with the help of the regulation of investment. In fact, M. Tugan-Baranovsky developed a theory of crises into the theory of conjuncture. It was further developed in the 20-ies of XX century.

M. Tugan-Baranovsky opposed the excessive centralization of funds. The more the sector is centralized the greater becomes the threat to individuals. »Centralism always brings and bureaucracy, that is, isolation of social mechanism from the connection with real life, ignoring of all individual differences»¹. He thought that each municipal entity had to have its own financial sector. Distribution of funding should be done according to the rule: everything that can be fulfilled by municipalities should be done by them; central government has to be responsible for those things that obviously cannot be done by the Municipality².

M. Tugan-Baranovsky made a significant contribution to the development of the theory of money. Ukrainian scientist examined the problems of money in a number of works. Among them there are «Fundamentals of Political Economy» (1909); «Socialism as a positive doctrine» (1917). In the book «Paper Money and Metal» (1917) it has been thoroughly developed his «conjuncture» theory of money (the second edition was published in Odessa after the author's death in 1919). Only the last work out of more than 200 publications was devoted to the problem of nature of money. This indicates that the theory of cycles and crises, the cost and distribution was the basis for this problem.

On the basis of a combination of historical and logical methods he supports the idea of Karl Marx that money is a product of the historical development of economic life. He also expresses another explanation for the origin of paper money which is based on nominalistic theory of money. «Although money arose as a result of the spontaneous process of exchange but for its full development it requires the sanction of the government, which recognizes this very subject as money, that is, a legal tender»³. In the theory of money, he points out two major problems: 1) development of cost of money problem; 2) determination of the factors that influence it (or control it). The scientist emphasizes that the previous theories (commodity and quantitative) do not explain the origin of value for money of different forms of money. He identifies three forms of money: 1) materialized banknotes; 2) metal money in the form of gold and silver coins 3) paper money.

¹ Tugan-Baranovsky M.I. Socialism as a positive doctrine / M.I. Tugan-Baranovsky. — Ph.: Kooperator, 1918. — P. 82.

² Ibid. — P. 83.

³ Tugan-Baranovsky M.I. Principles of Political Economy / M.I. Tugan-Baranovsky. — 4th ed. — Ph., 1917 — P. 256.

In the process of the evolution of civilized society, materialized banknotes are considered to be the first form of money, «sales of which was less time consuming, and they were gladly accepted»¹. Materialized money could be in the form of different products. Among them there was a constant proportion of its cost, which then was fixed by customs. It helped to conduct the easy exchange². Metal money had its own cost. »In the paper money we can see the embryo of another kind of money, money of non-tradable nature»³.

In the history of paper money Ukrainian scientist identifies three stages and accordingly three its kinds — bills, paper money in «pure form» and adjustable paper money.

At the first stage the banknotes are the «embryos» of paper money, its undeveloped form which is in circulation along with metal money. They are exchanged by banks for precious metals.

The second stage is characterized by the fact that paper money has the compulsory exchange rate relatively to gold and silver and replaces the metal coins from circulation. This paper money is called «unexchanged». It gets legal support in the form of state requirements for mandatory acceptance into payment, that is, according to M. Tugan-Baranovsky, «complete legal structure.» At this phase, paper money turns into paper money «in its purest form», which is completely freed from the metal base. It broke all contact with the metal. »Only unexchanged paper label — as M. Tugan-Baranovsky emphasizes — is an instrument of exchange and legal payment instrument, the essence of paper money is in the proper understanding of the sense»⁴.

The third stage «has just begun and its further development is still ahead». It is a new era in the history of currency when paper money reaches the highest perfection. The essence of this period is that the state provides a systematic adjustment of value of paper money. »Systematic influence of state power» on the value for money is the evidence of the fact that in terms of planning it is a function not of the prices of separate product, but of general economic conjuncture and its cyclical fluctuations⁵.

Thus, at the beginning of the XX century the Ukrainian scientist by his theory of money predicted the future of paper money. We are the witnesses of the fact that his conjuncture theory of money is the best to match the

¹ Tugan-Baranovsky M.I. Principles of Political Economy. — 1909. — P. 241

² Ibid. — P. 242.

³ Tugan-Baranovsky M.I. Socialism as a positive doctrine / M.I. Tugan-Baranovsky // The image of the future in the Russian socio-economic thought in the late XIX — early XX century. — M., 1994. — P. 23.

⁴ Tugan-Baranovsky M.I. Principles of Political Economy. — 1998. — P. 285.

⁵ Tugan-Baranovsky M.I. Paper money and metal / M.I. Tugan-Baranovsky. — Odessa, 1919. — P. 69

status and functioning in the modern world of paper money economy. In the modern conditions of its development the national currencies are no longer associated with the value of precious metals. The states, while regulating the value of their banknotes, are guided by certain economic and even political expediency. Its most obvious example is support of the Ukrainian government of deliberately undervalued rate of hryvnya against the US dollar, the struggle for «optimal» level of inflation and so on. However, Tugan-Baranovsky warned that «it would be a big mistake to think that the state can set its course of money at its discretion at any level. Its not true, as national economic forces can be operated only in accordance with the natural laws of their actions. Only having understood these laws, the government can, within their bounds, achieve its goals»¹.

According to the scientist, paper money is independent from the metal money. It resists to the last as a completely independent form of money and has the same stable value. Paper money is an artificial social invention, «which is merely conventional sign; this is the idea of paper money, simple paper signs which have to replace metallic money in circulation and perform all its functions»². That is, Ukrainian scientist shares the money into two types — «money» and its «symbolic reflection» (bank notes and paper money). M. Tugan-Baranovsky pointed at its opposition as two irreplaceable and independent types. But he had never found the part that would reflect its unity and identity.

Taking into consideration the modern knowledge of theory of money we can affirm that the scientist was not able to reveal a single beginning, which could reveal the principles of evolution of money, show reasons for changing from one form to another. However dichotomous method enabled M. Tugan-Baranovsky to «feel» the dual nature of money. Avoiding the search of unifying roots, he believed that any money was a «subject.» »Money is a subject that performs the functions of money, and thus it may be subject or product that is most suitable for this purpose (like precious metals), or symbol, which is created especially for this purpose by society»³. Thus, the Ukrainian scientist confined to a functional definition of money.

The approach of M. Tugan-Baranovsky as for the determination of the value for money and the factors that operate it is considered to be original. »Value for money» is identified with the purchasing ability that is with the general level of commodity prices. In fact it replaces the cost with

¹ Tugan-Baranovsky M.I. Paper money and metal / M.I. Tugan-Baranovsky. — Odessa, 1919. — P. 293.

² Ibid. — P. 263.

³ Ibid. — P. 379.

the form of its manifestation»¹. The value for money is nothing but a number of goods that can be bought for a monetary unit»².

On the basis of the dual nature of money, M. Tugan-Baranovsky contrasts two types of value — real value and representative one. Paper money is not «substitute metal» but independent money with «its independent cost»³. The value of paper currency is different from the value of the coins as they do not have their «intrinsic value» like metal one⁴. However, having no intrinsic value, paper money fulfills all the functions of money that cannot be explained from the position of the labor theory of value. «Unacceptability of the labor theory to value for money results from the fact that the cost is the characteristic not only of metal money that are made of metal and which has the labor cost, but also unexchanged paper money that has no labor value»⁵.

In his explanation of the purchasing power of different forms of money M. Tugan-Baranovsky uses commodity (about the impact of level of prices on the cost of money) and the quantity theory of money (the value of amount of money in circulation in determination of their purchasing power). However, he does not acknowledge the proportional relationship between the number and value of money. He considers this conclusion to be a mistaken one as there are other factors that can influence the value for money: the number of products, velocity of money, the amount of deposits and their turnover rate, which also affect the value for money⁶.

M. Tugan-Baranovsky complements the theory of money with the importance of influence on its purchasing power and stability of subjective-psychological factors, that is, confidence of the population to the state authority. The scientist says that «the value for money is entirely a social phenomenon, a product of spontaneous unconscious economic processes ... If the population doubts that some paper bill will be accepted for payment, this paper bill loses its value and stability and ceases to be a measure of value»⁷.

On the basis of this analysis the Ukrainian scientist concludes that if the value for money is determined by the confidence of population to the state, «is based on the fact that it is recognized as a legal tender», and «is the creation of act of state power», then it appears a possibility of influence on

¹ Tugan-Baranovsky M.I. Paper money and metal. — P. 11.

² Ibid. — P. 13.

³ Tugan-Baranovsky M.I. Principles of Political Economy. — 1917. — P. 263, 267.

⁴ Tugan-Baranovsky M.I. Paper money and metal. — P. 44.

⁵ Ibid. — P. 39.

⁶ Ibid. — P. 31.

⁷ Ibid. — P. 31, 64.

this trust and, accordingly, on the value for money, which «is unconscious spontaneous product of social interaction, which is supposed the state regulation»¹. This fundamental conclusion of the Ukrainian scientist becomes an argument for the necessity of transition to a regulated fee. »Up to now the state government hardly set a goal to affect the value for money according to schedule... The task of systematic monetary policy, which aims to regulate the value for money, is possible. Since the circulation of money of all the major European states is disordered by war, then for economics a new task of great practical importance comes to the fore, that is, to develop a rational and monetary policy»².

Such regulation may appear only on the third stage of evolution of paper money. This will be a new era in the history of currency, which is characterized by systematic adjustment of value of paper money by the state³.

In the course of the evolution the paper money should be provided by gold on the first stage of its application (this is a psychological basis which is declared by the state). The necessity of determination of gold content of paper money by the state is proved by the scientist by the 'motives of folk psychology'. Gold reserve acts as a «perfect security» of paper money; it guarantees the public trust for paper money⁴. The second stage anticipates the elimination of the gold reserve, as it's the real value according to the new monetary system is limited to the role of international means of payment. On the third stage the system of paper money without gold reserve is considered to be more perfect. At this stage, gold reserves will be liquidated even in international payments. M. Tugan-Baranovsky connects the regulation of value for money with the state of the general price level which movement depends on the industrial conjuncture⁵.

The development of industrial society with its industrial cycles confirmed the dependence of the total value for money on general commodity market conjuncture that is not connected with a change in its number. During the growth there is the increase in the general level of commodity prices; during the recession there is a decrease, which means the corresponding decrease and increase of value for money. The need for the growing trade turnover providing in the period of industrial growth is ensured by the acceleration of money turnover, but mostly by buying goods on credit. It leads to a decline in the purchasing value for money. With the fall in turnover on the phase of

¹ Tugan-Baranovsky M.I. Paper money and metal. — P. 40.

² *Ibid.*

³ *Ibid.* — P. 69.

⁴ *Ibid.* — P. 130–131.

⁵ *Ibid.* — C. 18.

depression, there is a slowing of money turnover and credit crunch. It leads to the increase in the value for money. The current cycles (the current financial crisis) prove it.

Despite some incompleteness of M. Tugan-Baranovsky's theory of money (he could not find a central «cell», which «money» and «money symbols», its real and representative value could rise from), the scientific importance of his work is indisputable. The scientist emphasized again the necessity and feasibility of developing a single scientific concept. The dual nature of money which was disclosed and fixed by M. Tugan-Baranovsky can serve as a platform to further research. His work confirmed that for the answering the question of the nature of money it is important to consider other aspects, in particular the social laws of social development. It is also necessary to develop the only methodology that could explain a number of other monetary phenomena. This integrated approach allows us to explain why nowadays «clean» paper money is in circulation in the financial systems of the developed countries. The idea of «clean» paper money is formed by psychological techniques in its movement. An example of this can be the creation of «pure» banknote — transition ruble by the countries — members of the CMEA in 1964, and the creation of the euro in the European Union in 1999–2001.

Theoretical achievements of representatives of the Kyiv School show that Ukrainian economists-financiers continued to work on improving Ukrainian (Russian) version of the classic doctrine considering the historical elements. Joachim Zweynert says that «they simultaneously set up a think tank for autocratic government that tried to implement market reforms against the will of most of the elite.»

4.4 Identity Establishment and International Reputation of Financial Thought of Ukraine

Between two ages Ukrainian academic economists-financiers made a considerable contribution to a neoclassical theory. The materials of such economists-mathematicians as: R. Orzhentskyy, Ye. Slutskyy and others are the greatest achievements based on marginal utility principles. Ye. Slutskyy's writing «To the Theory of Balanced Consumer Budget» (1915) is of particular importance. It was a new stage in development of marginalism. Ye. Slutskyy initiated new fundamental approaches in understanding relationship between price, capital and utility. It was a great contribution to world financial science.

M. Tuhan-Baranovskyy's ideas about cooperation became a center of M. Sobolyev scientific analysis. Ukrainian economist-financier was the first to state economic theory of cooperation in national and foreign literature¹. Some questions about history were analyzed and separate practical items about cooperation were revealed in previous writings. But M. Sobolyev was analyzing in details important economic and financial problems of cooperation, in particular labor and capital in cooperation, price formation, income distribution in cooperation, appropriation of financial recourses etc. As a scholar stated «the aim of this book is to analyze scientifically all economic cooperative world by a system corresponding to political economy (theory of production, exchange and distribution)»².

M. Sobolyev's research interests cover quite wide range. He wrote about agricultural credit³, money circulation⁴ and science of finances. He wrote intelligibly «Essays on Science of Finances»⁵ which has been popular among students for a long time.

M. Sobolyev was one of academic economists-financiers insisting on evolutionary development of financial system. All its drastic changes should be accompanied by corresponding economic changes. But these changes of «economic relations are formed only gradually»⁵. In his opinion, no financial policy can be effective «if it does not correspond to natural and normal economic development. A science reveals laws of this development and a country has to listen to its competent voice»⁵. Economic life continuously develops changes and prepares new forms and financial relations in its depths.

A wide range of Ukrainian and Russian scholars belonging to Kyiv School continued to develop their knowledge in science of finances. So, in Russia a peasant by origin from Kostroma province, I. Ozerov was a student of the notable member of the National Academy of Sciences in 1895 I. Yanzhula and became a famous scientist. He is an author of a fundamental work «The Bases of Science of Finances» which is popular in Russia and Ukraine. This work like his teacher's work [«Principal Bases of Financial Thought» (1890)] was awarded by S. Graig Prize (premium rate is 1000 krb.

¹ Sobolev M. N. *Ekonomicheskaya teoriya kooperatsii. Posobie dlya kooperativnykh shkol i kursov* [Economic theory of cooperation] / Sobolev M. N. — H. : Soyuz, 1919. — 196 p. [in Russian]

² Sobolev M. N. *Organizatsiya selskohozyaystvennogo kredita* [Agricultural credit management] / M. N. Sobolev // *Hozyaystvo Ukrainyi*. — 1924. — № 2. [in Russian]

³ Sobolev M. N. *Sistema nashogo denezhnogo obrascheniya i ee zavershenie* [The system of money turnover and its end] / M. N. Sobolev // *Hozyaystvo Ukrainyi*. — 1925. — № 3. [in Russian]

⁴ Sobolev M. N. *Ocherki finansovoy nauki (obschedostupnyie besedyi)* [The concept about science of finance] / Sobolev M. N. — H. : Proletariy, 1925. — 186 p. [in Russian]

⁵ Sobolev M. N. *Agrarnyyi vopros* [Agrarian issue] / Sobolev M. N. — H., 1917. — P. 5. [in Russian]

awarded every 5 years) and reprinted many times. I. Ozerov's work kept up to European level and by estimates of «the last of the Mohicans» in the sphere of classical theory of finances I. Bukovetskiy (1881–1972) «was more interesting and complete than textbooks of P. Leroy-Beaulieu, F. Nitti and many German textbooks in Finances»¹.

I. Ozerov learned from his teacher not only knowledge but courage and independence in his scientific opinion. His critical speeches about policy of the Minister of Finances of Russia V. Kokovtsev (1853–1943) caused firing of I. Ozerov from Petersburg University. In post revolution period in 1921 he argued with V. Lenin and the Bolsheviks about economic problems. He said about them: «they spirochaetized Russia with bacteria of laziness and greediness...»². After his retirement the department was headed by a Ukrainian economist-financier P. Mihulin who had the same opinion.

Almost all representatives of Kyiv School headed the leading movements of financial thought not only in Ukraine but also abroad. We have already mentioned about M. Bunge, M. Tuhon-Baranovskyy, M. Zibera and others. It is necessary to mention about I. Kaufman born in Odesa and graduated from Kharkiv University (1864–1869), his Master's thesis «Credit, Banks and Money Circulation» presented in Petersburg in 1873 and Doctor's thesis «Inconvertible Paper Money in England» presented in Kyiv University in 1877.

A specialist in the sphere of money circulation, credit and finances and the author of works in history of Russian finances I. Kaufman more than twenty years worked in the Central Statistic Committee where he was the Senior Editor and a member of the Board of Statistics. He had unique opportunities to study Russian (Ukrainian) finances authentically. Ukrainian scholar collected, systematized and published statistics of Russian credit establishments. Under his editorship a wide range of miscellanies were published: «Statistics of Russian Banks» (part 1, 1872; part 2, 1875); «Statistics of Town Savings Banks» (1875). He initiated system of duties forming and data processing of land and short-term loan. He took part in publishing edition in seven volumes «Financial and Statistic Data about Railways in Russia in 1884–1890» in 1891. Being a member of International Statistic Institute (from 1885) he collected unique information in history of finances of foreign countries and started a comparative financial statistics.

¹ Bukovetskiy A. Sh. Vvedenie v finansovuyu nauku [Introduction to the science about finance] / Bukovetskiy A. Sh. — L., 1929. — P. 34. [in Russian]

² Ocherki po istorii finansovoy nauki: Sankt-Peterburgskiy universitet [The concept of the history about financial science: the University of Saint Petersburg] / [Ansberg O. N., Bazulin Yu. V., Belozherov S. A. i dr.] ; pod red. Kovaleva V. V. — M. : Prospekt, 2009. — P. 78. [in Russian]

Ukrainian scholar had a good knowledge of money circulation in Russia and he was the author of a lot of works in statistics of finances, theory of money and banking business. His review on the first part of «Capital» by K. Marx was published in the magazine «European Messenger» in 1872. It was the first reviews on the work of K. Marx in Russia.

I. Kaufman was the author of economic motivation of monetary reform in 1895–1897 in Russia and consequently a gold monometallism was established. This scholar developed not only theoretical principles of monetary reform but, what above all he tried to protect the system of a gold monometallism established in Russia in the nineties of the 19th century by his works. This was the leading idea of his three fundamental monographs published in the beginning of the 20th century¹. Two of them summarize the origin and development of Russian (Ukrainian) monetary unit from distant times to gold coin. The third work was dedicated to the history of paper money circulation in Russia in which the author proved the advantages of metal coins above paper money.

On the basis of great historical information I. Kaufman theoretically proved that Russia hadn't any choice in the end of the 19th century: «if silver monometallism and bimetalism were equally impossible and doomed to disappearance it was only a gold monometallism as the base of new Russian monetary system». This was proved in the last quarter of the 19th century, hence silver lost its main monetary ability because of its sudden depreciation. According to «Gresham's law» bimetal system would cause outflow of gold and mass inflow of silver.

O. Myklashevskyy agreed with Ukrainian scholar's opinion who agreed with the system of gold monometallism². In his fundamental investigation («Money», 1895) published before monetary reform on the basis of history of coin origin and noble metal from distant times till the end of the 19th century, O. Myklashevskyy wrote the theory of money in its historical development. This scholar demonstrated a discussion between followers of monometallism and bimetalism in western European countries during the whole 19th century. Two last chapters of his book were dedicated to the analysis of the state of money circulation in Russia during two last centuries showing negative influence of paper money circulation on national economy³. In his other work («Money Question in Literature and in

¹ Kaufman I. I. *Russkiy ves, ego razvitie i proishozhdenie...* [The Russian weight, its development and origin] / Kaufman I. I. — SPb., 1906; Kaufman I. I. *Iz istorii bumazhnykh deneg v Rossii* / Kaufman I. I. — SPb., 1909; Kaufman I. I. *Serebryanyy rubl v Rossii* / Kaufman I. I. — SPb. 1910. [in Russian]

² Див. : Миклашевский А. Н. *Деньги* / Миклашевский А. Н. — М., 1895. — С. 257-444.

³ Кауфман И. И. *Серебряный рубль в России*. — С. 245

Phenomena of a Real Life», 1898) he showed clearly his sympathy to gold money turnover proving that normal money system is such system in which a gold coin is accepted as «monetary unit for all accounts and payments».

As the majority of representatives of Kyiv School, I. Kaufman was a successful scholar and a practical financier. Besides, he was a member of the Board of State noble territorial bank in the Central statistic centre. In pre-revolutionary Russia there were only two types of banks: commercial bank «supporting trade and industrial enterprises with quickly renewed flowing capital» and real estate bank «satisfying needs of landowners with capital for fundamental expenses». A state noble real estate bank was founded in 1885 for long-term loans for heritable noblemen-landowners on the security of their land. I. Kaufman as a competent scholar-expert took part in developing projects of financial economic reforming in Russia. He developed the Monetary statute and he was a member of the Board of new Patrimonial statute consideration. Some his monographic investigations dedicated to monetary reforming in Russia and some reports determined progress and direction of money turnover reforms¹ considerably. So, he was one of the most active participants of money reform in 1897. According to M. Tuhan-Baranovskyy, I. Kaufman «is considered to be the most competent Russian (Ukrainian — *author*) economist in the sphere of money turnover»².

High scientific level and fundamentality in investigations of representatives of Kyiv School promoted teaching in Russian universities. For example in the beginning of the 20th century the Department of Financial Law of Petersburg University was headed by our countryman P. Mihulin, he taught financial law and theory of finances, I. Kaufman taught theoretical bases of statistics and money turnover policy, V. Tverdokhlyebov taught local finances in Russia and finances in Russian towns. Owing to considerable influence of these Ukrainian scholars in 1884–1917 in Petersburg University, the understanding of logic and specialist training programme in the sphere of financial law (science of finances) was formed and a curriculum was determined. Works of these Ukrainian scholars became generally recognized classic textbooks in Russian finances and a

¹ Kaufman I. I. Преобразование нашей кредитно-денежной системы / Kaufman I. I. — СПб., 1874; Kaufman I. I. Обзор проектов в 1861-78 гг. по вопросу преобразования кредитно-денежной системы России / Kaufman I. I. — СПб., 1878; Kaufman I. I. Кредитные билеты, их упадок и восстановление / Kaufman I. I. — СПб., 1888; Kaufman I. I. Условия появления звонкой монеты / Kaufman I. I. — СПб., 1888; Kaufman I. I. Законодательство о денежной единице и его значение для кредитных билетов / Kaufman I. I. — СПб., 1895 та ін.

² Тухан-Барановский М. И. Бумажные деньги и металл. — С. 99.

methodological base for teaching financial disciplines. They helped in forming of Petersburg school of classical financial science¹.

But in I. Kaufman investigations as in a considerable part of other representatives of Kyiv School, practice was dominant and it did not always give a possibility to rise to the height of scientific theory. A famous researcher of financial thought M. Boholyepov (1879–1945) wrote about I. Kaufman: «The power of author's talent is shown in investigations of descriptive and statistic character. The most considerable descriptor is honest in important things and in little ones, and sometimes he was weak to reveal a deep reason of phenomena»². It can be explained by influence of circumstances under which world outlook of Ukrainian scholars-economists was formed. Under such conditions I. Kaufman became a preacher of freedom, enterprise and «healthy» capitalist relations. Like A. Smith who met «star» of English capitalism and that's why saw only positive things, Ukrainian scholar idealized new capitalist relations for Russia to some extent. It was a characteristic feature of Ukrainian financial thought in the beginning and in the middle of the 19th century.

At the same time the financial thought of representatives of Kyiv School is interesting because of some reasons: 1) it demonstrates social thoughts of liberal teaching of the 19th century in the age of the most intensive «free» reforms; 2) its content reveals scientific problems at that time and methods of their solving; 3) it is interesting by its original method of investigation. The works of Ukrainian scholars are distinguished by their fundamentality emphasizing their diligence. For instance, in a small book «Theory of Price Fluctuation»³ by I. Kaufman there are only three chapters: «Practical and Theoretical Meaning of Price Fluctuation», «Theory of Value» and «Law of Prices and Reasons for Deviations from it». Along with that a captious researcher noticed more than 600 interlinear references and comments of more than 20 authors. The scholar analyzed their works, agreed with their opinion or objected them and compared with his own opinion. We can notice that this is a peculiarity of scientific writings and a characteristic feature of Ukrainian scholars-economists of the 19th and the beginning of the 20th century.

Some of representatives of Ukrainian financial thought of the 19th century are unreasonably accused of blind coping without critical estimate of

¹ Миклашевский А. Н. Денежный вопрос в литературе и в явлениях действительной жизни / Миклашевский А. Н. — СПб., 1896. — С. 214.

² Боголепов М. И. И. И. Kaufman (некролог) / М. И. Боголепов // Вестник Европы. — 1916. — Кн. 1. — С. 437.

³ Kaufman И. И. Теория колебания цен / Kaufman И. И. — Х., 1867. — С. 252.

European opinion and following historical school¹. Some contemporary scientists take the same view.

Let's look at some I. Kaufman's works as he was accused most of all. Only inattentive researcher could not notice his original statements about traditional liberal opinion. «Human labour is inseparable from his/her personality, property rights are impossible without personal freedom. Private economics without property rights and property rights without human rights are impossible»². The originality is in author's definition about labour efficiency level by amount of «free people». In I. Kaufman's opinion if their number is increasing, «activity success is increasing too»³.

Natural pragmatism predominates over real liberalism in the scientific opinion of the considerable part of representatives of Ukrainian financial thought of the 19th — the beginning of the 20th century. That regards I. Kaufman who proved interrelation between freedom and reserve of gold and silver. He considered precious metals to have demonic features supporting freedom for «voiceless intellectuals» to those he referred himself. In his opinion if economic, political, religious, cultural, intellectual, moral or «everyday» freedoms are diminishing it will be «a necessity to rely on another time or another place»⁴. He indicated rush and «temporariness» of Russian liberal reforms.

Taking A. Smith ideas about a considerable human role in economic activity I. Kaufman at the same time criticized them. Firstly, A. Smith took the goods as the base but not a man producing it. «In economic science a man summarizes, combines and connects all little things in one harmonious thing»⁵. Secondly, Kaufman considered «Smith's opinion wrong» about the idea that efficient work is a labour producing material welfare. «Smith characterized economic activity by an object to which this activity directed» but it is necessary to emphasize on a man. «Smith subordinated public welfare to physical work that is to the poorest social class activity. Smith and Ricardo interpreted work very narrowly meaning only handwork». I. Kaufman wrote: «if handwork is accompanied with «clever» activity we will get economic understanding of labour»⁶. We can see it is modern critical assessment of separate representatives of classic school. That's why there is no reason to talk about the lack of critical financial thought of Ukraine.

¹ Див.: Боголепов М. И. И. И. Кауфман (некролог). — С. 437.

² Кауфман И. И. Теория колебания цен. — С. 146-147.

³ Там же. — С. 235.

⁴ Кауфман И. И. Теория колебания цен. — С. 72.

⁵ Там же. — С. 160.

⁶ Там же. — С. 129-130.

I. Kaufman was among the first trying to analyze in economic literature those categories which become the main in marginal theory: utility, value, exchange value, need value, ability of exchange and price. In particular, he contrasted «utility» and «value» as objective and subjective. «Value is recognition of utility by [a man]»¹. Utility can exist by itself apart from a man. A thing becomes valuable only when a man realizes its utility. A thing can lose its value but never lose its utility. A scientist called the level of utility «consumer value» identifying it as an economic term — «exchange value». The scholar introduced a term «ability of exchange» contrasting to exchange value like subjective to objective².

Investigating the reasons of price fluctuations I. Kaufman identified the «failure» of productive forces, «people expend energy in vain, and irrationally distribute it among different spheres. Human energy is clever energy and this intelligence supports his/her success; only absence of intelligence (irrationality) can deprive his/her success»³. Thus, Ukrainian scholar-economist made analysis from the point of view of a customer which is only began to be described in theory. He demonstrated that a problem of price is a problem of production structure and consumer structure.

The majority of works of representatives of Ukrainian financial thought of the 19th — the beginning of the 20th century do not lose their actuality nowadays. I. Kaufman's work «Credit, Banks and Money Circulation» (1873) is actual too. He described his understanding of wealth wider than it was in the 19th century. He included not only tangible but intangible assets (by modern terms, human assets), future productive activity into the term wealth. «Vivid current enterprise» as it was called by the scholar, has to bring tangible assets in future. This personal wealth put into economic circulation by means of credit, is transformed from intangible (personal) wealth into tangible. «To credit means to create effective capacity, the source of which is similar enterprise»⁴.

The ideas about the concept of capital «activity» were contradictory to dominant theory about subordinate role of capital credit in the 19th century according to which credit redistributed wealth, «transfer existing assets». He was the first among economists-financiers to mention a creative role of credit — «attractive by credit as a new power of current enterprise».

Financial thought of Ukraine of the 19th — the beginning of the 20th century is original by formulation of scientific categories in the science of finances. For instance, I. Kaufman defined credit: «Credit means purchasing

¹ Kaufman И. И. Теория колебания цен. — С. 42.

² Див.: Там же. — С. 119; 137.

³ Kaufman И. И. Теория колебания цен. — С. 240-242.

⁴ Kaufman И. И. Кредит, банки и денежное обращение. — СПб., 1873. — С. 3.

enterprise power, current or last one which has not realized its results completely or partially but is productive; and it has exchange value proposing and exchanging its future results on ready results of last enterprise which would be unproductive. The credit integrity and freedom is guaranteed by its owner by taking all risks supporting his own productivity and economic independence»¹. Such solid and detail explanation is literary style of the most scholars-economists of the 19th century.

I. Kaufman wrote about the real inner value typical for gold and silver money not paying attention to representative (forced) value. He defined money as «economic means functioning as means of measure (value. — *Author*) and as means of accumulation, and as means of circulation» what is similar to modern understanding of this definition. As for the quantity of money necessary for turnover, Ukrainian scholar was of the opinion current of that time about concept of money turnover self-regulation. In the period of cyclic raising «enterprise» sets up demand as means of circulation but in the period of economic activity decay money demand is reduced and gold coins run away from circulation into treasure². «Money quantity increase is its supply increase and it means its devaluation»³, — the scholar wrote. Money supply causes price increase stimulating productive industries activity.

Money purchasing power is connected with its quantity but this connection is not direct. Among this increase is caused by production (enterprise) demands. On this basis, taking into account the experience of England he proposed to support a stable rate of money supply increase on the level 3–5 % per year⁴. Let's compare it with M. Friedman's suggestion about «continuous increase» of money supply which would be proposed almost in 60 years after I. Kaufman's work publication. «I recommended such rate which would supply approximate price stability of final production; by my estimation, it should be 3–5% increase of cash recourses and all commercial deposits (during a year) or some less percent of cash recourses and deposits in accordance with the demand». M. Friedman's idea became «M. Friedman's golden rule» in the history of economic thought; I. Kaufman's idea was not analyzed and «forgotten» even by national researchers.

In I. Kaufman's opinion credit emission should be directed only to production sphere. The structure of production sphere can be changed by redistribution and regulation and optimized to corresponding structure of consumer sphere. «Among credit functions is one playing an important role

¹ Кауфман И. И. Кредит, банки и денежное обращение. — СПб., 1873. — С. 51.

² Там же. — С. 80.

³ Там же. — С. 89.

⁴ Там же. — С. 90.

in changing some spheres and economic activity at any time»¹. Already at that time Ukrainian scholar showed the connection between effective credit usages with some institutional system, in particular banking system. It should form and constantly support demand and supply on «values representing credit item»². A state should create suitable conditions for banking system but not interfere in its activity.

Ukrainian scholar proved an important credit rule of credit organizing which is forgotten nowadays. The thing is when economy is served by banking system based on cash unity supporting a high speed of credit circulation what secures a high productivity of «economic forces». He showed a correlation between speed increase of credit circulation and principle of cash unity of all credit organizations. I. Kaufman compared the principle of cash unity of credit organizations with a state observing this rule during revenue collection and distribution. Moreover, in his opinion, it was necessary to combine «government cash» and «cash of individual (private) economies» for more economic productivity.

The scholar emphasized that government cash should not be separated from the rest cash of individual economies but, on the contrary, should be united with them to give more possibilities for the usage of principle of cash unity³. Requirements and obligations fixing credit terms should occur and suspend «freely». It is achieved owing to common test centers what is the only payment and calculating system of the country. «The task of banks is to become common cash and cashiers of national economy to have all free money capital and all debt documents»⁴ — I. Kaufman underlined.

Forgotten rule today that banking system is based on the principle of cash unity and has united payment and calculating state system and it is able to create for itself loan fund caused that Ukrainian banks do not supply (support) economic credit system but search credits for themselves. The author stressed on that (it is actual for Ukraine today) additional but important condition for money making is availability of people's trust in them⁵: increase of quantity of economic agents using these money symbols; territory broadening of money symbol circulation; crediting.

Ukrainian scholar proved the principles of organization of payment and calculating system of the country: a large territorial scope; availability of center of this «the widest field»; cash unity followed the first two principles⁶.

¹ Kaufman И. И. Кредит, банки и денежное обращение. — С. 168.

² Там же. — С. 236.

³ Kaufman И. И. Кредит, банки и денежное обращение. — С. 267.

⁴ Там же. — С. 277.

⁵ Там же. — С. 351.

⁶ Там же. — С. 377.

The main goal of forming united banking payment and calculation system of the country for combining all money supply of national economy in one center and transform all money into means of payment. Common payment and calculation system gives possibility to receive enough quantity of loan capital by opening imaginative (forced) deposits. These ideas were used during forming united banking system of Germany at that time. Implementation of these principles helped O. Bismark to find means for economic raising of the country and its industrialization. Unfortunately, it was not used in Ukraine, moreover, modern Ukrainian researchers of banking business do not use it.

I. Kaufman was the first who called economic law «economic theorem»: any increasing of capital productivity predicts increasing of free costs spent for consumption¹. Ukrainian scholar paid attention to that not all accumulated costs have to be directed to loan capital fund but it is necessary to follow the corresponding proportion between costs for accumulation and costs for consumption. «Every time while there is a transformation of free costs into capital and purchasing power for renewing capital is not taken into consideration, productivity and unity begin to be in danger»². Unfortunately, modern reformists calling themselves liberals forgot about this researched once by Ilarion Kaufman «economic theorem».

M. Baludyansky shared ideas of liberal economics. Having encyclopedic knowledge he had influence on tsar's family and tried to improve Russian and Ukrainian financial systems. No M. Baludyansky's work was published but V. Shtein has found a manuscript «Baludyansky's System» almost in hundred years after M. Baludyansky death in which author's plan of Russia reconstruction was written. His manuscript was based on two main ideas: freedom for serf peasants; «call to creative maximal capital accumulation for future of Russia». This plan was combined with idea of A. Smith's liberal economics which was very progressive for the beginning of the 19th century. In particular, M. Baludyansky considered that «a state can not be engaged in agriculture, manufacture and trade not damaging national industry and finances»³.

Thus, Ukrainian scholar considered that economy should not be much influenced by a state. In his opinion, a government should take into consideration that «money, credit and banking banknotes have no productive

¹ Див.: Кауфман И. И. Кредит, банки и денежное обращение. — С. 299.

² Там же. — С. 304.

³ Штейн В. М. Очерки развития русской общественно-экономической мысли XIX—XX вв. — Л., 1948. — С. 40-41.

power and wealth is only in exchange value of accumulated production»¹. All ten items of a plan are of the same point. These proposals were the most progressive in that time in Russia but they could hardly be implemented.

Working on different positions in the Ministry of Finance from 1809 till 1812 M. Baludyanskyy has been developing plans of public administration. Ukrainian scholar was among the creators of the project of public law corpus juris, his suggestions were taken into account during reorganization of the Ministry and also in deciding of some economic and financial problems. M. Baludyanskyy developed a legislative package of freedom of serf peasants. By attorney of the Minister of Finances he developed a plan of reconstructing of Russian financial system («Financial Plan») and became the first scholar-economist deciding Russian (Ukrainian) financial problems.

«Financial plan» included two parts: in the first part urgent measures concerning financial system arrangement in 1810 were predicted — to form a strong Ministry of Finance which would be responsible for all state incomes and expenditures, for the project of list forming («perfect budget»), for a preparation of all laws concerning changes of taxes and duties and for credit business; the second part was dedicated to strategic items of development of financial economy — development of distinct written legal procedure consideration and state list (budget) adoption.

Special measures of «Financial Plan» predicted balancing of income and expenditures budget part of a country: to cut down expenses connected with state road building, educational establishments building and some staff expenditures of the Ministries. To increase income budget part was foreseen, firstly, owing to renewing correct calculation of existing taxes, and, secondly, owing to double tax increasing. Tax increasing was necessary for leveling inflation consequences which were not taking into account by the government neither while planning of income budget part nor during collecting taxes.

The second part of the Plan included such chapters: 1) about expenditures; 2) about incomes; 3) about coin and credit systems; 4) about management. Theoretical questions about «correct» system of state financial economy and new resources of income were discussed and proved in the first two chapters. In particular, land tax was predicted to introduce which had to replace a capitation and to introduce additionally domestic excises and duties. The third chapter was dedicated to creating perfect credit and coin systems. It was planned to introduce a coin which will be reliable (having domestic value), convenient and will be spread throughout the country.

¹ Штейн В. М. Очерки развития русской общественно-экономической мысли XIX—XX веков. — Л., 1948. — С. 40.

If M. Baludyansky is considered to be the author of financial innovations what researchers emphasized as early as in pre-revolutionary period¹, he may be supposed to be the first to ground scientific principles of budget process. He considered budget as a law and finally it was so. All preparation procedures and budget forming, its consideration and approval, execution, checking and control had to be formed in legal way.

It is clear that considerable part of ideas belongs to M. Speransky (1772–1839) and some researchers consider that all ideas belong to him or to D. Huryev and M. Mordvynov. In our opinion, A. Fatyeyev wrote more objective consideration that it was cooperation between M. Baludyansky and M. Speransky. A. Fatyeyev thought that M. Speransky and M. Baludyansky cooperated very well in planning financial reforming of Russia. «Baludyansky's disadvantage was lack of knowledge in Russian actual state and administrative machine but Speransky's advantage was good knowledge in this...»². Besides, M. Speransky had no special knowledge in finance, that's why he tried to study it himself. He was very educated person and expected it from his subordinates. The order requiring some level of education from officials was issued in 1809 by his initiative. But he could not master all necessary economic disciplines during a short period. M. Baludyansky had university system knowledge in finance what was highly estimated and taken by M. Speransky. Thus, M. Baludyansky was the first to ground Russian financial reforms. And it means that the famous «Financial Plan» in reality is a plan of Baludyansky-Speransky, although the author of which is considered M. Speransky. Russian researcher S. Sereonin wrote about it in pre-revolutionary period³. V. Shtein was the same opinion about M. Baludyansky.

An important thought about connection between budget system and system of government was depicted in «Financial Plan». There should be province and district budgets besides «central» budget. Government centre should know not only «its» budget but budgets of other administration level. «Government should know not only the expenditures of one Treasury but all taxes and expenses. It is impossible to define and ground expenditures and incomes without this knowledge»⁴.

¹ Див.: Баранов П. И. Михаил Андреевич Балудянский, статс-секретарь, сенатор, тайный советник (1769-1847). Биографический очерк / П. И. Баранов. — СПб., 1882.

² Фатеев А. Н. Академическая и государственная деятельность М. А. Балудянского в России / Фатеев А. Н. — Ужгород, 1931. — С. 38.

³ Сереонин С. М., Граф М. М. Сперанский. Очерк государственной деятельности / Сереонин С. М. — СПб., 1909. — С. 81.

⁴ Лунин С. И. «План финансов» М. М. Сперанского / С. И. Лунин // Финансы. — 2004. — № 1. — С. 74.

Working in preparation group of finance reforming, M. Baludyanskyy shared the idea of creating «the main financial law» which should arrange financial economy and considerably decrease inflation. Inflation was the main problem spreading throughout Russia and Ukraine. Banknotes price fell till 20 kop. of silver coins. «Spoilage» of copper coin that was changed by paper banknotes in practice played a considerable role in it.

Ukrainian theoretician of financial law L. Yasnopolskyy objectively appraised developments implemented in «Financial Plan for 1810». In his opinion, a preparation group for this document, where M. Baludyanskyy worked actively, was the system of Russian budget law created for the first time and it was a developed legislation for implementation of budget idea as «the main financial law» in financial practice and creating guarantees for its correct forming. According to proposition of commission the Ministry of Finance activity had to be under control of «the main financial law». This law had to regulate «methods of law crating of absolute monarchy»¹.

Especially important M. Baludyanskyy's proposals were against above estimated banknotes what was the main evil of budget to balance the taken list of incomes and expenditures of a state. Legislative order of budget adoption was a key stone of budget and legal system modeled by the preparation group «Financial Plan». The final stage of the system is a clear organization of enterprises, first of all, the Ministry of Finance and creating the system of Government control.

According to modern researchers opinion of M. Baludyanskyy inheritance, if «Financial Plan» had been fulfilled it would have created such legal conditions for Russian state budget as in other constitutional countries. Theoretical ideas, identical to the ideas of reforms in rudimentary state in 1862, almost all were developed in legislation prepared by M. Speranskyy.

Serf Russia could not implement «Financial Plan» because it was too radical reform at that time. At the same time it was plan of reconstruction of state budget, its deficit free state, tax system reforming, income sources improvement, banknotes issue suspense, hard metal currency establishment and issue of change silver banknotes. Thus, active working in preparation group «Financial Plan» M. Baludyanskyy was among those who started state budget system forming.

«Financial Plan» containing a lot of M. Baludyanskyy's ideas is worth of international recognition because a considerable part of his ideas were implemented in European countries. What can not be done in

¹ Див.: Яснопольский Л. Н. Очерки Русского бюджетного права. 1. Исторический обзор составления наших государственных росписей и бюджетная реформа Татаринова / Яснопольский Л. Н. — М.: Издание В. С. Рябушинского, 1913. — Гл. IV.

unconstitutional and serf Russia it was done in parliamentary countries. It included almost all main principles on which budget system of modern developed countries is based. For the first time Russian budget law was established in Russia thanks to «Financial Plan» and its ideas were spread throughout the budget system in Ukraine. M. Baludyanskyy was among the first creators of the theory of budget and financial law in science.

M. Baludyanskyy's developments concerning state unusual expenditures financing were unique. Financial state of Russia became worse during the Patriotic War in 1812 and foreign campaigns of the Russian army. Government expenditures during the period of war increased in 1.7 times. During the whole war period up till 1823 share in expenditures did not fall more than 40 % from the total amount of budget expenditures. Amount of the total deficit of national budget increased to 360 mln. rub. The country became a bankrupt. M. Baludyanskyy was asked to prepare financial reorganization together with the group of economists (1812–1816).

M. Baludyanskyy's first proposals were to protect national interests from excessive expenditures in taxation and falling rate of banknotes. The scholar proposed to change tax rates and to support free coin and banknotes circulation not to cause private capital depreciation. Besides, it was necessary to create artificial demand on banknotes in taxation to balance currency rate. These proposals were implemented by the Minister of Finance D. Huryev. Nevertheless more than 244.4 mln. rub. was issued during 1812–1815 (at that time a big sum was in budget), banknotes rate did not fall more than 20 kop. in silver coins for 1 rub. of banknotes and from 1816 the rate increased to previous rate which was $25\frac{1}{3}$ kop.

Later D. Huryev himself criticized these proposals himself. There were two independent types of money — coins and banknotes and their value was set at the market illegally. These rate fluctuations of banknotes showed that it was necessary to take determined measures concerning money system reforming.

M. Bunge, a great specialist in finance criticized fitting forced banknotes rate during taxation and only in some cases taxes were taken in silver coins at the rate 3 rub. in banknotes for 1 rub. in silver coins. Such banknotes rate was profitable for tax payers because it was much higher than real rate. But in spite of all critics it must be kept in mind that those measures were forced. In the period of enough large banknotes issue it is impossible to talk about «reduction» of circulation during its widening. Because the main source of resupply of Russian government budget during war (1812–1815) were issues of new banknotes — 191 mln. rub. (national loans — 47 mln. rub., subsidies from England — 42 mln. rub., other sources — 89 mln. rub.).

M. Baludyansky mentioned that his proposals were caused by the necessity of reforming of disordered national finance and establishing such rules which could protect budget economy from constant deficits in future. A considerable part of his proposals were taken into new «Financial Plan» developed under the supervision of a new Minister of Finance D. Huryev because M. Speransky was retired as a secretary of State Council¹ in the beginning of 1812. The main thesis of a plan were the following: banknotes withdrawal by national loans (the sum of issued banknotes was 825.8 mln. rub.); new customs liberal tariff development in 1816; changes in transfer and serf duty by the decree issued on December 24, 1821. Being the follower of the quantity money theory, M. Baludyansky considered withdrawal of some part of banknotes the main direction in the given plan in order to increase their value.

Working on financial stabilization under conditions of unusual national expenditures, M. Baludyansky concluded: national budget deficit is inevitable under extreme conditions (for example war) and taking some extreme measures to receive quick additional costs. One more important conclusion was made: there were too limited national possibilities for paying debts after the war that's why a refusal to pay them could arise.

It is necessary to note that for the first time war expenditures were discussed in the article of D. Yum «About Deficit Credits». His ideas were developed by his countryman and contemporary A. Smith. He grounded the statement about national impossibility to pay debts and expediency of its impossibility to pay debts in time. M. Baludyansky knew about these scholars' opinion concerning different types of public costs mobilization to pay unusual taxes. In D. Yum's opinion, besides loans — national and foreign, open or hidden — if there is war in a country there are no real variants for quick receiving necessary too big financial support in such conditions. He explained that taxes which are the real source of national budget forming, even if to increase them, they will not be in treasury at once. Such rate increasing almost at once causes total price increasing and worsening the conditions of the most commodity producers.

The way proposed by economists for Russian government was to enforce money emission but it was criticized by scholars of all countries. They called this variant as secret national loan from the population and it will cause more difficult consequences for economy than other direct and open loans. The population not informed about a great emission was forced to take «exaggerated» money during some time. As soon as the law of paper money

¹ Лушин С. И. «План финансов» М. М. Сперанского / С. И. Лушин // Финансы. — 2004. — № 1. — С. 71.

began to work the difference between circulated money and purchases became evident. The more money was printed the more financing war expenditures and support of money unit with goods and precious metal became urgent. Paper money as value items was losing their clear interconnection with goods turnover. Paper money began to live its own individual life subordinating not only to economic laws but political ones.

Forming such financial policy under which it was possible to fix exchange rate of banknotes during their emission was new in M. Baludyanskyy's proposals. He was against idea of victory in war meant almost automatically settlement of debts and national budget deficits. The scholar supported A. Smith's opinion which was shown in a formula «expenditures-result» and proved that wars were so expensive that it was impossible to expect quick returning financial expenses even in case of victory. Later military theorists, in particular, Carl von Clausewitz, persuasively proved that from the first half of 19th century war conflicts were not spontaneous phenomena. A great war was the whole system taking place continuously during some time and in some space and needed expenditures which were beyond usual budget possibilities. M. Baludyanskyy emphasized that military costs cause such continuous financial disorder influencing not only a contemporary but future generation.

M. Baludyanskyy agreed with A. Smith's opinion about stabilization of postwar Russian financial system according to which state refusal from its debts taking into account its economic expediency was rational and even inevitable. Taking into consideration Russian peculiarity which was in direct emission of money surplus for many years what was the leading form of deficit financing, the scholar call to financial reforms. He told that there was no another way except surplus emission in Russia. To borrow abroad was very difficult because nobody wanted to lend Russia as it was involved in war in Europe.

Russia had such a possibility after signing Wien Agreement in 1815 which summed up dramatic events in Europe. A. Huryev was the first to borrow money but the loan he received from Holland did not bring positive results. Then his successor directed his efforts to financial stabilization by supporting ruble with precious metal and a promise to put into circulation direct exchange of paper money into precious metals. Search of new deposits and increasing of gold mining during decades from 1830 in more than three times (smelting black metals increased in 1.5 % per year) were again unsuccessful. To some extend it can be explained that Russia was not a big gold mining country at that time and could not ground its economic plans by stable and considerable gold deposit increase. Ukrainian scholar-economist M. Baludyanskyy who was a creator of «Financial Plan» did not criticize

D. Huryev's loan. He stressed on a clear plan for effective usage of borrowed money not giving up the idea about putting direct conversion of ruble into silver coins for what costs in Holland banks were borrowed. He proposed to increase them.

New Minister of Finance Ye. Kankrin did not take into account advices given by most members of a preparation group of «Financial Plkan» and applied national secret loans in private banks. It was done not to do wide scale conversion of Russian currency but to use mass socially-psychological effect that was a declaration about the beginning of paper money exchange to increase ruble weight. This doubtful from the very beginning idea was not supported by M. Baludyanskyy and practice confirmed the scholar's doubts. Russian society was in shock when private persons were proposed to give precious metals into treasury at interests to begin conversion not owing to national gold supply but to do it as if population did it itself. The state was only as an organizer of this process.

Practice confirmed M. Baludyanskyy's scientific opinion concerning ways of financial stabilization. It was done not under the influence of financial actions but as it was predicted by the scholar as a result of total economic improvement. Those measures for postwar money reform improvement were postponed for three decades but it was impossible to avoid it. But finally, Ye. Kankrin decided to do as M. Baludyanskyy advised. Ukrainian scholar agreed with A. Smith about recognition of national financial crisis and not sufficient effective measures concerning its radical getting over.

A. Smith's recommendations were used only by the USA after the Independence War. The phenomenon called nowadays hyperinflation (dollar exchange relatively to 1778 increased in 400 times) appeared in the history of world economy in America for the first time. Financial half measures taken by the Congress of the USA showed quickly their inadequacy to scales of inflation trouble. American government took a decision about radical financial reform. It was a classic example of recognition that postwar financial crisis is invincible.

Among that it was unique event in the history of the USA which did not become an American tradition. Some researchers, in particular, M. Handlin and O. Handlin confirming A. Smith's conception about national postwar debt as invincible, proposed to make an exception for the USA. Their argument was that population of the USA understood appeared difficulties of that time and it gave some time and field for maneuvers for the country.

Various opinions about justice and practicality in A. Smith's postulate and about national financial bankruptcy showed its depth and inadequacy. M. Baludyanskyy considered that in economy, especially in highly

developed one, each phenomenon was a function of the whole raw of variable values contributing multiple corrections to the main factor actions, to real realization of this simple in theoretical plan interdependence about which A. Smith wrote. Properly, classics have already seen it partially. Ukrainian scholar took this idea. Later, problems of financial stabilization and debt obligations will be a point of focus of outstanding scholars-economists: J. M. Keynes, J. Hobson, H. Hilferding, I. Fisher and others. Their conclusions corresponded considerably to that was written many decades before representatives of classic school of political economics.

M. Baludyansky played a considerable role in the development of financial science in university education. Being the Rector of Saint Petersburg University he took part in developing project of the University Statute in 1835. Nevertheless his Statute was rejected but many his ideas influenced the university education development in Russia and Ukraine.

The development of financial thought of Ukraine was during the process of differentiation and integration of economic knowledge. It was in 19th century that financial thought as individual scientific discipline was differentiated from economic science. At the same time it became one of the constituent of economic thought of political economics (economic theory). There is so close connection between these constituents as it was mentioned by one of the contemporaries of Ukrainian scholar economist-statistician I. Kaufman and adherent of L. Khodskyy's ideas (1854–1919) that financial thought «it is difficult to separate from common history of political economics. Here and there it is necessary to mention the same outstanding names. It is quite natural because of close connection of state economy as a part of national economy».

Besides, L. Khodskyy is one of the most talented pupils and colleagues of I. Kaufman. His textbooks in statistics and finance published in Russia were popular in Ukraine. He was often an opponent of works of Kyiv school representatives. In particular, in the introduction to his «The Principles of State Economy» he emphasized that I. Yanzhula's, I. Tarasov's and other his colleagues works were not fully completed. So, in I. Yanzhula's work three important chapters about financial science there were absent: national credit, budget study and financial management¹. This comment was true because the authors paid attention traditionally to the description of the sources of national incomes forming.

However, we apply to the unity idea of economic and financial thought of Kyiv school representatives. I. Kulisher was a classic representative of this school. Having a good command of German, English and French

¹ Ходский Л. В. Основы государственного хозяйства. Пособие по финансовой науке. — С. 3.

languages he could learn the last achievements in foreign economic science and form his wide scientific intelligence studying in German universities. The scholar built his original scaled scientific competence which was well depicted in his work «To the History of Development of Capital Income» published in 1899–1903 in German magazine «Jahrbucher für Nationalökonomie und Statistik».

In this work the main thesis is about different content (concerning the sources of income) that is hidden behind similar external income form in trade and industry in different epochs. Besides I. Kulisher considered progress in science and technology as an independent factor of production for the first time in world and national economic literature. He paid a great attention to inventor's activity that is a medium of a creative work and the more science and technology progress is the more a creative work is worth and the role of mechanical work decreases (the theoretical elements of postindustrial society). The scholar connected the rise of the role of the main capital with progress in science and technology.

I. Kulisher considered the capital as money sum giving profit for its owner. On the contrary to V. Rosher who was the follower of the theory of saving, Ukrainian scholar agreed with K. Marx in interpreting the origin of capital accumulation. He considered the exploitation of workers' labor to be the source of capital income but in his opinion it was not the only source and he did not agree with K. Marx in this question. I. Kulisher criticized K. Marx's capital division into constant and changeable what is finally caused critics of labor value theory. He opposed the theory of working expenses to it and it was characteristic for the most representatives of Kyiv School.

Having completed the historical approach to the theory of production factors with analogical approach to the theory of expenditures I. Kulisher grounded his central idea about getting capital income from different sources in different periods of economic history. The scholar stated that the source of income may be different and economic entity differs by its mixed nature in every period because «among new institutions past remnants and beginnings of the next period sources have also the great influence»¹. His ideas about evolutionary and organic nature of economic development are detailed in this concept.

I. Kulisher tried to combine subjectively-psychological approach (theory of margin utility) with objective approach (theory of production costs) in his theory of value. There were some ideas of marginalism here. I. Kulisher researched the role of workshops, guilds, churches, towns, country, trade

¹ Кулишер И. М. Эволюция прибыли с капитала в связи с развитием промышленности и торговли в Западной Европе / Кулишер И. М. — СПб., 1908. — Т. 2. — С. 368.

unions, entrepreneurs' associations and other institutions. He paid attention to economic law, economic ethics and traditions. He accepted the considerable role of progress in science and technology and increasing meaning of technical intelligence in particular inventors and these thoughts were similar to institutionalism. I. Kulisher synthesized the achievements of modern economic science. The researchers of his works called it «eclecticism». The scholar considered the absence of it to be a disadvantage in a concrete economic analysis. His methodology is an example for modern approaches to economic theory.

I. Kulisher is considered to be a founder of economic history in the history of economic thought. The famous system of his ideas about division of economic history into periods was different from developed earlier by F. List, B. Hildebrandt, K. Marx, W. Sombart and K. Lamprecht. He collected his ready and original system of historically-economic thoughts in «Lectures in History of Economic Life of Western Europe» (1909). This work was reprinted eight times. The seventh edition was printed in 1926 under the title «History of Economic Life of Western Europe». The author grounded his opinion about the concept of division into periods of K. Bucher which was based on the «veil» between final moments of economic activity — production and consumption and accordingly he distinguished three degrees of economic development (closed household, city economy and national economy). Pointing disadvantages of this division into periods I. Kulisher proposed to define the 19th century as a special period and called it the epoch of international economy.

The work stated above was a work of the world level. In the West it is famous as «World Economic Theory of the Middle Age and New Time» (it was translated into German, English, Italian, Polish, Japanese and other languages). But in Ukraine it is forgotten. One of French outstanding historian of the 20th century, the leader of the School of Annals F. Braudel took I. Kulisher's scheme of economic history which he called «classic» as the base of his historically-economic concept. He used works of Ukrainian scholar and called them the guidance and the most reliable among total works.

I. Kulisher's work «Outline of Financial Science» in two parts (1919–1920) is of great importance in financial thought of Ukraine, although it can not be considered as ready textbook in the course of financial science because it includes only separate themes. It was the conclusion of a separate course of financial science to I. Yanzhula's reading course «Financial Law»¹.

¹ Янжул И. И. Основные начала финансовой науки; Никитский А. А. Основы финансовой науки и политики. — М., 1909; Озеров И. Х. Основы финансовой науки : в 2 вып. / Озеров И. Х. — М., 1911 та ін.

It is necessary to note that teaching at the faculties of law in universities was specific because disciplines in political economics, finance and statistics were less important, a special attention was usually paid to disciplines in law. Among this national economic development required not only change of emphasis but at least considerable attention to courses in economics among other courses in speciality. In the middle of the 19th century this task was solved partially by introducing the course of «Financial Law» at the faculties of law in Ukrainian universities.

If we analyze the content of the first textbooks by Ukrainian scientists I. Tarasov, S. Ilovaisky, we can see that they are devoted to the presentation of the tax system, which operated in the country, and only small sections are relating to the evolution of financial science and examples of the financial organization in advanced Western countries. In other words, there has been some masking of the subject essence. Although Western scholars translated textbooks that were used in those years in Ukrainian practice and in a university setting, even with names clearly belonged to the financial science¹. Neither of law was not the right question.

It is interesting to note that during the Soviet period it was the opposite situation — there were not legal disciplines in training programs at the economic departments. To some extent this short-sighted policy of training managers and economists eventually lead to the emergence of resistant Ukraine phenomenon — legal nihilism. The implications of this approach to the training of economists of the highest qualification the country is experiencing now. Only with the restructuring of the universities the situation has changed — curricula already contain sufficient amount of legal disciplines. In his rather 'integral course J. Kulisher devoted the first part to the characteristic of expenditures and revenues of the state, and made a number of original thoughts. The second part is written in the traditional style of the authors of the late XIX — and beginning of XX centuries: the variety of types of taxation were shown — land, house, industrial. In addition, Ukrainian scientist gives general information about taxes in Europe and the US.

The original phenomenon of this work is the author definition of the etymology of the term «finance.» He believes that fundamental changes in the interpretation of the concept of «finance» encourage that fact that terminology has become adapted to life». An independent research area was

¹ Див.: Эберг К. Очерк финансовой науки / Эберг К. Ярославль, 1893; Рау К. Основные начала финансовой науки : в 2 т. / Рау К. — СПб., 1867; Коса Л. Основы финансовой науки / Коса Л. М., 1900; Нитти Ф. Основные начала финансовой науки.

named by this term that was called earlier «the science of the state economy»¹.

Analyzing the differences between public and private farms, J. Kulisher shows:

1) for the private farm incomes are primary, expenditures are secondary, in the state farm, on the contrary — needs are making commands»;

2) private farm aims to profit, the government «knows nothing about profit for profit, does not recognize the principle of a possible increasing of income neither for immediate expenses for them, nor for accumulation of reserves to store in future times. «A reasonable state policy should be directed to maintaining «stored fund» not in its box office but in the pockets of the population, where «every karbovanets gives the birth to new one, while in the hands of the treasury, it rarely has more value than that one which is i is marked on it «. That is, Kulisher declares his position, private farm, generally, is more effective comparing to state one;

3) in contrast to the private sector, key to reserved funds state is holding itself — taxes as forced way of raising funds to meet public needs. The scientist comes to the conclusion (that is actual nowadays) about the exclusive importance of creating a budget and the necessity of the «reporting on planned expenditures.» And budget should be «the guardian and protector of the population from excessive attacks on its funds and from too deep digging from its pockets.»²

J. Kulisher notes that the new types of public expenditures appear in the civilized development. Particular attention is drawn by the Ukrainian scientist at the expenses related to education, science and art that should be at the center of government. He didn't justify their physical size but support the idea of their increasing and proved it by D. Lloyd George's words that «people with good school, who is well fed, well dressed and who has a good dwelling, in many times increases the wealth of their country» and therefore one cannot be short-sighted to abandon these expenditures.³ These thoughts and arguments didn't lose their relevance for Ukraine even now.

Most of the Kyiv School representatives perceive the idea of free competition carefully, on the contrary, they tried to rethink the role of government in the economy of the late XIX — early XX century. Almost every representative of Ukrainian financial thought of this period presented his original ideas on this subject. J. Kulisher in particular emphasized the creative role of people. State is all of us, said the scientist. In his opinion, the

¹ Кулишер И. М. Очерки финансовой науки. — Вып. 1. — С. 6–11.

² See the same. — С. 13.

³ See the same. — P. 33.

active state activity is required to counteract the commercial and industrial capital which rapidly captures economic position, begins to act in an organized manner, trying to take power into its own hands.

This is the basic argument of the Ukrainian scientist on the need of strengthening of state role in the economy, «we inevitably have to change into principal place of business.»¹ According to J. Kulisher, this development of events is characteristic for European countries, including Britain, where the idea state management of mines, railways, merchant shipping (up to the 80 th century. — Thatcherism) won.

Ukrainian scientist paid attention to outdated methods of financial supplying, that is why the tax system became more and more important. He takes the example of Europe, where the rationalism won, and the principle of «demand the impossible, to get the most out of possible» disappeared from the beginning of the nineteenth century. In Russia and Ukraine «poll tax and its old characteristic spirit of dissonance between public needs and national needs» remained for a long time.²

Great attention is paid by J. Kulisher to the review of the various theories of taxes (automistic theory, diffusion theory, the theory of the Canary, the theory of retribution and service etc.), he made a detailed analysis of the idea of shifting taxes, which have both internal and out-ukrainian nature. The scientist considered penetration into the essence of «the doctrine of shifting taxes» essential for educated financier. As for the principles of taxation, he was a supporter of the known Adam Smith's ideas, whose merit is «not in the new opening of these principles, but, as in many other cases, is in bright and accurate statement, and justifying of them.»³

This work is different from others due to its fundamental nature, comparative analysis, the most authoritative statement of the views of scientists (mostly foreign). J. Kulisher cites many examples that demonstrate the difference between theory and practice.

Originality of the Ukrainian representatives of the financial thought is in their works that serve as the foundation for the modern financial science researchers and were performed with diligence and perseverance. They tried to fill the current vacuum of scientific information for studying of finance of Russia with acts of Russian financial legislation and with government documents (public murals, financial estimates, reports of state control, Ministry of Trade etc).

¹ Кулишер И. М. Очерки финансовой науки. — Вып. I — С. 51.

² See the same. — P. 75.

³ See the same. — P. 138.

M. Aleksyeyenko — Rector of Kharkiv University (1890–1899), Trustee of Kazan, and Kharkov school districts, MP of the III-d and IV-th State Duma was the initiator of this activity (1847–1917). Within the instructions for scholarly pursuits, he sent his student P. Mihulin to study the system of finance of Russia, not Western countries, which was typical for previous researchers.

P. Mihulin's research is a few volumes of separate archived documents of Loan Office, in which the negotiations of the tsarist government with European bankers were described.¹ Scientist's work was highly estimated by M. Yasnopolskiy.² They have a special value because of archive lost during Word War II.

P. Mihulin was not only a scholar, but he also tried to embody acquired knowledge into practice. As a member of the «Union of October 17» he was involved in developing of the programs of Agrarian Cadet Party. His report was used as the basis for the program.³

In 1907 Ukrainian scientist was appointed as a member of the Central land management and agriculture committee. In 1908 he presented his financial plan for Financial Commission of the III State Duma, in which he proposed measures of eliminating the state budget deficit, the rejection of double taxation, attracting of foreign capital, the idea of reform of the State Bank. For the latter, the scientist proposed to create autonomous Russian central bank of issue that would not depend on the Ministry of Finance. Since 1910 Mr. Mihulin has been participating in the Special Commission for supervising study of the railways state in Russia.⁴

¹ See.: Мигулин П. П. Русский государственный кредит (1769-1886) / Мигулин П. П. — X., 1899.

Т. 1 : Опыт историко-критического обзора; Мигулин П. П. Русский государственный кредит (1887-1892) / Мигулин П. П. — X., 1900. — Т. 2 : Министерство финансов И. А. Вышнеградского (1887-1892);

Мигулин П. П. Русский государственный кредит (1769-1899) / Мигулин П. П. — Т. 3 : Министерство С. Ю. Витте и задачи будущего; вып. 1. Конверсионные операции в 1893-1901 гг. — X., 1901; Т. 3 : Реформа денежного обращения 1896-1898 гг. и связанные с нею кредитные операции; вып. 2. X., 1902; Т. 3 : Железнодорожные займы и железнодорожная политика (1893-1902); вып. 3. — X., 1903; Т. 3 : Банковская политика и государственный ипотечный кредит в 1893-1902 гг.; вып. 4. — X., 1903; Т. 3 : Министерство Витте и обзор кредитных операций; вып. 5. — X., 1907.

² Яснопольский Н. П. Отзыв о сочинении П. П. Мигулина «Русский государственный кредит (1769-1899)». — Т. 2. Министерство финансов И. А. Вышнеградского, 1887-1892, представленное в юридический факультет для получения степени доктора финансового права. — К., 1902.

³ Мигулин П. П. К вопросу о земельном устройстве крестьян / Мигулин П. П. // Аграрный вопрос. X., 1906. с. — М., 1906.

⁴ Мигулин П. П. К вопросу о частном железнодорожном строительстве / Мигулин П. П. — СПб., 1910.

It is possible to agree with an estimation given to the scientist by a modern researcher A. Bukovetskyi (1881–1972) : P. Mihulin is not a man of wide European culture, but he studied Tsarist bureaucracy better than others.¹

However, hardly anyone would deny the great educational work of P. Mihulin as a promoter of financial science. Under his direct involvement the journal «Economist of Russia» (1909–1912) was published, where almost all prominent Ukrainian scientists, financiers ,are involved in the discussion: M. Aleksyeyenko, N. Sobolev, I. Yanzhul, M. Yasnopolskyi etc. In 1913, instead of «Economist of Russia» «New Economist» came whose editor-publisher P. Mihulin was again. P. Genezel, J. Kulisher, L. Hodskyy, V. Tverdokhlebov and others collaborated actively with magazine.

Some problems in the theory of financial science P.Mihulin highlighted in his work «Present and future of Russian Finance» (1907). In it he describes the principles of liberalism, emphasizes the important role of the state in protecting the poor population. The state is the supreme social organization, «it was awarded a sovereignty, whereby even by force it can perform all the tasks deemed necessary in the general interest.»²

Unlike the private sector, which is based on the principle of free competition, the state economy is based, according to the P. Mihul, on the forced removal of a part of the property or income of the individuals. The state should intervene in private economic relations and regulate the structure of social life. The scientists criticizes financial science for its recommendations of completely withdraw from any interference in an economy activity, according to him, it will boost the number of big monopolies and the complete subordination of the weaker to stronger ones. As a consequence of this is «physical exhaustion of the masses.»³ In this situation he proposes state « to take over regulation between labor and capital.»⁴ In such a way he demonstrated its commitment to the ideas of state socialism. According to P. Mihulin financial science as a science special and technical one that studies special issues of the best ways of getting money by a state it needed to meet its needs, so this science should gradually turn into an one that will study the needs of the population, cultural tasks of the state and the ways of the practical fulfilling of these tasks.

¹ See: Буковецкий А. И. Краткий обзор преподавания финансовой науки в Петербургском (Петроградском) университете в XIX — первой четверти XX века / Буковецкий А. И. // История изучения общественных финансов в Санкт-Петербурге: Сб. статей — СПб., 1997. — С. 27.

² Мигулин П. П. Настоящее и будущее русских финансов / Мигулин П. П. — X, 1907. — С. 3.

³ See the same. — P. 3.

⁴ See the same. — P. 4.

P. Mihulin considers state to direct public life, using tax levy, to encourage some kinds of production, it normalizes other ones, oppressed the third ones, state diverts capital from the most profitable productions, speculations and involves it in those ones considered to be useful (public orderings), assumes the monopolized production (post, telegraph, railway).

In the early twentieth century Vladimir Tverdokhlebov continues to develop problems of public credit and taxation within ukrainian financial study. With the European level education and fluent command of some languages, he has enriched the domestic financial study by research of world economy finances and he is the founder of the science of local finances in Russia and Ukraine. In his «Financial Essays» (1916), the scientist raises the question of establishing a clear boundary between science and politics from the first pages, and of the necessity of finding out what a science can give for practical life. «Financial science — said Tverdokhlebov — uses one privilege: it attracts public attention mainly in trial moments during the war or immediately after it. When military barrage swoops, the financial balance is destroyed and budget is disbalanced society requires scientific advice and treatment of disease.»¹

Since the times of K. Rau social and political trend dominated within financial science according to which its objective was the reflecting of the financial economy of different states in historical development. In the 70 years of the nineteenth century with the raising of the state's role in social life and development of kateder Socialism (public and Christian socialism) increases the financial aspect in political science. «The German financiers — V. Tverdokhlebov writes- tried to replace the» slight assesment» of «inmate» by «rational» financial system that is based on a serious study of real economic relations and general social and ethical references.»²

The famous German scientist- financier Wagner, who represented one of the areas of kateder Socialism distinkted between theoretical task of science, which was a historical and comparative statistical study of financial events in their causal connection with the economic, social and politic factors of social life and practical task is expanding of scientific and practical financial issues. Often within courses that are taught in Ukrainian universities, financial policy was not separated from financial theory. As noted by W. Tverdokhlebov, in Russia (Ukraine) I. Yanzhul identified financial science as the science of how the best to meet the public needs.³

¹ Твердохлебов В. Н. Финансовые очерки / Твердохлебов В. Н. — Пр., 1916. — Вып. I. — С. 1.

² See the same. — P. 2.

³ See: Янжул И. И. Основные начала финансовой науки. — С. 46.

Scientist himself became a supporter of popular in the early twentieth century social direction in financial science, in which the priorities were social methods of financial phenomena research. In Russia this direction was supported by P. Henzel, student of I. Yanzhul, by Russian financier I. Ozerov. His commitment to this trend the last scientist clearly stated in the book «Fundamentals of financial science.» «Science of finances — I. Ozerov wrote — studies financial economy, i.e. the set of relations that arise from mining by communities of public nature of material resources, it examines the ways in which these associations extracted itself money, and the way in which these methods are reflected in other aspects of life, why within one era some ways dominated, and in another era — the other ones. Financial science is the science of bread of reality, of why people are fed up or hungry, why they have bread or not».¹

These reflections on interdependence of financial effects with political phenomena encouraged to express original thought in Ukrainian and world financial literature about the feasibility of the people of science to be involved in politics.. B. Tverdokhlebov is convinced that the failure of scientists to participate in political activities «would be, of course, the loss for the country, and in political struggles clear formulation of slogans and scientific predictions are essential that save from barren forces on feasible projects»². Thought of almost a hundred years ago is particularly clearly confirmed by this day situation in Ukraine: progress in reforming of the old system, establishing of genuine democracy are largely dependent on science that belongs to party fighting for the withdrawal of Ukraine to the European high level of countries of the modern world.

In the Ukrainian and Russian pre-revolutional financial literature V. Tverdohhlybov was one of the first who analyzed in detail the problem of tax shifting. His research was based on the works of M. Pantaleoni, L. Stein, K. Wicksell, E. Selihmena.

The problem of tax shifting was put by life itself because of conducting of direct taxes reform in Russia. For industrialized Ukraine it was a matter of principle. Industrial tax paid by enterprises before the First World War, was saving one, it encourage the economic growth.

However, the shortfall in budget revenue through direct taxes resulted in a high proportion of indirect taxes, which greatly limited the capacity of the domestic market. According to Ukrainian scientist, the introduction of

¹ Озеров И. Х. Основы финансовой науки. — Рига, 1923. — С. 16; Озеров И. Х. О налогах и налогообложении / И. Х. Озеров // Финансы. — 2009. — № 4. — С. 66.

² Тverdokhlebov В. Н. Финансовые очерки. — С. 17.

income tax is the first step in conducting a broad financial reform and its necessary condition.

V. Tverdokhlebov clearly defined the essence of the term «shifting», which he understood as only price changes: «(1) which are caused only by this tax, 2) that occur in the direct exchange between the payer and the final taxpayer.»¹ Therefore, scientist defines shifting as privately economic process in which the paid tax is compensated to payer by changing its economic relations with other subjects of economy keeping through tax and thanks to it.²

The Ukrainian scientist's conclusions made by him on the basis of theoretical reflections, finding out the conditions of the tax burden shifting have not lost their up-dating today. These are the following:

1) any general tax is translated harder than special one;

2) shifting is more difficult in the case of a flexible (elastic) demand for a product that is subjected than in a stable (inelastic) demand when a buyer is unwilling or cannot reduce consumption in the result of raising of prices (such as salt, for example);

3) If the tax is small, it can not violate exchange relations established and it remains on direct payer;

4) shifting from producer to consumer is made easier than from the consumer to the producer;

5) tax is translated the easier the closer the time of its execution until the sale of goods.³

These conclusions confirm that the tax on personal income with less extent is exposed to shifting than a tax on enterprise, that progressive income tax is translated harder than proportional one, and that the tax on non-recurrent revenues is harder to translate than to impose periodic income.

V. Tverdokhlebov made detailed analysis in the spirit of K. Wicksell taxation situation of monopolistic enterprises and companies, which is in a perfect competition. For this he uses graphical methods of micro-economical analysis, which nowadays is already paradigmatic ones, notion of consumer surplus («rent of consumer») defined by J. Dyupoyi (1804–1866) by the author of several works on the socio-economic efficiency of technical projects and one of the precursors of marginalism and by A. Marshall — the leader of «Cambridge School» of marginalism, who offered a new teaching of political economy called «Economics» [his main work is «Principles of Economics» (1890)]⁴.

¹ Твердохлебов В. Н. Финансовые очерки. — Р. 63.

² See the same. — Р. 65.

³ See the same. — Р. 67.

⁴ Дюпон Ж. О мере полезности гражданских сооружений / Дюпон Ж. // Теория потребительского поведения и спроса. — СПб., 1993. — С. 28–66; Маршалл А. Принципы экономической науки : в 3 т. — М., 1993. — Т. 2. — С. 159–174.

For Ukrainian scientist's works the polemical nature of the most pressing issues of his time was characteristic. He joined the discussion in the financial literature concerning taxation values. According to V. Tverdokhlebov in problem of comparative advantage of taxation on market (selling) value and on the profitability of the property preference should be given to taxation on market value, although in this case the tax burden falls more than in case of capitalized income. Scientific highlights the feasibility of the latter issue: the difference is partly a mean of charging a stronger element in rental income from the property. (1890)].

In the early twentieth century the Faculty of social sciences were introduced in a university education instead of created in 1919 the law ones, which consisted of two departments — economic, political and legal ones. As a compulsory subject the course «Local Finance» was introduced. Back in 1912 V. Tverdokhlebov published his first course of lectures «Local Finance». In a slightly amended form, this course in 1919 was reissued in Odessa, and in 1927 and 1928 significantly redesigned and reduced copy was published in Moscow.

Already in the preface to his course Ukrainian scientist said: «One of the most characteristic features of modern history is the growth of public economy: the state and other public-law unions are gradually taking over more and more spheres of national life and national economy.»¹ It was a general global trend of the late XIX — early XX century when all states gradually began to transmit to local unions the part of functions related to public education, medicine, beautification of cities. In Western Europe and in the United States, in Russia and Ukraine a wide-ranging process of municipalization was held, as well as the rapid growth of local government.

Ukrainian scientist, unlike their predecessors, who were widely describing international experience, is highlighting in details the management of pre-revolutional Russia and Ukraine; local self-government councils and city councils, county authorities of class and rural management. In focus there are local tax system and control over them, a large set of questions is given to the organization of public banks, of municipal credit — shares and bonds, private-equity loan, appointment and activities of urban and rural credit banks. Some sections of the book contains an overview of financing municipal utilities — water utilities, power station, pools etc. The Ukrainian scientist didn't miss an analysis of the size of set tariffs and payment sources and the profits they receive. Originality of this work consisted in the fact that everything is presented in relation to the

¹ Твердохлебов В. Н. Местные финансы / Твердохлебов В. П. — Одесса : Книгоиздательство А. А. Ивасенко, 1919. — С. 1.

organization of local government and local finance system in Western countries — Britain, France and Germany.

Scientific generalization by V. Tverdokhlebov of financial problems of war is pioneer within the financial world and domestic thought. Realized right away in the wake of war and the first post-war years in his work «The latest financial problems (1914–1923)» (1923) this generalization is based on a huge databank of western military and financial statistics, contains essays on the financial situation of the warring states, primarily the relation of expenses and profitable part of their national budgets, reflects the direct links between finance of the war years and their pre-war structures. On this basis, V. Tverdokhlebov succeeded to disclose widely the major financial problems of the 20 th century. The following problem was also investigated by Bogolepov M., J. Kulisher, V. Lyubimov, but as to the scale of research, of course, the right of championship belongs to V. Tverdokhlebov.

Based on the extensive statistical data and scientific analysis of the size of military expenditures V. Tverdokhlebov comes to an important financial science conclusion about the absolute superiority of direct taxes, not loans. As the example was England, where consistently high share of direct taxes in the income part of budget (profit tax, income tax, tax on heritage with the transition of ownership, etc.) virtually warned the country's wave of inflation and provided an opportunity to next post-war years to pay state debt servicing. «Finance — scientist says -is not magic, and the easier and more «transparent «methods of financing the war are, the healthier and more successful is financial system and its results.»¹

It would seem that based on the analysis of the dynamics of public credit in the World War I V. Tverdokhlebov does trivial, but in scientific literature firstly expressed conclusion: the richer the country is, the less relation of debt to its wealth is and the lower of its value is accounted per capita. But other scientist's predicting our country cannot avoid — inadmissibility of forced loans because they almost convert the system of public credit in the tax system. This conclusion is made from practice of Germany of that time. After more than two decades during the Stalinist regime totalitarian financial system was established in Ukraine during which subscription for borrowing occurred of state powers, while for many years standard of living of the Soviet Ukraine was reducing systematically.

The opinions of V. Tverdokhlebov expressed in unison with J. Keynes's attitude, that the free market sales of goods rather faster will serve to economic recovery in Europe than required supplies and forced ones that defraud Germany, cash payments (reparations) are also of great interest.

¹ Твердохлебов В. Н. Новейшие финансовые проблемы (1914-1923). — Пг., 1923. — С. 72

Market economy is a critical feature of modern civilization, it is defended and supported by Ukrainian scientists since the middle of the nineteenth century.

V. Tverdokhlebov's conclusions concerning the strengthening of tax levy for achieving fiscal balance are instructive. «Generally we need to come to terms with the idea that no taxes restore fiscal balance and increasing of tax revenues is not possible without previous rebuilding of industry, commerce and agriculture.»² Thus, the policy should be conducted in two ways: to reduce spending and to attract foreign loan.

V. Tverdokhlebov's works are not only of a broad methodological sound, but they are the reflection of hereditary of progressive views that with objective inevitability is evident regardless of the fact that the creators of these ideas sometimes are divided by the whole epoch. The financial opinion of Ukraine has a special style when scientist said both of the present and future finances. An example of this is article by V. Tverdokhlebov «Speranskyi and his activities in the field of monetary and financial circulation» (1945), where he analyzes the views of Speranskyi, on whose initiative the State Council as «the highest legislative establishment of Russian Empire» was established on the sources of military income in the early nineteenth century.

V. Tverdokhlebov underlines that his idea of the ripening of necessity changes of such archaic tax as the poll-tax by a fundamentally new land tax, corresponds to coming capitalist epoch. Speranskyi's ideas passed ahead time, they were realized by such front-rank figures as Bunge M. and C. Witte, and his thoughts received their practical implementation.

But Speranskyi himself understood that one of the reasons of rejection of his ideas is the lack of education of managers of public finances. That's why of his initiative in 1809 the order calling on officials of a certain level of education was issued.

By his historiographical researches of financial thought of 18–19 century which V. Tverdokhlebov reported to his pupils, he tried to fill gaps in the science of finance — or omissions of the facts, sometimes insufficient attention to the participation of certain public figures in the financial politics of the country. Their views, positions as government officials sometimes ahead of time and were unrecognized. Only great erudition of scientist, their scientific intuition made it possible to reproduce them for future generations.

¹ Фещенко В. М. Дослідження проблем становлення та розвитку ринкового господарства в працях економістів України другої половини ХІХ — початку ХХ ст.: [монографія] / Фещенко В. М. — К.: КНЕУ, 2003. — 187 с.

² Твердохлебов В. Н. Экономический предел фискализма / В. Н. Твердохлебов // Экономическое возрождение. — 1922. — № 2. — С. 52.

In this regard, let us consider (in the mentioned above article) Speranskyi's opinion concerning the building of the state budget: «No expenditures can not be appointed before found income will be equal to them as any expenses not covered by reduction of other costs or increasing of productivity and profitability of commercial sources... is a tax obvious or hidden.»¹ The importance of this finding is not lost even now and this is further proof of the relevance of the appeal by V. Tverdokhlebov to fundamental study of financial thought.

A contribution of Ukrainian financial thought in the general theory of taxes has a great significance. It should be pointed the works of renowned professor of Kharkov University M. Aleksyeyenko. In particular, they are «View at the development of the doctrine of tax by economists Adam Smith, J-B Say, Ricardo, Sismondi and John. St. Mil la» (1870); «Financial Law» (1894); «Income Tax and conditions of its shifting» (1885) and others. In the 20 years of the twentieth century his ideas will become the central ones in the joint work of Ukrainian and Russian financiers A. Bukovetskyi, P. Henzel, J. Kulisher, V. Tverdokhlebov «Taxes in foreign countries» (1926).

Let us note that financial science for a long time, including in the early twentieth century studied primarily one of the key elements of the state economy — taxes reflected in the structure of educational manuals at that period. One of the first scientists who studied the theoretical understanding of the nature of taxes in domestic and Russian financial literature was M. Aleksyeyenko. He was the first who paid attention to tax at the same time as economic, commercial, political and legal phenomenon of real life. «On the one hand, tax is one of the elements of distribution, one of the price components, from the analysis of which (i.e. prices) in fact, economics began. On the other hand installation, distribution, withdrawal and consumption of taxes is one of the main functions of the Government»².

Ukrainian scientist considers taxation in close connection with the activities of the state — the doctrine of state. In support of his approach, he cites the famous words of M. Proudhon that, «in essence, the question of taxes is a matter of state.»³ That's why for a long period two sciences studied taxes: economics and political science. Allocation of financial science as an independent one make it possible in the last quarter of the nineteenth — early twentieth century, using the ideas of classical and neoclassical schools and the doctrine of the law state, to justify the necessity

¹ Твердохлебов В. Н. Сперанский и его деятельность в области финансов и денежного обращения / В. Н. Твердохлебов // Советские финансы. — 1945. — № 12. — С. 23.

² Алексеевко М. М. Взгляд на развитие учения о налоге / Алексеевко М. М. — X., 1870. — С. 25.

³ See the same. — P. 34.

of tax collection, to formulate a definition of a tax, to find out its nature, which conceptually is not questioned even at early twenty-first century.

M. Aleksyeyenko in his works tried to overcome taxes atomic theory, which emerged during the Enlightenment in XVII–XVIII centuries in France. Its founders were Marshal Sebastien Vauban (1633–1707) and philosopher Charles Montesquieu (1689–1755). The basis of this theory was the notion that all subjects are in need of state protection.

One of the supporters of this idea in Ukrainian financial science was J. Kulisher. He expanded the problem of external security of citizens by problem of supporting of internal order and internal peace in the country. In such a way Ukrainian scientist substantiated the necessity of court, police and other state authorities. For their maintaining we need to pay taxes. In economic terms, to his mind, it is the exchange of one value to the other: «Just as we pay the merchant for goods bought from him, lawyer we pay for advice received, in such a way we pay the government for its services.»¹ This exchange of some value to others, «services provided to individuals of society», for the benefits that he has on the social order, is made, however, «based on specific bases, because no one can give up his participation in payments as he can not abandon the using of universal protection ...

Although this deal is not always voluntary one and even seldom it is fair, but it still exchange, and ultimately profitable exchange, because the most unable-bodied government protects citizens cheaper and better, than if each of them defended themselves independently of the others».²

Similar theories of «fiscal deal», «insurance bonus» and others were criticized in the Ukrainian financial literature. In particular, the theory of insurance (tax as expense for the amount of property protected) in different versions Ukrainian scientist-economist and financier M. Sobolev criticizes. According to his opinion, «insurance theory that tried to equate tax to payment of insurance premiums is «even less successful. According to this theory the taxpayer pays tax as a premium for the insurance by the state from attacks on his person and property. There is no similarity between the taxes and insurance. If the taxpayer actually insured himself against attacks, he would receive compensation in the event of theft, robbery or body injury. So the case is put in insurance against theft burglary where insurer pays for receiving insurance compensation if being affected by burglary. State organizing the protection of citizens from criminal elements does not assume

¹ Кулишер И. М. Очерки финансовой науки. Вып. 1. — С. 76.

² See the same.

any commitments actually protect each citizen of robbery or murder, or financially compensate those ones affected.»¹

These theories were based on a false idea of the contract origin of the state. In real relationship there is no link between the payment of taxes and profits received from the state by subject. Firstly, absolutely there is no voluntary and free agreement, which takes place in any contract, for example buying-sale. Buying a product on the market (voluntary act) and paying taxes (coercive) are completely opposite actions. Secondly, you can not set any equality between the amount of tax paid by the entity and the one utility he gets from the state. For each person this utility is so different that there is no way to obtain an expression of exchange value. Therefore, for science to determine the benefits, to evaluate the services provided by the state to entity (individual) is very difficult. Even if we assume that there is a collective exchange — the total amount of services of the state to the citizens is the sum of their contributions, so in this case it is necessary to recognize that the state forgot to take a lot and to give a little.

M. Aleksyeyenko was one of the first in the Ukrainian and Russian literature who paid attention to the problem of economic nature of the tax bases of which in its individualistic theory was laid by the representatives of the classical school (Adam Smith, David Ricardo and their followers). Adam Smith has no systemic views yet at tax, he even does not make its determination, but in his works for the first time the question of economic nature of tax is raised. The views expressed in inconsistent form of the thesis that, in fact, was characteristic feature of the works of Smith's «The Wealth of Nations» (1776), they are, according to M. Aleksyeyenko's opinion occurred brilliant. «Material, substantial view at economy, which considers productive labor only such kind of labour, — says scientist — that is materialized in objects that have the ability to exchange, such opinion would be hostile to the tax that pays for services of the state, seeing in it the rejection of People Resources from contents of productivity, and this view has as his father Adam Smith.»²

«However, this view of productive work did not stop A. Smith to recognize tax as fair price for the services of the state. «Government spending — M. Aleksyeyenko said — concerning citizens are the same as the cost of management regarding the owners of large possessions that have commitments to participate in these costs in the amount of income received by each of this possessions.»³ The theory of productive work of Adam Smith

¹ Соболев М. Н. Очерки финансовой науки (общедоступные беседы). — С. 61

² Алексеев М. М. Взгляд на развитие учения о налоге. — С. 1.

³ See the same. — P. 8 — 9.

limits the scope of the tax. Only the cost of public defense and support of the dignity of the supreme power should be covered by the general collection of the whole society, ie by taxes. The remaining costs associated with the maintenance of public facilities and activities, institutions of public education and religious education should be paid by social duties. Although here Adam Smith observes that the fee should be set by collection of the whole society and taxes.

M. Alekseyenko in his study came to the conclusion that Adam Smith, researching the issue of taxation is «a supporter of the principle that in modern literature is called the principle of equivalence, or pleasure principle, indicating its similarity with T.Hobbes»¹. Thus, concerning the tax treatment Adam Smith stood on the positions of the theory of exchange, equivalent.

D.Ricardo proves M. Alekseyenko as Adam Smith, followed the materialized, the material point of view on the economy, excluding therefore public services from the kind of productive expenditures.

He realizes tax as unproductive removal of part from the production. «There are no taxes that would not stop accumulation, since there is no tax that would not interfere with production. Taxes have the same effect as the barren soil, bad climate, lack of agility or activity, poor distribution of work seats, loss of machines»².

Having analyzed scattered in the «Political Economy and Taxation» (1817) Ricardo's thoughts about the nature of taxes Ukrainian scientist maintains his commitment to the theory of exchange. Actually, Alekseyenko himself was in this position, supporting the understanding by Ricardo the essence of tax: «ruling classes keep economy — Ricardo said — they use for this different forces, paid and unpaid, meet their diverse needs and keep by their own means the state fulfilling their desires.»³

The Ukrainian scientist didn't miss the critical analysis of the theory of pleasure of Swiss economist Sismond Jean de Sismondi (1773–1842) described in his main work «New Principles of Political Economy» (1819) (Russian translation of 1897). Sismondi noted that «earnings are distributed among all classes of the nation, none of the types of incomes should not escape from taxation. Citizens have to look at the tax as a reward for granted by the government protection of their person and property. Taxes paid by citizens have to relate fairly the benefits that society gives them, and the charges she does for them. The annual costs of the state are covered with taxes, and every taxpayer thus takes part in total payments made for his

¹ Алексеев М. М. Взгляд на развитие учения о налоге. — P. 8–9.

² See the same. — C. 74.

³ See the same. — P. 96.

countrymen. The purpose of wealth is always a pleasure. With every tax payer buys nothing but pleasure. He receives pleasure from state order, justice, secure of personality and ownership. Public works give pleasure of enjoying good roads, wide boulevards, healthy water. Public education, through which children receive upbringing, and some of them got developing religious feelings, again give pleasure. In addition to all the others national defense is a pleasure, ensuring each citizen part of the benefits given by public order.

So, the money paid in taxes, is used profitably on the one hand, if all taken for public enjoyment, really is used to enjoy this, and not for pleasure or vanity passions of the rulers.

Tax is the price paid by the citizens for received pleasure»¹. Analyzing these spatial thinking, M. Aleksyeyenko agrees that under certain circumstances a tax is a payment for pleasure. Scientist notes that tax of Sismondi is a sacrifice. Everything depends on the ratio between the price of the good of the state and the victim, brought by tax. «Tax is a victim but at the same time it is a good — M. Aleksyeyenko writes — if state services bring us more pleasure than sacrifice subtracts from us by price we got. Therefore, we must abandon the pleasure, if it is more expensive and if the buying of it takes necessary things.»² Based on this understanding of the tax as victims and enjoying J. Sismondi strongly upholds the principle of gratitude in the relationship between the state and the taxpayer. It substantiated M. Aleksyeyenko to underline that in the justification of tax Sismondi put theory of sharing in its equivalent modern form.

M. Aleksyeyenko analyzes the approach to taxes of other representative of classical school — French economist J.-B Say (1767–1832), which is highlighted in his work «Treatise of political economy, or a simple statement of how the wealth is generated and consumed» (1803). His views on the productive and unproductive labor was to some extent at variance with the idea of «father of economics». Ukrainian scientist literally presents understanding of productive labor by J.-B Say: «The basic concept here is established utility. Production can be determined as follows: it is a human activity aimed at creating of utilities. The utility can be embodied in tangible and intangible forms. Consequently, the services of the state is also a producing of utility. Therefore, all these products and labor used for their creation, must justly be called productive ones. The state has needs that must be met by certain utilities paid by tax.»³

¹ Сисмонд дэ Сисмонди Ж. Новые начала политэкономии / Сисмонд Ж. де Сисмонди. — М., 1897. С. 149.

² Алексеенко М. М. Взгляд на развитие учения о налоге. — С. 101.

³ See the same. — С. 45.

To J.B. Say's mind a tax is a fee for services. According to M. Aleksyeyenko, he was «on the way to a correct understanding of the state and its objectives.» Reaching the «correct understanding» of economic substance of taxes was prevented by JB Cejy's commitment to the ideas of Adam Smith on net losses of taxes for society. Therefore, suggested idea of the exchange of services didn't develop and scientist reveals a tax as a loss for the nation to a great extent.

However, it was a step to a substantiation of the theory of services exchange and equivalents. «Everything is a question itself — emphasizes M. Aleksyeyenko — to weigh the needs separating the real ones from empty and to deliver products by the cheapest way at a cheap price. Then the tax would be fair compensation for the services. Then the idea of the difficulties will be rejected»¹.

The idea that tax is a payment for services has been at the focus of French financial thought in the second half of the nineteenth century. On this basis they rejected progressive taxation. With the advent of the legal state doctrine economists' and financial experts' views on the theory of taxation are changing. The idea of coercion tax takes the first place: theory of victim; theory of collective (social) needs and others. The idea of a tax as a necessary part of coating in public expenditure, as a duty, resulting from the idea of the state itself and from collective needs met by the state, is put in the basis of these theories. That process was pushed by the practice, because the meaning and functions of the state went far beyond the «duties of night guard». In the nineteenth century state became a manufacturer of a great variety of material and nonmaterial wealth.

One of the first scientist in the Ukrainian financial literature, who stood in the way of rethinking of the concept of «services» of the state, was I. Yanzhul. Analyzing the theory of victim, he stresses the idea of coercive tax. For the first time it was expressed by the physiocrats while justifying single land tax. «If the state is obliged to an earth for all national wealth, all its property, natural forces, then all the sacrifices which the state may demand from the people, must be obtained from the same source.»²

Within the Russian financial thought the idea of interdependence of tax occurrence with appearance of state belongs to the founder of Russian financial science as systematic knowledge N.I. Turgenev (1789–1871). His book «The experience of tax theory» (1818) enjoyed great popularity in Russia and Ukraine. We are always looking for not quite true any leakage of

¹ Алексеенко М. М. Взгляд на развитие учения о налоге. — С. 45.

² Янжул И. И. Основные начала финансовой науки — 1904. — С. 49.

impact from foreign sources, but indicated book, which was sold out in a few months and already reissued in 1819, won high praise of contemporaries.

In particular, professor of Imperial Alexander University (Helsingfors, Finland) J. M. Scilla (dead in 1870), believed that of the work of Turgenev's «fairly could be proud in Russian literature; may be proud by everyone else, if it was known in his time to foreigners»¹.

This assessment could be true to many works of representatives of Ukrainian financial thought. Their meaning is special for our scientists. Because of the emergence of financial science in Ukraine it is formed on the national ground. As it was shown above, no one author did not copy blindly foreign experience, he gives him a reasonable estimation. Ukrainian scientists economists and financiers have critical approach to theoretical achievements of foreign colleagues, building their conclusions and suggestions using practical experience in Russia and Ukraine.

Already in the first chapter of his book «The Origin of Taxes» known Russian financial economist indicates this relationship and consider taxes as necessary condition of the existence of any state. «Demanding of destruction of taxes now would mean the destruction of the society.»² M. Turgenev clearly presents the idea of inequality of taxation over certain classes. «Hatred of one nation class to another one is born from the unequal distribution of taxes between citizens, resulting the hatred to the government.»³

Some notes of the scientist about the connectivity between science and practice, are still relevant today. «Theory of finance based on supervision — scientist writes— is done on the experience during a few centuries... theory consists only of these observations recorded between themselves in the causes and actions, and set out in a logical order. of decomposed in such way observations rules and axioms are derived, which alone only can serve as a correct guide to the conclusions and judgments about things. Not abstract ideas but experience of centuries created the science of finance.»⁴

These ideas were expressed in his lectures, presented to Grand Duke Mikhail Alexandrovich in the 1900–1902. S. Witte, where he defines taxes as «compulsory fees (donations) from income and property of citizens, collected as a result of sovereign rights of state for implementation of higher

¹ Шилль И. Современная теория финансов и ее влияние на финансовую администрацию / Шилль СПб., 1860. — С. 73.

² Тургенев Н. И. Опыт теории налогов / Тургенев Н. И. — СПб., 1818. — С. 10.

³ See the same — P. 30.

⁴ See the same.

aim of general state life. «This idea is reflected in the financial Ukrainian science.¹

In particular, I. Yanzhul wrote that «taxes should realized as such unilateral economic donations of citizens which state or other community groups due to the fact that they are representatives of society collect legally and lawfully of their private property to meet social necessary needs and costs caused by them.²

«The idea of state recognition for its economic functions whose implementation demand tax collection has been known from the works of one of the most remarkable German economists of the nineteenth century. Lorenz Stein (1815–1890). In his book «Financial science»³, he justified the need to replace the name «police science and police law» to «science of management or science of administrative law.» Ukrainian and Russian financiers praised greatly this work as «fount» of new ideas. In particular, the Russian financier I. Ozerov wrote that Stein is «not thorough scholar but poet — scientist,» and his textbook on financial science «exudes originality of thought.»⁴

M. Aleksyeyenko's views were closer to the idea of recognition of productive nature of public services, he criticizes understanding of a tax as the losses of society. «Specific products and services — the scientist said — given by the state and those ones that meet the specific needs of human life, create something that is so-called uncertainly as public spending, government expenditure ... The benefits delivered by state, can not be summed up under understanding of change benefits, and therefore can not be paid by exchange cost if some of them are approaching to exchange benefits and paid back by a price, this price is established at a fixed rate and the same one: I'm talking about customs. But the rest of the benefits provided by the state must be paid, and for this payment another measure of equivalence should be find; this is a tax.»⁵

The same views of determining of taxes were supported by financial Soviet science in the twentieth of the XX th century. «Taxes are — M. Sobolyev wrote — compulsory charges levied by the state or its authorized public legal bodies as a result of the rule of law, without any

¹ Витте С. Ю. Конспект лекций о государственном хозяйстве, читанных Его Императорскому Величеству Великому князю Михаилу Александровичу в 1900-1902 гг. / Витте С. Ю. — 3-е изд. — СПб., 1914. — С. 35.

² Янжул И. И. Основные начала финансовой науки. — М., 1904. — С. 197.

³ Штейн Л. Финансовая наука. — СПб., 1885.

⁴ Озеров И. Х. Основы финансовой науки / Озеров И. Х. — 4-е изд., испр. и доп. — М., 1911. — Вып. I. — С. 77.

⁵ Алексеев М. М. Взгляд на развитие учения о налоге. — С. XIV.

equivalent by the state, on the basis of the issued law and which are going to cover national needs»¹.

In fact, in all the works of Ukrainian financiers who are considering taxes, the principles of taxation are analysed. One of the first questions was the one about the subject of taxation. It was I. Yanzhul who expressed in this regard the most clearly.

According to his mind it is «net income». «This truth — scientist continues — was not realized in the financial practice for a long period of time. State used the rule: never mind what is taken from, the main task is only to take and do not reflect over the question, whether tax is collected from assets or from income.»²

The debates in financial science on the matter what to tax and what are the principles of taxation, has just begun. Therefore, the absence of any systematic approach encouraged the state to collect taxes freely, being guided by the needs of the treasury. Transformation of taxes in the main source of government revenue created the opportunity and set a target of exploring of the nature of taxes, including the sources and principles of taxation. Within this view in Ukrainian financial science the principles of taxation, developed by Adam Smith and A. Wagner appeared in the center of attention. They were so fundamental ones that are put in the basis of modern tax system today. As the latter one, for example, the Russian scientist Ivan Ozerov understood «interdependent set of taxes created in the definite state under the influence of all social, political, economic and financial circumstances.»³ Every country and every era has its own tax system.

In their researches of taxes mentioned above authors attempted to leave them in connection with the laws of the economy established by them. In their maximums (principles) they came out the statement, you have to spare (cherish) national and private sector of economy. For example, according to the teachings of Adam Smith concerning unproductive services, including the services of the state, he sets the tax principles not in accordance with the interests of state, but in accordance with taxpayer, which is why these principles were called “declarations of taxpayer’s rights” in the economic literature.

Famous Ukrainian economist-financier J. Kulisher wrote about this question, that these four rules that have become a maxim already in the time of Adam Smith was not news. And the Frenchman Mirabeau A. (1761) and German Yusti F. (1766), and Italian Verry P. (1771) demanded equality of

¹ Соболев М. Н. Очерки финансовой науки (общедоступные беседы). — С. 61.

² Ялжук И. И. Основные начала финансовой науки. — С. 207–208.

³ Озеров И. X. О налогах и налогообложении. — С. 67.

taxation, accurate determination of taxes by law, comfortability for payer, possibly lower costs of collection, adding to this, that taxes should not unduly burden the citizens, should not break the growth of population, trade and craft, should not punish for success in the industry.

«The merit of Smith is not a new opening of these principles, but in ... a bright and precise formulation and justification of them.»¹

The views of the capital imposition were various. Most of the Ukrainian and Russian economists and financiers supported the idea of Adam Smith. According to his views on the unproductive nature of government spending it is not possible to involve capital as tax source. Thus, M. Turgenev raised the question of balancing in fiscal interests of the state and ordinary payers. I. Ozerov said, «that to impose capital, means to destroy it — it kills the goose that lays the golden eggs.»²

Ukrainian financial economist I. Yanzhul sets out the arguments of opponents of the tax levy of capital in expanded forms actually supporting it himself. «The first part of the property (capital) — says scientist — without any doubts requires mercy. Productive activity is impossible without capital: people can not increase without it the weight of values: capital is as if an advance that is given the manufacturer and as in product is received back and in addition to this with profit. If the state began to draw their taxes on capital, after decreasing of the later a delay would follow in creating of new values and national wealth would progress more slowly depending of the increasing of the pressure of taxation. The following rule concluded: taxes should leave the capital of the country as far as possible being intact (with the exception of extraordinary events, etc.) and fall only on income».³

Unlike Adam Smith German financial economist A. Wagner supported ideas expressed by J.-B. Say and J. S. Mill, who believed it possible to levy capital, meaning the inheritance tax. According to scientist's opinion, justice regarding sources of tax levying included not only income taxation but also capital one. In the Ukrainian financial science this idea was supported by M. Sobolev. «The assertion of the need to tax capital — says scientist — leading to reducing of production — not so persuasive one. The fact is that a capital is accumulated from the current national income and there is no economic fundamental difference whether tax is taken from revenue or capital that is created as a revenue. The question is in the extent of taxation and the feasibility of reaching of taxpayer at the time of disposition of his income or his capital.»⁴

¹ Кулишер И. М. Очерки финансовой науки. — Вып. I. — С. 138.

² Озеров И. Х. Основы финансовой науки. — Рига, 1923. — С. 230.

³ Янжул И. И. Основные начала финансовой науки. — С. 207–207.

⁴ Соболев М. Н. Очерки финансовой науки (общедоступные беседы). — С. 66.

Practice confirmed the feasibility of a uniform distribution of the tax burden. Imposition of capital (property) in the early twentieth century found the leading place in government revenue of developed capitalist countries. In the same period financial science and practice were able to solve the problem of social justice and protection of the interests of capital at the same time, converting individual income tax in the main source of tax assets.

M. Aleksyeyenko entered the historical dispute, which covers nearly two centuries concerning the clarifying of the nature of justice in taxation. Ukrainian scientist wrote, «that justice, like all moral concepts is relative one, depending on the place, time and culture of the people.»¹ From this perspective, M. Aleksyeyenko provides a theoretical interpretation of fairness in taxation. «In forming the tax people seek justice, but» human justice «is relative. In a society characterized by division of classes into the privileged and the tax-paying ones, common taxation is offensive to privileged class. In a society in which the fundamental principles of public life such as equality before the law, the court, service and tax are recognized, the common taxation to that extent is usual thing, which is strange to say, as a question.»²

An important topic of discussion in the financial literature has been the question of the role of income tax in the financial system of the state. Let us recall that the income tax is called a tax that is levied on net income of the payer. There are two types of them: 1) total income when it is calculated in the same amount all kinds of income of taxpayer and when the tax is taken from this total sum; 2) income parcel tax when each type of income is separately calculated and taxed separately. More idcal is total income tax, because only it can reflect a subsistence level of existence, marital status of payer etc. In the last century 20-ss the first type of tax was used in Germany, USA, USSR and in the most other states, the second type was used in England, Italy, partly in France.

In the Russian financial science the prominent supporter of the crucial role of income tax I. Ozerov was. In particular, he stressed that «the income tax together with direct and indirect taxes is essential, without it tax system is unable to impose all income derived from a variety of sources.»³

In the Ukrainian financial science the social and political causes of transition to income tax were better formulated by M. Sobolev. «Income tax — scientist stressed — is the most perfect form of taxation in the

¹ Алексеевко М. М. Финансовое право / Алексеевко М. М. — X., 1894. — С. 111.

² Алексеевко М. М. Подоходный налог и условия его применения / Алексеевко М. М. — X., 1885. — С. 6–7.

³ Озеров И. X. Главнейшее течение в развитии прямого обложения в Германии / Озеров И. X. — СПб., 1899. — С. 70.

financial system, as it includes net income of society — the main source from which all taxes are paid. Income tax falls as a main burden on affluent classes who would not take such tax voluntary. There must be circumstances which can overcome their resistance to tax. In the nineteenth century such a force was the working class that demanded the introduction of a progressive income tax and the abolition of taxes on consumption.

The second reason for the approval of the bourgeois classes to introduction of income tax — a threat to their existence. These circumstances were associated with wars. In France and Russia an income tax was introduced as a result of severe financial condition caused by the First World War. These were the social and political conditions of the introduction of income tax.»¹

Collection of income tax is based on the declarations of taxpayers which have gained general distribution in the 20 years of the twentieth century after introduction of tax reforms in Europe and the US. This form of control exists in Ukraine today. On its functionality N. Sobolev wrote: «Taxpayer receives from tax authorities special leaflet which contains detailed questions asking how much income he received last year from each the sources of income, then he should show all costs associated with keeping of his economy, and at the end he should summarize how much net income he got last year. The completed declaration comes to financial inspector who inspects indicators of payer of course within a special committee with representatives from the payer. The commission considers the declaration, verifies its data in different ways and either approves or changes the figure of income.»²

In general, considering the problem of taxation, M. Aleksyeyenko concludes that the most difficult issue is the study of the impact of taxes on the economy. This industry is new, poorly understood not only in Ukrainian financial literature, but also in Western Europe. The reason is, a scientist emphasizes, that «even admitting tax as evil economists could not 'find out its impact on the economy, on the relationship between different manufacturers. The reason is the difficulty of economic phenomena, the essence of which is covered by minor facts, preventing the study.»³

The theoretical complexity of the issue caused by the lack of development of the problems of shifting, which in turn was due to the relevant level of economic and financial science. M. Sobolev wrote on this subject that «the question of the tax shifting is the most difficult and least work out part of financial science. Meanwhile, the practical significance of

¹ Соболєв М. Н. Очерки финансовой науки (общедоступные беседы). — С. 106.

² See the same. — P. 108.

³ Алексєєнко М. М. Взгляд на развитие учения о налоге. — С. XXIV.

the phenomenon is great because it can turn all assumptions of state power in its tax policy.»¹

To be sure it is necessary to indicate that from the position of the Malthusian population theory V. Tverdokhlebov developed in detail the issue of taxation principles and developed the theory of shifting taxes.² However, this was largely theoretical foundation of tax reform in Russia, which was urged by all Ukrainian and Russian financiers for many years.

The bill on introducing of total income tax in Russia was adopted by the IV State Duma in 1916, but neither by royal nor temporary Government has not been carried out. Therefore, the practical part of researching of impact on the economic life of financial science of the late XIX — early the twentieth century was being evaluated in terms of the need to account this effect at the developing of principles of tax policy.

However, the merit of Ukraine financial science of the definite period should be considered the question of adjusting of the role of taxes in the economy, which was implemented at a new level in the 30 years of the twentieth century in Keynesian theory of aggregated demand. As you know, in the practice of post-war economic regulation the taxes were given the role of automatic stabilizers of the economic cycle. In the 80 years of the twentieth century in the model of neo-conservatives (theory shifting) tax policy has been built into the policy of economic growth, that caused the reducing of the taxes stiffness level, but did not change their forced role in modern economic life.

If we analyze the content of the first textbooks by Ukrainian scientists I. Tarasov, S. Ilovaisky, we can see that they are devoted to the presentation of the tax system, which operated in the country, and only small sections concern the evolution of financial science and examples of the financial organization in advanced Western countries. In other words, there has been some masking of the subject essence. Although Western scholars translated textbooks, that were used in those years in Ukrainian practice and in a university setting, even by names clearly belonged to the financial science³. Law was out of the question.

It is interesting to note that during the Soviet period it was the opposite situation — there were no legal disciplines in training programs at the

¹ Соболев М. Н. Очерки финансовой науки (общедоступные беседы). — С. 77.

² Тverdokhlebov В. Н. Финансовые очерки. — Пг., 1916. — Вып. 1. — С. 53.

³ See.: Ehberg K. Oчерk finansovoj nauki [/ Revue of financial science] / Ehberg K. — Yaroslavl', 1893; [in Russian]; Rau K. Osnovnye nachala finansovoj nauki [The main fundamentals of financial science]: v 2 t. / Rau K. — SPb., 1867; [in Russian]; Kosa L. Osnovy finansovoj nauki [The fundamentals of financial science] / Kosa L. — М., 1900 [in Russian]; Nitti F. Osnovnye nachala finansovoj nauki. [The main origins of financial science] / [in Russian].

economic departments. To some extent this short-sighted policy of training managers and economists eventually lead to the emergence of resistant Ukraine phenomenon — legal nihilism. The implications of this approach to the training of economists of the highest qualification the country is experiencing even now. Only with the restructuring of the universities the situation has changed — curricula already contains sufficient amount of legal disciplines. In his rather integral course J. Kulisher devoted the first part to the characteristics of expenditures and revenues of the state, and made a number of original thoughts. The second part is written in the traditional style of the authors of the late XIX — and beginning of XX centuries: the variety of types of taxation were shown — land, house, industrial. In addition, Ukrainian scientist gives general information about taxes in Europe and the US.

The original phenomenon of this work is the author's definition of the etymology of the term «finance.» He believes that fundamental changes in the interpretation of the concept of «finance» encourages the fact that terminology has become adapted to life». An independent research area was named by this term that was called earlier «the science of the state economy»¹.

Analyzing the differences between public and private farms, J. Kulisher shows:

1) for the private farm incomes are primary, expenditures are secondary, in the state farm, on the contrary — needs are making commands»;

2) private farm aims to profit, the government «knows nothing about profit for profit, does not recognize the principle of a possible increasing of income nor for immediate expenses, neither for accumulation of reserves for future. «A reasonable state policy should be directed to maintaining «reserve fund» not in its box offices but in the pockets of the population, where «every karbovanets gives the birth to new one, while in the hands of the treasury, it rarely has more value than that one which is marked on it». That is how J. Kulisher declares his position: private farm, generally, is more effective comparing to state one;

3) in contrast to the private sector, key to reserve funds state is holding itself — taxes are like a forced machine of raising funds to meet public needs. The scientist comes to the conclusion (that is actual nowadays) about the exclusive importance of creating a budget and the necessity of the «reporting on planned expenditures.» Hereby budget should be «the guardian

¹ J. Kulisher. The essays of financial science. — Vol. 1. — P. 6-11.

and protector of the population from excessive attacks on its funds and from too deep emptying of its pockets.»¹

J. Kulisher notes that the new types of public expenditures appear in the process of civilized development. Particular attention is paid by the Ukrainian scientist at the expenses related to education, science and art that should be at the centre of government. He didn't justify their physical size, but did support the idea of their increasing and produced D. Lloyd George's words that «people with good school, who are well fed, well-dressed and well housed, in many times increases the wealth of their country» and therefore one cannot be short-sighted and abandon these expenditures.² These thoughts and arguments of the scientist did not lose their relevance for Ukraine even now.

Most of the Kyiv School representatives perceive the idea of free competition carefully, they tried to rethink the role of government in the economy of the late XIX — early XX century. Almost every representative of Ukrainian financial thought of this period presented his original ideas on this subject. J. Kulisher, in particular, emphasized the creative role of people. State is all of us, said the scientist. In his opinion, the active state activity is required to counteract the commercial and industrial capital, which rapidly captures economic position, begins to act in an organized manner, trying to take power into its own hands.

These are the basic arguments of the Ukrainian scientist on the need of strengthening of state role in the economy, «we unintentionally have to reform into dominant undertaking.»³ According to J. Kulisher, this development of events is typical for European countries, including England, where the idea of temporary state management of mines, railways, merchant shipping (up to the 80th century. — Thatcherism) has won.

Ukrainian scientist paid attention to outdated methods of financial supplying, that is why the tax system became more and more important. He takes the example of Europe, where the rationalism was predominant, and the principle of «demand the impossible in order to get the most out of possible» disappeared from the beginning of the XIXth century. In Russia and Ukraine «poll tax and its old characteristic spirit of dissonance between public needs and national needs» remained for a long time.⁴

Great attention is paid by J. Kulisher to the review of the various theories of taxes (atomic theory, diffusion theory, the theory of the Canary, the theory of retribution and service etc.), he made a detailed analysis of the idea of

¹ J. Kulisher. The essays of financial science. — Vol. 1. — P. 13.

² *Ibidem*. — P. 33.

³ *Ibidem*. — P. 51.

⁴ *Ibidem*. — P. 75.

shifting taxes, which has both internal and out-ukrainian nature. The scientist considered penetration into the essence of «the doctrine of shifting taxes» essential for educated financier. As for the principles of taxation, he was a supporter of the known Adam Smith's ideas, whose merit is «not in the new opening of these principles, but, as in many other cases, is in bright and accurate statement, and justifying of them.»¹

This work is different from others due to its fundamental nature, comparative analysis, the most authoritative statement of the views of scientists (mostly foreign). J. Kulisher cites many examples that demonstrate the difference between theory and practice.

Originality of the Ukrainian representatives of the financial thought is in their works that serve as the foundation for the modern financial science researchers and were performed with diligence and perseverance. They tried to fill the current vacuum of scientific information for studying of finance of Russia with acts of Russian financial legislation and with government documents (public murals, financial estimates, reports of state control, Ministry of Trade etc).

M. Aleksyeyenko — Rector of Kharkiv University (1890–1899), Trustee of Kazan, and Kharkov school districts, MP of the III-d and IV-th State Duma was the initiator of this activity (1847–1917). Within the instructions for scholarly pursuits, he sent his student P. Mihulin to study the system of finance of Russia, not Western countries, which was typical for previous researchers.

P. Mihulin's research is a few volumes of separate archived documents of Loan Office, in which the negotiations of the tsarist government with European bankers were described.² Scientist's work was highly estimated by M. Yasnopolskiy.³ They have a special value because of archive lost during the Great Patriotic War.

¹ J. Kulisher. The essays of financial science. — Vol. 1. — P. 138.

² see: Migulin P. P. Russkij gosudarstvennyj kredit [Russian governmental credit] (1769-1886) / Migulin P. P. — Harkov., 1899. — Vol. 1 : Opit istoriko-kriticheskogo obzora; [in Russian]; Migulin P. P. Russkij gosudarstvennyj kredit (1887-1892) / Migulin P. P. — Harkov., 1900. — Vol. 2 : ministerstvo finansov I. A. Vshnegradskogo (1887-1892); [in Russian]; Migulin P. P. Russkij gosudarstvennyj kredit (1769-1899) / Migulin P. P. — Vol. 3 : ministerstvo S. Yu. Vitte i zadachi budushhego ; Vol. 1. Konversionnye operacii v 1893-1901 gg. — Harkov., 1901 ; Vol. 3 : Reforma denezhnogo obrashheniya 1896-1898 gg. i svyazannye s neyu kreditnye operacii ; Vol. 2. — Harkov., 1902 ; Vol 3 : Zheleznodorozhnye zajmy i Zheleznodorozhnaya politika (1893-1902) ; Vol. 3. — Harkov., 1903; Vol. 3 : Bankovskaya politika i gosudarstvennyj ipotechnyj kredit v 1893-1902 gg. ; vp. 4. — Harkov., 1904; t. 3 : ministerstvo Vitte i obzor kreditnyh operacij ; vp. 5. — x., 1907. [in Russian].

³ Yasnopolskiy N. P. Otviz o sochinenii P. P. Migulina «russkij gosudarstvennyj kredit (1769-1899)». [Testimonial on Migulina's work] — Vol 2. Ministerstvo finansov I. A. Vishnegradskogo, 1887-1892, predstavlennoe v yuridicheskij fakultet dlya polucheniya stepeni doktora finansovogo prava. — k., 1902. [in Russian].

P. Mihulin was not only a scholar, but he also tried to embody acquired knowledge into practice. As a member of the «Union of October 17» he was involved into developing of the programs of Agrarian Cadet Party. His report was used as the basis for the program.¹

In 1907 Ukrainian scientist was appointed as a member of the Central land management and agriculture committee. In 1908 he presented his financial plan for Financial Commission of the III State Duma, in which he proposed measures of eliminating the state budget deficit, the rejection of double taxation, attracting of foreign capital, and the idea of reform of the State Bank. For the latter, the scientist proposed to create autonomous Russian central issuing bank that would not depend on the Ministry of Finance. Since 1910 Mr. Mihulin has been participating in the Special Commission for supervising study of the railways state in Russia.²

It is possible to agree with an estimation given to the scientist by a modern researcher A. Bukovetskyi (1881–1972) : P. Mihulin is not a man of wide European culture, but he studied Tsarist bureaucracy better than others.³

However, hardly anyone would deny the great educational work of P. Mihulin as a promoter of financial science. Under his direct participation the journal «Economist of Russia» (1909–1912) was published, where almost all prominent Ukrainian scientists — financiers were involved in the discussion: M. Aleksyeyenko, N. Sobolev, I. Yanzhul, M. Yasnopolskyi etc. In 1913, instead of «Economist of Russia» «New Economist» came, whose editor-publisher was again P. Mihulin. P. Genezel, J. Kulisher, L. Hodskyy, V. Tverdokhlebov and others collaborated actively with magazine.

Some problems in the theory of financial science P. Mihulin highlighted in his work «Present and future of Russian Finance» (1907). There he describes the principles of liberalism, emphasizes the important role of the state in protecting the poor population. The state is the supreme social organization, «it was awarded a sovereignty, thanks to which even by force it can perform all the tasks deemed necessary in the general interest.»⁴

Unlike the private sector, which is based on the principle of free competition, the state economy is based, according to the P. Mihul, on the

¹ Migulin P. P. K voprosu o zemelnom ustrojstve krestyan [On problem of territorial arrangement of peasants] / Migulin P. P. // Agrarnsh vopros. x., 1906. s. — M., 1906. [in Russian].

² Migulin P. P. K voprosu o chastnom zheleznodorozhnom stroitelstve [On problem of private railway building] / Migulin P. P. — SpB., 1910. [in Russian].

³ See: Bukoveckij A. I. Kratkij obzor prepodavaniya finansovoj nauki v peterburgskom (petrogradskom) universitete v XIX — pervoj chetverti XX veka [A brief review of teaching financial science in Petersburg University in XIX-XX centuries] / Bukoveckij A. I. // Istoriya Izucheniya obshhestvennix finansov v sankt-peterburge: sb. statej — spb., 1997. — s. 27. [in Russian].

⁴ P. Mihulin. The present and the future of Russian finance. / Mihulin P. P. — Kh.—1907.—P. 3.

forced removal of a part of property or income of the individuals. The state should intervene in private economic relations and regulate the structure of social life. The scientist criticizes financial science for its recommendations of completely withdraw from any interference in an economy activity, according to him it will boost the number of big monopolies and the complete subordination of the weaker to stronger ones. As a consequence of this is «physical exhaustion of the masses.»¹ In this situation, he proposes state «to take in hand regulation between labor and capital.»² In such a way, he demonstrated its commitment to the ideas of state socialism. According to P. Mihulin, financial science from a narrowly technical science that studies special issues of the best ways of getting money by a state, that are necessary to meet its needs, should gradually turn into one that will study the needs of the population, cultural tasks of the state and the ways of the practical fulfilling of these tasks.

P. Mihulin considers that state, using tax levy, directs public life, encourages some kinds of production, normalizes other ones, oppresses the third ones, diverts capital from the most profitable productions, speculations and involves it in those ones considered to be useful (public orderings), and assumes the monopolized production (post, telegraph, railway).

In the early twentieth century Vladimir Tverdokhlebov continues to develop problems of public credit and taxation within Ukrainian financial study. With the European level of education and fluent command of some languages, he has enriched the domestic financial study by research of world economy finances and he is the founder of the science of local finances in Russia and Ukraine. In his «Financial Essays» (1916), the scientist raises the question of establishing a clear boundary between science and politics from the first pages, and of the necessity of finding out what a science can give for practical life. «Financial science — said Tverdokhlebov — uses one privilege: it attracts public attention mainly in trial moments during the war or immediately after it. When military barrage swoops, the financial balance is destroyed and budget is disbalanced — society requires scientific advice and treatment of disease.»³

Since the times of K. Rau social and political trend dominated within financial science according to which its objective was the reflecting of the financial economy of different states in historical development. In the 70th years of the nineteenth century with the raising of the state's role in social life and development of kateder Socialism (public and Christian socialism)

¹ P. Mihulin. The present and the future of Russian finance.—P. 3.

² Ibidem.—P.4.

³ Tverdohlebov V. N. Finansovyie Oчерki / [Financial revue] Tverdohlebov V. N. — Pg., 1916. — Vt 1 P. 1. [in Russian]

there increases the political aspect in financial science. «The German financiers — V. Tverdokhlebov writes — tried to replace the» slight assessment» of «inmate» by «rational» financial system that is based on a serious study of real economic relations and general social and ethical references.»¹

The famous German scientist-financier Wagner, who represented one of the areas of kateder Socialism, differentiated between theoretical task of science, which was a historical and comparative statistical study of financial events in their causal connection with the economic, social and political factors of social life, and practical task — scientific expanding of practical financial issues. Often within courses that are taught in Ukrainian universities, financial policy was not separated from financial theory. As noted by W. Tverdokhlebov, in Russia (Ukraine) I. Yanzhul identified financial science as the science of how the best to meet the public needs.²

Scientist himself became a supporter of popular in the early twentieth century social direction in financial science, in which the priorities were social methods of financial phenomena research. In Russia this direction was supported by P. Henzel, student I. Yanzhul, and Russian financier I. Ozerov. His commitment to this trend the last scientist clearly stated in the book «Fundamentals of financial science.» «Science of finances — I. Ozerov wrote — studies financial economy, i.e. the set of relations that arise from mining by communities of public nature of material resources: it examines the ways in which these associations extract money itself, and the way in which these methods are reflected in other aspects of life, and why within one era some ways dominated, and in another era — the other ones. Financial science is the science of bread of reality, of why people are fed up or hungry, why they have bread or not».³

These reflections on interdependence of financial effects with political phenomena encouraged to express original thought in Ukrainian and world financial literature about the feasibility of the people of science to be involved in politics. B. Tverdokhlebov is convinced that the failure of scientists to participate in political activities «would be, of course, the loss for the country, and in political struggles there are essential clear formulation of slogans and scientific predictions that save from vain efforts on

¹ Tverdohlebov V. N. *Finansovyye Ocherki.* — P. 2.

² Yanzhul I. I. *Osnovnyye nachala finansovoy nauki.* [The main sources of the financial science] — P. 46. [in Russian].

³ Ozerov I. H. *Osnovy finansovoy nauki.* [The fundamentals of financial science] — Riga, 1923. — S. 16; Ozerov I. H. *O nalogah i nalogooblozhenii* / I. H. Ozerov // *Finansyi.* — 2009. — # 4. — S. 66. [in Russian]

unrealizable projects»¹. Thought of almost a hundred years ago is particularly clearly confirmed by this day situation in Ukraine: progress in reforming of the old system, establishing of genuine democracy are largely dependent on science that belongs to parties fighting for the withdrawal of Ukraine to the European high level countries of the modern world.

In the Ukrainian and Russian pre-revolutional financial literature V. Tverdohlyeov was one of the first who analyzed in detail the problem of tax shifting. His research was based on the works of M. Pantaleoni, L. Stein, K. Wicksell, E. Selihmena.

The problem of tax shifting was put by life itself because of conducting of direct taxes reform in Russia. For industrialized Ukraine it was a matter of principle. Industrial tax paid by enterprises before the First World War, was saving one, it was encouraging the economic growth.

However, the shortfall in budget revenue through direct taxes resulted in a high proportion of indirect taxes, which greatly limited the capacity of the domestic market. According to Ukrainian scientist, the introduction of income tax is the first step in conducting a broad financial reform and its necessary condition.

V. Tverdokhlebov clearly defined the essence of the term «shifting», which he understood as only price changes: «(1) which are caused only by this tax, 2) that occur in the direct exchange between the payer and the final taxpayer.»² Therefore, scientist defines shifting as privately economic process in which the paid tax is compensated to payer by changing of its economic relations with other subjects of economy through tax and thanks to it.³

The Ukrainian scientist's conclusions made by him on the basis of theoretical reflections, finding out the conditions of the tax burden shifting have not lost their urgency today. These are the following:

- 1) any general tax is shifted harder than special one;
- 2) shifting is more difficult in the case of a flexible (elastic) demand for a product that is taxed, than in a stable (inelastic) demand when a buyer is unwilling or cannot reduce consumption in the result of raising of prices (such as salt, for example);
- 3) if the tax is small, it cannot violate established exchange relations and it remains on direct payer;
- 4) shifting from producer to consumer is easier than from consumer to producer;

¹ Tverdohlyeov V. N. *Finansovyie ocherki*. [Financial revue] — S. 17. [in Russian].

² *Ibidem*.

³ *Ibidem*. — P. 65

5) tax is shifted the easier the closer is the time of its charging until the sale of goods.¹

These conclusions confirm that the tax on personal income is exposed to shifting with less extent than a tax on enterprise, that progressive income tax is shifted harder than the proportional one, and that the tax on non-recurrent revenues is harder to shift than to impose periodic income.

V. Tverdokhlebov makes detailed analysis in the spirit of K. Wicksell of the taxation situation of monopolistic enterprises and companies, which is in a perfect competition. For this he uses graphical methods of micro-economical analysis, which nowadays are already paradigmatic ones, notion of consumer surplus («rent of consumer») defined by J. Dyupoyi (1804–1866) — the author of several works on the socio-economic efficiency of technical projects and one of the precursors of marginalism and by A. Marshall — the leader of «Cambridge School» of marginalism, who offered a new teaching of political economy called «Economics» [his main work is «Principles of Economics» (1890)]².

For Ukrainian scientist's works the polemical nature of the most pressing issues of his time was characteristic. He joined the discussion in the financial literature concerning taxation values. According to V. Tverdokhlebov in problem of comparative advantage of taxation at market (selling) value and profitability of the property — the preference should be given to taxation at market value, although in this case the tax burden falls more than in case of capitalized income. Scientific highlights the expediency of the last issue: the difference is partly a mean of charging a stronger element in rental income from the property.

In the early twentieth century the Faculty of social sciences were introduced in a university education instead of created in 1919 the law ones, which consisted of two departments — economic, political and legal ones. As a compulsory subject there was introduced the course «Local Finance». Back in 1912 V. Tverdokhlebov published his first course of lectures «Local Finance». In a slightly amended form, this course in 1919 was reissued in Odessa, and in 1927 and 1928 significantly redesigned and reduced copy was published in Moscow.

Already in the preface to his course the Ukrainian scientist said: «One of the most characteristic features of modern history is the growth of public economy: the state and other public-law unions are gradually taking over

¹ Tverdokhlebov V. N. Finansovyic ocherki. [Financial revue]. — P. 67.

² See: Dyupoyi Zh. O mere poleznosti grazhdanskih sooruzheniy // [On problem of usefulness of the civil buildings] / Dyupoyi Zh. // Teoriya potrebitel- skogo povedeniya i sprosa. — SPb., 1993. — S. 28-66, Marshall A. Printsipy ekonomicheskoy nauki : v 3 t. — M., 1993. — T. 2. — S. 159-174. [in Russian].

more and more spheres of national life and national economy.»¹ It was a general global trend of the late XIX — early XX century, when all states gradually began to transmit the part of functions related to public education, medicine, beautification of cities to local unions. In Western Europe and in the United States, in Russia and Ukraine a wide-ranging process of municipalization was held, as well as the rapid growth of local government.

Ukrainian scientist, unlike his predecessors, who were widely describing international experience, is highlighting in details the management of pre-revolutionary Russia and Ukraine; local self-government councils and city councils, county authorities of class and rural management. In focus there are local tax system and control over them, a large set of questions is given to the organization of public banks, municipal credit — shares and loans, private-equity loan, appointment and activities of urban and rural credit banks. Some sections of the book contains an overview of financing municipal utilities — water utilities, power station, pools etc. The Ukrainian scientist didn't miss an analysis of the size of set tariffs and payments, sources and the profits they receive. Originality of this work is in the fact that everything is presented in relation to the organization of local government and local finance system in Western countries — Britain, France and Germany.

Scientific generalization of financial problems of war by V. Tverdokhlebov is pioneer within the financial world and domestic thought. Realized right away in the wake of war and the first post-war years in his work «The latest financial problems (1914–1923)» (1923) this generalization is based on a huge databank of western military and financial statistics, it contains essays on the financial situation of the warring states, primarily the relation of expenses and profitable part of their national budgets, it reflects the direct links between finance of the war years and their pre-war structures. On this basis, V. Tverdokhlebov succeeded to disclose widely the major financial problems of the 20th century. The following problem was also investigated by Bogolepov M., J. Kulisher, V. Lyubimov, but as to the scale of research, of course, the right of championship belongs to V. Tverdokhlebov.

Based on the extensive statistical data and scientific analysis of the size of military expenditures V. Tverdokhlebov comes to an important financial science conclusion about the absolute superiority of direct taxes, not loans. As the example was England, where consistently high share of direct taxes in the income part of budget (profit tax, income tax, tax on heritage with the transition of ownership, etc.) virtually warned the country's wave of inflation

¹ Tverdohlebov V. N. *Mestnyie finansyi* / [Local finances]/Tverdohlebov V. N. — Odessa : Knigoizdatelstvo A. A. Ivasenko, 1919. — S. 1. [in Russian].

and provided an opportunity to next post-war years to pay state debt servicing. «Finance — scientist says — is not magic, and the easier and more «transparent» methods of financing the war are, the healthier and more successful is financial system and its results.»¹

It would seem that based on the analysis of the dynamics of public credit in the World War I V. Tverdokhlebov does trivial, but in scientific literature firstly expressed conclusion: the richer the country is, the less relation of debt to its wealth is and the lower value is accounted per capita. However, other scientist's prediction our country cannot avoid — inadmissibility of forced loans, because they almost convert the system of public credit in the tax system. This conclusion is made from practice of Germany of that time. After more than two decades during the Stalinist regime the totalitarian financial system was established in Ukraine too, during which subscription for loans was made by state coercion, while standard of living in the Soviet Ukraine was reducing systematically for many years.

The opinions of V. Tverdokhlebov expressed in unison with J. Keynes's attitude that the free market sales of goods will rather faster serve to economic recovery of Europe than required supplies and forced cash payments (reparations) that rush Germany. Market economy is a crucial feature of modern civilization, it is defended and supported by Ukrainian scientists since the middle of the nineteenth century.²

V. Tverdokhlebov's conclusions concerning the strengthening of tax levy for achieving fiscal balance remain instructive. «Generally we need to come to terms with the idea that no taxes restore fiscal balance and increasing of tax revenues is not possible without previous rebuilding of industry, commerce and agriculture.»³ Thus, the policy should be conducted in two ways: to reduce spending and to attract foreign loan.

V. Tverdokhlebov's works are not only of a broad methodological sound, but they are the reflection of hereditary of progressive views that with objectively inevitability is evident regardless of the fact that the creators of these ideas sometimes are divided by the whole epoch. The financial opinion of Ukraine has a special style when scientist says both about the present and future finances. An example of this is article by V. Tverdokhlebov

¹ Tverdohlebov V. N. Noveyshie finansovyye problemy (1914-1923). [The newest financial problems] — Pg., 1923. — S. 72. [in Russian].

² Feschenko V. M. Doslidzhennya problem stanovlennya ta rozvitku rinkovogo gospodarstva v pratsyah ekonomistiv Ukrainy drugoyi polovini XIX — pochatku XX st.: [monografiya] [The investigation of the establishment and development problem of market economy in the works of economists of Ukraine in the second half of the XIX century-XX] / Feschenko V. M. — K. : KNEU, 2003. — 187 s. [in Ukrainian].

³ Tverdohlebov V. N. Ekonomicheskii predel fiskalizma [Economical limit of fiskalizm] / V. N. Tverdohlebov // Ekonomicheskoe vozrazhdenie. — 1922. — #2. — S. 52. [in Russian].

«Speranskyi and his activities in the field of monetary and financial circulation» (1945), where he analyzes the views of Speranskyi, on whose initiative the State Council as «the highest legislative establishment of Russian Empire» was established on the sources of military income in the early nineteenth century.

V. Tverdokhlebov underlines that his idea of the ripening of necessity to change such archaic tax as the poll-tax by a fundamentally new land tax, corresponds to coming capitalist epoch. Speranskyi's ideas passed ahead time, they were realized by such front-rank figures as Bunge M. and C. Witte, and his thoughts received their practical implementation.

However, Speranskyi himself understood that one of the reasons of rejection of his ideas is the lack of education of managers of public finances. That's why of his initiative in 1809 the order calling on officials of a certain level of education was issued.

By his historiographical researches of financial thought of 18–19 century which V. Tverdokhlebov reported to his pupils, he tried to fill gaps in the science of finance — or omissions of the facts, sometimes insufficient attention to the participation of certain public figures in the financial politics of the country. Their views, positions as government officials, sometimes were ahead of time and were unrecognized. Only great erudition of scientist, their scientific intuition made it possible to reproduce them for future generations. In this regard, let us consider (in the mentioned above article) Speranskyi's opinion concerning the building of the state budget: «No expenditures can be appointed before found income will be equal to them, as any expenses not covered by reduction of other expenses or by increasing of productivity and profitability of commercial sources... is a tax, obvious or hidden.»¹ The importance of this finding is not lost even now and this is further proof of the relevance of the appeal by V. Tverdokhlebov to fundamental study of financial thought.

A contribution of Ukrainian financial thought in the general theory of taxes has a great significance. It should be pointed on the works of renowned professor of Kharkov University M. Aleksyeyenko. In particular, they are «View at the development of the doctrine of tax by economists Adam Smith, J-B Say, Ricardo, Sismondi and John. St. Mil la» (1870); «Financial Law» (1894); «Income Tax and conditions of its shifting» (1885) and others. In the 20 years of the twentieth century his ideas will become the central ones in

¹ Tverdohlebov V. N. Speranskiy i ego deyatelnost v oblasti finansov i denezhnogo obrascheniya [Speranskiy and his activity in the sphere of finance and monetary circulation] / V. N. Tverdohlebov // Sovetskie finansy. — 1945. — # 12. — S. 23. [in Russian].

the joint work of Ukrainian and Russian financiers A. Bukovetskyi, P. Henzel, J. Kulisher, V. Tverdokhlebov «Taxes in foreign countries» (1926).

Let us note that financial science for a long time, including the early twentieth century, studied primarily one of the key elements of the state economy — taxes, reflected in the structure of educational manuals at that period. One of the first scientists who studied the theoretical understanding of the nature of taxes in domestic and Russian financial literature was M. Aleksyeyenko. He was the first who paid attention to tax at the same time as economic, commercial, political and legal phenomenon of real life. «On the one hand, tax is one of the elements of distribution, one of the price components, from the analysis of which (i.e. prices) in fact, economics began. On the other hand installation, distribution, withdrawal and consumption of taxes is one of the main functions of the Government»¹.

Ukrainian scientist considers taxation in close connection with the activities of the state — the doctrine of state. In support of his approach, he cites the famous words of M. Proudhon that, «in essence, the question of taxes is a matter of state.»² That's why for a long period two sciences studied taxes: economics and political science. Allocation of financial science as an independent one make it possible in the last quarter of the nineteenth — early twentieth century, using the ideas of classical and neoclassical schools and the doctrine of the law state, to justify the necessity of tax collection, to formulate a definition of a tax, to find out its nature, which conceptually is not questioned even at early twenty-first century.

M. Aleksyeyenko in his works tried to overcome taxes atomic theory, which emerged during the Enlightenment in XVII–XVIII centuries in France. Its founders were Marshal Sebastien Vauban (1633–1707) and philosopher Charles Montesquieu (1689–1755). The basis of this theory was the notion that all subjects are in need of state protection.

One of the supporters of this idea in Ukrainian financial science was J. Kulisher. He expanded the problem of external security of citizens by problem of supporting of internal order and internal peace in the country. In such way, Ukrainian scientist substantiated the necessity of court, police and other state authorities. For their maintaining, we need to pay taxes. In economic terms, to his mind, it is the exchange of one value by the other: «Just as we pay the merchant for goods bought from him, to lawyer we pay for advice received, in such a way we pay the government for its services.»³

¹ Alekseenko M. M. Vzgl'yad na razvitie ucheniya o naloge // [A view on the development of teaching of tax]/ Alekseenko M. M. — H., 1870. — S. 25. [in Russian].

² Ibidem. — P. 34.

³ Kulisher I. M. Ocherki finansovoy nauki. [The revue of financial science]/ Vol. 1. — S. 76. [in Russian].

This exchange of some value by other, «services provided to individuals of society,» for the benefits that he has on the social order, is made, however, «based on specific bases, because no one can give up his participation in payments as he cannot abandon the using of universal protection ...

Although this deal is not always voluntary and more rarely it is fair, but it is still exchange, and ultimately profitable exchange, because the most unable-bodied government protects citizens cheaper and better than if each of them defended themselves independently.»¹

Similar theories of «fiscal deal», «insurance bonus» and others were criticized in the Ukrainian financial literature. Ukrainian scientist-economist and financier M. Sobolev criticizes in particular the theory of insurance (tax as expense for the amount of property protected) in different versions. According to his opinion, «insurance theory that tried to equate tax to payment of insurance premiums is «even less successful. According to this theory, the taxpayer pays tax as a premium for the insurance by the state from attacks on his person and property. There is no similarity between the taxes and insurance. If the taxpayer actually insured himself against attacks, he would receive compensation in the event of theft, robbery or body injury. So, the case is put in insurance against theft burglary where insurer pays for receiving insurance compensation if being affected by burglary. State organizing the protection of citizens from criminal elements does not assume any commitments of actually protection of each citizen from robbery or murder, or financially compensate those ones affected.»²

These theories were based on a false idea of the contract origin of the state. In real relationship, there is no link between the payment of taxes and profits received from the state by subject. At first, there is absolutely no voluntary and free agreement, which takes place in any contract, for example buying-sale. Buying a product on the market (voluntary act) and paying taxes (coercive) are completely opposite actions. At second, you cannot set any equality between the amount of tax paid by the entity and the one utility he gets from the state. For each person this utility is so different that there is no way to obtain an expression of exchange value. Therefore, for science to determine the benefits, to evaluate the services provided by the state to entity (individual) is very difficult. Even if we assume that there is a collective exchange — the total amount of services of the state to the citizens is the sum of their contributions, so in this case it is necessary to recognize that the state forgot to take a lot and to give a little.

¹ Kulisher I. M. Ocherki finansovoy nauki. [The revue of financial science]/ Vol. 1. — S. 76.[in Russian].

² Sobolev M. N. Ocherki finansovoy nauki (obschedostupnyic besedy). [The revue of financial science (common conversation) — S. 61.[in Russian].

M. Aleksyeyenko was one of the first in the Ukrainian and Russian literature who paid attention to the problem of economic nature of the tax, bases of which in its individualistic theory were laid by the representatives of the classical school (Adam Smith, David Ricardo and their followers). Adam Smith has no systemic views yet at tax, he even does not make its determination, but for the first time in his works there is raised the question of economic nature of tax. The views expressed in inconsistent form of the thesis that, in fact, was characteristic feature of the works of Smith's «The Wealth of Nations» (1776), they are, according to M. Aleksyeyenko's opinion occurred brilliant. «Material, substantial view at economy, which considers a productive labor only such kind of labour, — says scientist — that is materialized in objects that have the ability to exchange, such opinion would be hostile to the tax that pays for services of the state, seeing in it the rejection of People Resources from contents of productivity, and this view has as his father Adam Smith.

«However, this view of productive work did not stop A. Smith to recognize tax as fair price for the services of the state. «Government spending — M. Aleksyeyenko said — concerning citizens are the same as the cost of management regarding the owners of large possessions that have commitments to participate in these costs in the amount of income received by each of this possessions.»¹ The theory of productive work of Adam Smith limits the scope of the tax. Only the expenses on public defence and support of the dignity of the supreme power should be covered by the general collection from the whole society, ie by taxes. The remaining costs associated with the maintenance of public facilities and activities, institutions of public education and religious education should be paid by social duties. Although here Adam Smith observes that the fee should be set by collection of the whole society and taxes.

M. Aleksyeyenko in his study came to the conclusion that Adam Smith, researching the issue of taxation is «a supporter of the principle that in modern literature is called the principle of equivalence, or pleasure principle, indicating its similarity with T.Hobbes»². Thus, concerning the tax treatment Adam Smith stood on the positions of the theory of exchange, equivalent.

D. Ricardo proves M lekyeyenko as Adam Smith, followed the materialized, the material point of view on the economy, excluding therefore public services from the kind of productive expenditures.

¹ Alekseenko M. M. Vzgl'yad na razvitie ucheniya o naloge. [A view on the development of teaching of tax]/ — S. 1. [in Russian].

² Ibidem. — P. 8-9.

He realizes tax as unproductive removal of part from the production. «There are no taxes that would not stop accumulation, since there is no tax that would not interfere with production. Taxes have the same effect as the barren soil, bad climate, lack of agility or activity, poor distribution of work seats, loss of machines»¹.

Having analyzed scattered in the «Political Economy and Taxation» (1817) Ricardo's thoughts about the nature of taxes Ukrainian scientist maintains his commitment to the theory of exchange. Actually, Aleksyenko himself was in this position, supporting the understanding of Ricardo the essence of tax: «Ruling classes keep economy — Ricardo said — they use for this different forces, paid and unpaid, meet their diverse needs and keep by their own means the state fulfilling their desires.»²

The Ukrainian scientist didn't miss the critical analysis of the theory of pleasure of Swiss economist Sismond Jean de Sismondi (1773–1842) described in his main work «New Principles of Political Economy» (1819) (Russian translation of 1897). Sismondi noted that «earnings are distributed among all classes of the nation, none of the types of incomes should escape from taxation. Citizens have to look at the tax as a reward for granted by the government protection of their person and property. Taxes paid by citizens have to relate fairly the benefits that society gives them, and the charges it does for them. The annual costs of the state are covered with taxes, and every taxpayer thus takes part in total payments made for his countrymen. The purpose of wealth is always a pleasure. With every tax payer buys nothing but pleasure. He receives pleasure from state order, justice, secure of personality and ownership. Public works give pleasure of enjoying by good roads, wide boulevards, healthy water. Public education, through which children receive upbringing, and some of them develop religious feelings, again give pleasure. In addition to all the others, national defence is a pleasure, ensuring each citizen part of the benefits given by public order.

So, the money paid in taxes, is used profitably on the one hand, if all taken for public enjoyment, really is used to enjoy this, and not for pleasure or vanity passions of the rulers.

Tax is the price paid by the citizens for received pleasure»³. Analyzing these spatial thinking, M. Aleksyeyenko agrees that under certain circumstances a tax is a payment for pleasure. Scientist notes that tax of Sismondi is a sacrifice. Everything depends on the ratio between the price of

¹ Alekscenko M. M. Vzgljad na razvitie ucheniya o naloge. [A view on the development of teaching of tax]. — S. 74. [in Russian].

² Ibidem. P. 96.

³ Sismond de Sismondi Zh. Novyye nachala politekonomii [The new beginnings of political economy] / Sismond Zh. de Sismondi. — M., 1897. — S. 149. [in Russian].

the good of the state and the victim, brought by tax. «Tax is a victim but at the same time it is a good — M. Aleksyeyenko writes — if state services bring us more pleasure than sacrifice subtracts from us by price we got. Therefore, we must abandon the pleasure, if it is more expensive and if the buying of it takes necessary things.»¹ Based on this understanding of the tax as victims and enjoying J. Sismondi strongly upholds the principle of gratitude in the relationship between the state and the taxpayer. It substantiated M. Aleksyeyenko to underline that in the justification of tax Sismondi put theory of sharing in its equivalent modern form.

M. Aleksyeyenko analyzes the approach to taxes of other representative of classical school — French economist J.-B Say (1767–1832), which is highlighted in his work «Treatise of political economy, or a simple statement of how the wealth is generated and consumed» (1803). His views on the productive and unproductive labor was to some extent at variance with the idea of «father of economics». Ukrainian scientist literally presents understanding of productive labor by J.-B Say: «The basic concept here is established utility. Production can be determined as follows: it is a human activity aimed at creating of utilities. The utility can be embodied in tangible and intangible forms. Consequently, the services of the state are also a producing of utility. Therefore, all these products and labor used for their creation, must fairly be called productive ones. The state has needs that must be met by certain utilities that are paid by tax.»²

To J.B. Say's mind a tax is a fee for services. According to M. Aleksyeyenko, he was «on the way to correct understanding of the state and its objectives.» Reaching the «correct understanding» of economic substance of taxes was prevented by J.B. Ceiy's commitment to the ideas of Adam Smith on net losses of taxes for society. Therefore, suggested idea of the exchange of services didn't develop and scientist reveals a tax as a loss for the nation to a great extent.

However, it was a step to a substantiation of the theory of services exchange and equivalents. «Everything is a question itself — emphasizes M. Aleksyeyenko — to weigh the needs, separating the real ones from empty, and to deliver products by the cheapest way at a cheap price. Then the tax would be fair compensation for the services. Then the idea of the difficulties will be rejected»³.

The idea that tax is a payment for services has been at the focus of French financial thought in the second half of the nineteenth century. On this

¹ Alekseenko M. M. Vzgl'yad na razvitiye ucheniya o naloge. [A view on the development of teaching of tax] — S. 101. [in Russian].

² Ibidem — P.45

³ Ibidem.

basis, they rejected progressive taxation. With the advent of the legal state doctrine economists' and financial experts' views on the theory of taxation are changing. The idea of coercion tax takes the first place: theory of victim; theory of collective (social) needs and others. The idea of a tax as a necessary part of coating in public expenditure, as a duty, resulting from the idea of the state itself and from collective needs met by the state, is put in the basis of these theories. That process was pushed by the practice, because the meaning and functions of the state went far beyond the «duties of night guard». In the nineteenth century, state became a manufacturer of a great variety of material and nonmaterial wealth.

One of the first scientist in the Ukrainian financial literature, who stood in the way of rethinking of the concept of «services» of the state, was I. Yanzhul. Analyzing the theory of victim, he stresses the idea of coercive tax. For the first time it was expressed by the physiocrats while justifying single land tax. «If the state is obliged to an earth natural forces for all national wealth and all its property, then all the sacrifices which the state may demand from the people, must be obtained from the same source.»¹

Within the Russian financial thought the idea of interdependence of tax occurrence with appearance of state belongs to the founder of Russian financial science as systematic knowledge N.I. Turgenev (1789–1871). His book «The experience of tax theory» (1818) enjoyed great popularity in Russia and Ukraine. We are always looking for not quite true any leakage of impact from foreign sources, but indicated book, which was sold out in a few months and already reissued in 1819, won high praise of contemporaries.

In particular, professor of Imperial Alexander University (Helsingfors, Finland) J. M. Scilla (dead in 1870), believed that of the work of Turgenev's «fairly could be proud in Russian literature; may be proud by everyone else, if it was known in his time to foreigners»².

This assessment could be true to many works of representatives of Ukrainian financial thought. Their meaning is special for our scientists. Because of the emergence of financial science in Ukraine it is formed on the national ground. As it was shown above, any author did not copy blindly foreign experience, he gives it a reasonable estimation. Ukrainian scientists, economists and financiers have critical approach to theoretical achievements of foreign colleagues, building their conclusions and suggestions using practical experience in Russia and Ukraine.

¹ Yanzhul I. I. Osnovnyie nachala finansovoy nauki. [The main beginnings of financial science]—1904.—S. 49.[in Russian]

² Shill I. Sovremennaya teoriya finansov i ee vliyanie na finansovuyu administratsiyu [The modern theory of finance and its influence on financial administration]/ Shill SPb., 1860.—S. 73.[in Russian].

Already in the first chapter of his book «The Origin of Taxes» known Russian financial economist indicates this relationship and consider taxes as necessary condition of the existence of any state. «Demanding of destruction of taxes now would mean the destruction of the society.»¹ M. Turgenev clearly presents the idea of inequality of taxation over certain classes. «Hatred of one nation class to another one is born from the unequal distribution of taxes between citizens, resulting the hatred to the government.»²

Some notes of the scientist about the connectivity between science and practice, are still relevant today. «Theory of finance based on supervision — scientist writes- is done on the experience during a few centuries... theory consists only of these observations reflected between themselves in the causes and actions, and set out in a logical order. From decomposed in such way observations there are derived rules and axioms, which alone can only serve as a correct guide to the conclusions and judgments about things. Not abstract ideas, but experience of centuries created the science of finance.»³

These ideas were expressed in his lectures, presented to Grand Duke Mikhail Alexandrovich in the 1900–1902. S. Witte, where he defined taxes as «compulsory fees (donations) from income and property of citizens, collected as a result of sovereign rights of state for implementation of higher aim of general state life.»⁴ This idea is reflected in the financial Ukrainian science.

In particular, I. Yanzhul wrote that «taxes should be realized as such unilateral economic donations of citizens, which state or other community groups, due to the fact that they are representatives of society, collect legally and lawfully of their private property to meet necessary social needs and expenses caused by them.»⁵

«The idea of state recognition for its economic functions whose implementation demand tax collection has been known from the works of one of the most remarkable German economists of the nineteenth century Lorenz Stein (1815–1890). In his book «Financial science»⁶, he justified the need to replace the name «police science and police law» to «science of

¹ Turgenev N. I. Opyit teorii nalogov / [The theory of taxes experience] / Turgenev N. I. — SPb., 1818. — S. 10. [in Russian].

² Ibidem.

³ Ibidem. — S. 30.

⁴ Vitte S. Yu. Konspekt lektsiy o gosudarstvennom hozyaystve, chitanyih Ego Imperatorskomu Velichestvu Velikomū knyazyu Mihailu Aleksandrovichu v 1900-1902 gg. / Vitte S. Yu. — 3-e izd. — SPb., 1914. — S. 35. [in Russian].

⁵ Yanzhul I. I. Osnovnyie nachala finansovoy nauki. [The main beginnings of financial theory] — M., 1904. — S. 197. [in Russian].

⁶ Shteyn L. Finansovaya nauka. [Financial science] / SPb., 1885. [in Russian].

management or science of administrative law.» Ukrainian and Russian financiers praised greatly this work as «fount» of new ideas. In particular, the Russian financier I. Ozerov wrote that Stein was «not thorough scholar but poet — scientist,» and his textbook on financial science «exudes originality of thought.»¹

M. Aleksyeyenko's views were closer to the idea of recognition of productive nature of public services, he criticizes understanding of a tax as the losses of society. «Specific products and services — the scientist said — given by the state, which meet the specific needs of human life, create something that is uncertainly called public spending, government expenditure... The benefits, delivered by state, cannot be summed up under understanding of change benefits, and therefore cannot be paid by exchange cost if some of them are approaching to exchange benefits and paid back by a price, this price is established at a fixed rate and the same one: I'm talking about customs. But the rest of the benefits provided by the state must be paid, and for this payment another measure of equivalence should be find; this is a tax.»²

The same views of determining of taxes were supported by financial Soviet science in the twentieth of the XXth century. «Taxes are — M. Sobolyev wrote — compulsory charges levied by the state or its authorized public legal bodies as a result of the rule of law, without any equivalent by the state, on the basis of the issued law and which are going to cover national needs»³.

In fact, in all the works of Ukrainian financiers who are considering taxes, the principles of taxation are analysed. One of the first questions was the one about the subject of taxation. It was I. Yanzhul, who expressed in this regard the most clearly.

According to his mind, it is «net income». «This truth — scientist continues — was not realized in the financial practice for a long period of time. State used the rule: never mind what is taken from, the main task is only to take and do not reflect over the question, whether tax is collected from assets or from income.»⁴

The debates in financial science on the matter what to tax and what are the principles of taxation, has just begun. Therefore, the absence of any

¹ Ozerov I. H. *Osnovy finansovoy nauki*. [The fundamentals of financial science]— Riga, 1923. — S. 230. [in Russian].

² Alekseenko M. M. *Vzglyad na razvitie ucheniya o naloge*. [A view on the development of teaching of tax] — S. XIV. [in Russian].

³ Sobolev M. N. *Ocherki finansovoy nauki (obschedostupnyie besedy)*. [The review of financial science (common conversations)]— S. 61. [in Russian].

⁴ Yanzhul I. I. *Osnovnyie nachala finansovoy nauki*. [The main sources of financial science]— S. 207-207. [in Russian].

systematic approach encouraged the state to collect taxes freely, being guided by the needs of the treasury. Transformation of taxes in the main source of government revenue created the opportunity and set a target of exploring of the nature of taxes, including the sources and principles of taxation. Within this view in Ukrainian financial science, the principles of taxation, developed by Adam Smith and A. Wagner appeared in the centre of attention. They were so fundamental that are put in the basis of modern tax system today. As the latter one, for example, the Russian scientist Ivan Ozerov understood «interdependent set of taxes created in the definite state under the influence of all social, political, economic and financial circumstances.»¹ Every country and every era has its own tax system.

In their researches of taxes mentioned above authors attempted to leave them in connection with the laws of the economy established by them. In their maximums (principles) they supported the statement that you have to spare (cherish) national and private sector of economy. For example, according to the teachings of Adam Smith concerning unproductive services, including the services of the state, he sets the tax principles not in accordance with the interests of state, but in accordance with taxpayer, that is why these principles were called “ declarations of taxpayer’s rights” in the economic literature.

Famous Ukrainian economist-financier J. Kulisher wrote about this question, that these four rules that have become an axiom already in the time of Adam Smith were not new. And the Frenchman Mirabeau A. (1761) and German Yusti F. (1766), and Italian Verry P. (1771) demanded equality of taxation, accurate determination of taxes by law, comfortability for payer, possibly lower costs of collection, adding to this, that taxes should not unduly burden the citizens, should not break the growth of population, trade and craft, should not punish for success in the industry.

«The merit of Smith is not a new opening of these principles, but ... bright and precise formulation and justification of them.»²

The views of the capital imposition were various. Most of the Ukrainian and Russian economists and financiers supported the idea of Adam Smith. According to his views on the unproductive nature of government spending it is not possible to involve capital as tax source. Thus, M. Turgenev raised the question of balancing in fiscal interests of the state and ordinary payers.

¹ Ozerov I. H. O nalogah i nalogoblazhenii. [On the problem of taxes and taxation]- S. 67.[in Russian].

² Kulisher I. M. Ocherki finansovoy nauki. [The revue of financial science]/ Vol. 1. — S. 138.[in Russian].

I. Ozerov said, «that to impose capital, means to destroy it — it kills the goose that lays the golden eggs.»¹

Ukrainian financial economist I. Yanzhul sets out the arguments of opponents of the tax levy of capital in expanded forms actually supporting it himself. «The first part of the property (capital) — says scientist — without any doubts requires mercy. Productive activity is impossible without capital: people cannot increase without it the weight of values: capital is as if an advance that is given the manufacturer and as in product is received back and in addition to this with profit. If the state began to draw their taxes on capital, after decreasing of the later a delay would follow in creating of new values and national wealth would progress more slowly depending of the increasing of the pressure of taxation. The following rule concluded: taxes should leave the capital of the country as far as possible being intact (with the exception of extraordinary events, etc.) and fall only on income.»²

Unlike Adam Smith German financial economist A. Wagner supported ideas expressed by J.-B. Say and J. S. Mill, who believed it possible to levy capital, meaning the inheritance tax. According to scientist's opinion, justice regarding sources of tax levying included not only income taxation but also capital one. In the Ukrainian financial science this idea was supported by M. Sobolev. «The assertion of the need to tax capital — says scientist — leading to reducing of production — not so persuasive one. The fact is that a capital is accumulated from the current national income and there is no economic fundamental difference whether tax is taken from revenue or capital that is created as a revenue. The question is in the extent of taxation and the expediency of reaching of taxpayer at the time of disposition of his income or his capital.»³

Practice confirmed the expediency of a uniform distribution of the tax burden. Imposition of capital (property) in the early twentieth century found the leading place in government revenue of developed capitalist countries. In the same period financial science and practice were able to solve the problem of social justice and protection of the interests of capital at the same time, converting individual income tax into the main source of tax assets.

M. Aleksyeyenko entered the historical dispute, which covers nearly two centuries concerning the clarifying of the nature of justice in taxation. Ukrainian scientist wrote, «that justice, like all moral concepts is relative

¹ Ozerov I. H. *Osnovy finansovoy nauki*. [The fundamentals of financial science] — Riga, 1923. — S. 230. [in Russian].

² Yanzhul I. I. *Osnovnye nachala finansovoy nauki*. [The fundamentals of financial science] — S. 207-207. [in Russian].

³ Sobolev M. N. *Ocherki finansovoy nauki (obschedostupnyie besedy)*. [The revue of financial studies (the common conversations)] — S. 66. [in Russian].

one, depending on the place, time and culture of the people.»¹ From this perspective, M. Aleksyeyenko provides a theoretical interpretation of fairness in taxation. «In forming the tax people seek justice, but» human justice «is relative. In a society characterized by division of classes into the privileged and the tax-paying ones, common taxation is offensive to privileged class. In a society in which the fundamental principles of public life such as equality before the law, the court, service and tax are recognized, the common taxation to that extent is usual thing, which is strange to say, as a question.»²

An important topic of discussion in the financial literature has been the question of the role of income tax in the financial system of the state. Let us recall that the income tax is called a tax that is levied on net income of the payer. There are two types of them: 1) total income when it is calculated in the same amount all kinds of income of taxpayer and when the tax is taken from this total sum; 2) income parcel tax when each type of income is separately calculated and taxed separately. More ideal is total income tax, because only it can reflect a subsistence level of existence, marital status of payer etc. In the last century 20-ss the first type of tax was used in Germany, USA, USSR and in the most other states, the second type was used in England, Italy, partly in France.

In the Russian financial science the prominent supporter of the crucial role of income tax was I. Ozerov. In particular, he stressed that «the income tax together with direct and indirect taxes is essential, without it tax system is unable to impose all income derived from a variety of sources.»³

In the Ukrainian financial science the social and political causes of transition to income tax were better formulated by M. Sobolev. «Income tax — scientist stressed — is the most perfect form of taxation in the financial system, as it includes net income of society — the main source from which all taxes are paid. Income tax falls as a main burden on affluent classes who would not take such tax voluntary. There must be circumstances which can overcome their resistance to tax. In the nineteenth century, such a force was the working class that demanded the introduction of a progressive income tax and the abolition of taxes on consumption.

¹ Alekseenko M. M. *Finansovoe pravo* [Financial Law] Alekseenko M. M. — H., 1894. — S. 111. [in Russian].

² Alekseenko M. M. *Podohodnyy nalog i usloviya ego primeneniya* [Income tax and its application] Alekseenko M. M. — H., 1885. — S. 6-7. [in Russian].

³ Ozerov I. H. *Glavneyshee tehnic v razvitiu pryamogo oblozheniya v Germanii* [The main stream in the development of direct taxation in Germany] Ozerov I. H. — SPh., 1899. — S.70. [in Russian].

The second reason for the approval of the bourgeois classes to introduction of income tax — a threat to their existence. These circumstances were associated with wars. In France and Russia, an income tax was introduced as a result of severe financial condition caused by the First World War. These were the social and political conditions of the introduction of income tax.»¹

Collection of income tax is based on the declarations of taxpayers, which have gained general distribution in the 20 years of the twentieth century after introduction of tax reforms in Europe and the US. This form of control exists in Ukraine today. On its functionality N. Sobolev wrote: «Taxpayer receives from tax authorities special leaflet which contains detailed questions asking how much income he received last year from each the sources of income, then he should show all costs associated with keeping of his economy, and at the end he should summarize how much net income he got last year. The completed declaration comes to financial inspector who inspects indicators of payer, of course within a special committee with representatives from the payer. The commission considers the declaration, verifies its data in different ways and either approves or changes the figure of income.»²

In general, considering the problem of taxation, M. Aleksyeyenko concludes that the most difficult issue is the study of the impact of taxes on the economy. This industry is new, poorly understood not only in Ukrainian financial literature, but also in Western Europe. The reason is, a scientist emphasizes, that «even admitting tax as evil economists could not 'find out its impact on the economy, on the relationship between different manufacturers. The reason is the difficulty of economic phenomena, the essence of which is covered by minor facts, preventing the study.»³

The theoretical complexity of the issue caused by the lack of development of the problems of shifting, which in turn was due to the relevant level of economic and financial science. M. Sobolev wrote on this subject «the question of the tax shifting is the most difficult and badly work out part of financial science. Meanwhile, the practical significance of the phenomenon is great, because it can turn all assumptions of state power in its tax policy.»⁴

¹ Sobolev M. N. Ocherki finansovoy nauki (obschedostupnyie besedy)/ [The revue of financial studies (the common conversations)] — S. 106. [in Russian].

² Ibidem.—P.108.

³ Alekseenko M. M. Vzgl'yad na razvitiye ucheniya o naloge.[A view on the development of teaching of tax] — S. XIV [in Russian]

⁴ Sobolev M. N. Ocherki finansovoy nauki (obschedostupnyie besedy)/ [The revue of financial studies (the common conversations)] — S. 77. [in Russian].

To be sure, it is necessary to indicate that from the position of the Malthusian population theory V. Tverdokhlebov developed in detail the issue of taxation principles and developed the theory of shifting taxes.¹ However, this was largely theoretical foundation of tax reform in Russia, which was urged by all Ukrainian and Russian financiers for many years.

The bill on introducing of total income tax in Russia was adopted by the IV State Duma in 1916, but neither by royal nor by temporary Government it has not been carried out. Therefore, the practical part of researching of impact on the economic life of financial science of the late XIX — early the twentieth century was being evaluated in terms of the need to account this effect at the developing of principles of tax policy.

However, the merit of Ukraine financial science of the definite period should be considered the question of adjusting of the role of taxes in the economy, which was implemented at a new level in the 30 years of the twentieth century in Keynesian theory of aggregated demand. As you know, in the practice of post-war economic regulation the taxes were given the role of automatic stabilizers of the economic cycle.

In the 80 years of the twentieth century in the model of neo-conservatives (theory shifting) tax policy has been built into the policy of economic growth that caused the reducing of the taxes stiffness level, but did not change their forced role in modern economic life.

4.5. Little-known achievements

Among the most famous Ukrainian financiers and scientists who had contributed greatly into the foundation of the National Financial School one more representative of the Kyiv School should be mentioned. M. Tsytovych had not been world-wide famous during his lifetime as a scientist but distinguished himself by researching Economics and Finance. His first work *Entrepreneurial Profit Studies Overview* (1889) which was translated into European languages couldn't have made him world-wide famous. Nowadays it has become the most cited and is being studied by modern economists and scientists. Highly estimating his work, the Ukrainian scientist V. Feshchenko said in his monograph: «in solving the problem of entrepreneurial income the scientist (M. Tsytovych) was close to its neoclassical interpretation particularly in the works of Marshall»²

¹ Tverdokhlebov V. N. *Finansovyye ocherki* [Financial revues] — Pg., 1916. — Vol. 1. — S. 53 [in Russian].

² Feshchenko V. M. *Studies of the issue of formation and development of market economy in the works of Ukrainian economists of the late 19th — early 20th centuries.* — P 138.

His ideas were pioneering in this field. M. Tsytyovych could develop the World Economic Thought but his contemporaries couldn't appreciate them. He is also little-known by modern researchers of the financial and economic thought evolution. The famous researcher of the Ukrainian economists' scientific heritage P. Leonenko said: «the work of Tsytyovych appeared before J. A. Schumpeter's *Theory of Economic Development (Entrepreneurial Profit, Credit, Interest on Capital and Business Cycle)*, 1911. The work of Schumpeter is considered to be a pioneer in this field by Western historians of Economic Thought, while the work of Tsytyovych is not mentioned at all by them»¹

However, we must admit that some of the issues raised by the Ukrainian scientist have been already discussed in economic literature. The other representative of the Kyiv School, D. I. Pikhno had examined thoroughly the nature, functions and other issues of entrepreneurial profit in his works before the appearance of Tsytyovych's work. M. Tsytyovych, himself, also said: «entrepreneurial profit studies appeared and developed almost on German basis and this phenomenon can be explained if we take into account the tendency of German scientists to detailed and sequential solving of the theoretical problems». However, the work of Tsytyovych is distinguished by its consistency and profound analysis. This makes it distinctive in the range of the world and Ukrainian economic literature of the late 19th century. M. Tsytyovych has made important scientific generalization which is still vital today on the basis of a critical synthesis of global economic thought of entrepreneurial profit. The scientist developed his theory of entrepreneurial profit taking into account the views of those economists who had pointed to the income specific nature. In this connection he emphasized that «only from this point of view entrepreneurial profit studies as the studies of independent profit can be developed»².

M. Tsytyovych applied analysis based on reality in his work. The scientist analyzed thoroughly the ways of making profits and sources of their origin, he emphasized on their connection with the entrepreneurial profit. However, he admitted that «entrepreneurial profit studies as the studies of independent income are aimed at defining entrepreneur's profits referred to his particular position in the economy, but not at making special profits which differ from rent, labor income or capital income».³

¹ Leonenko P. M. Methodological issues of the History of Ukrainian economic thought (19th — 20th century). — P. 352.

² Tsytyovych N. Entrepreneurial Profit Studies Overview / Tsytyovych N. — K. :Publishing house of Imperatorskoho University of St Vladimir. — 1889. — P. 247.

³ Ibid

According to his point of view, entrepreneurial profit is partially based on the entrepreneur special productive services. Unlike the rest of social classes an entrepreneur receives an indeterminate and unspecified income. Income indetermination is one of the entrepreneur's features.¹

A difference between the entrepreneur's position and the enterprise worker's position is in the fact that an entrepreneur invests capital in his enterprise and makes profits there. An entrepreneur or some entrepreneurs invest their own capital or real productive means and on this basis they use the results of the enterprise economic activity. So, an enterprise is a beneficial article and a means of making profits by the entrepreneur as an economic agent. Thereby, M. Tsytovykh said, that «an entrepreneur is a person who at his expenses and due to his will directs an amount of productive means for production and gets in his favor the economic results of production»².

His gross income consists of direct products cost and net income is determined by the difference between the manufactured products cost, services and the cost of expenditures unlike the specified income of a worker or a capitalist.

The work of Tsytovykh was written in the late 19th century at the time when the Ukrainian and Russian economists had just only begun to understand such phenomenon of capitalist society as business development. But even at this initial stage of the development of the Ukrainian Economic Thought, the scientist clearly defined various and partially implemented by the entrepreneurs' donations peculiarities of the entrepreneurial income. Entrepreneur's risk is one of his donations. «A person who spends his productive forces at enterprise generally is more at risk than in case of making specified profit from productive forces»³. These theoretical substantiations of M. Tsytovykh appeared ten years earlier before the appearance of the work of A. Schumpeter.

M. Tsytovykh was the first who developed the meaning of such term as entrepreneur risks in the scientific economic literature. He said that an entrepreneur couldn't be sure while making expenses of the sufficient value of manufactured goods which had to compensate these expenses. The scientist defined clearly the reasons of such uncertainty: 1) technical production results uncertainty; 2) incomplete confidence in abilities, skills and conscientiousness of the people whose services the entrepreneur uses; 3) conjuncture market economic risks.

¹ Tsytovykh N. Entrepreneurial Profit Studies Overview. — P. 249.

² Ibid P 261.

³ Ibid

«Market situation can bring profit regardless of any expenses and entrepreneur activities as well as it can lead to undeserved loss or bankruptcy»¹. These reasons of entrepreneur's risks can also show the meaning of this phenomenon nowadays.

In the process of doing business any enterprise is exposed to some risk. But the entrepreneur's attempt to enter into a new field or to start production of other goods is connected with higher risks than in case of cooperation with «the old enterprises». Not only technical conditions but also a lack of market conditions knowledge can be the reasons to entrepreneur's risk exposure. Larger enterprises are less at risk than smaller ones in the same field. This can be explained by the fact that «larger enterprises are able to run with a lack of sale, can withstand technical failures and other unfavorable conditions longer than smaller ones»².

M. Tsytovych pointed at the level of personal efforts and entrepreneur's skills as risk conditions³. His opinion about subjective attitude to risk was original and interesting. This attitude depends greatly on national character, economy development (rich countries spend much more money on risky enterprises), previous experience (crisis fear is stronger after the crisis has already happened) etc.⁴.

M. Tsytovych said that the value of income was connected with the increasing of risk. «The average income of similar enterprises provides a surplus proportional to the degree of these enterprises risks»⁵.

So, not any of the entrepreneur's income surplus which is independent of entrepreneur's activities and costs can be referred to the entrepreneurial income. Only surplus which can not be received as specified income can be referred to the entrepreneurial income i.e. unstable income or income which can not be assigned to a particular enterprise. M. Tsytovych said that «only such income surplus can be a prize for the entrepreneur's risk»⁶.

The scientist also carried out a thorough analysis of other possibilities of entrepreneur's surplus income. The other condition of getting surplus income is entrepreneur's labour productivity features. This entrepreneur's incentive is stronger than workers' incentive. That's why the entrepreneur is making profits and is responsible for enterprise's losses. A possibility of bankruptcy activates him. «Any labour activity and quality improvement is aimed at

¹ Tsytovych N. *Entrepreneurial Profit Studies Overview*. — P 262.

² *Ibid* P. 266

³ *Ibid* P. 267

⁴ *Ibid* P. 269.

⁵ *Ibid*/

⁶ *Ibid* P. 271.

greater profits but carelessness will result in loss and bankruptcy»¹. M. Tsytovykh determined the motive of the level of such activity. An entrepreneur is more interested in making profits when he invests his assets into his business and he is less interested in it when he invests only his labour. An entrepreneur interest in making profits depends on the amount of his assets invested into his business².

An individual entrepreneur is more interested in his enterprise success than a member of a partnership is. This can be explained by their different attitude to income. Some issues having been raised by M. Tsytovykh in his book have been ahead of time and beyond the scope of theory of entrepreneur income. Later such issues were raised by other scientists in their works as a theory but again the work of M. Tsytovykh was not mentioned at all.

Having defined the advantages of a large enterprise with a lot of capital M. Tsytovykh was the first who paid attention to an interesting tendency which was later developed by E. Chamberlin in his work *Theory of Monopolistic Competition* (1933). The essence of this tendency is the following: the more capital an entrepreneur has, the wider field is for his monopolistic ambitions. E. Chamberlin only specified this tendency — all of the entrepreneurs are striving for monopoly. M. Tsytovykh said that an entrepreneur could extrude smaller enterprises by the temporarily prices reduction and bought them on favorable terms to their owners to get such reward as monopoly prices in the future³.

The Ukrainian scientist also paid attention to oligopolistic nature of enterprising development long before the appearance of the developed capitalistic relations. He said that one of the important factors of entrepreneur's profit increasing was entrepreneur's market knowledge and entrepreneurs' solidarity in comparison with other social classes that were in the process of exchange with them⁴.

Besides this the entrepreneurs behaved themselves like businessmen while buying and selling if compared with the customers. But these advantages M. Tsytovykh considered as temporary profit because customers could also adapt to market conditions for a certain period and this could influence on entrepreneur's income.

The work of the Ukrainian scientist was written in the late 19th century, but it has no analogues in modern Ukrainian economic literature as for its fundamental nature, profoundness, theoretical generalization and new ideas.

¹ Tsytovykh N. *Entrepreneurial Profit Studies Overview*. — P. 272.

² *Ibid* P. 273.

³ *Ibid* P. 279.

⁴ *Ibid* P. 278.

None of the modern works dedicated to the entrepreneur's profit is written according to such theoretical and methodological level as *Entrepreneurial Profit Studies Overview* of M. Tsytovych. The scientific work of the Ukrainian scientist and economist on the problems of enterprise profit has certain to become the object of future investigation.

Besides the above mentioned contribution into the development of Political Economy, M. Tsytovych also analyzed some financial problems. He was one of the Local Finance Science founders. He revealed his original ideas on the problem of local finance in his work *Local Prussian Expenditures and the Theory of Local Expenditures* (1898)¹

His work is simple in its structure and easy to understand but some of its fundamental bases are still vital today. The work consists of two parts: 1) — local expenditures studies overview; 2) — assessment of Prussian local expenditures system. M. Tsytovych emphasized on a lack of scientific attention to the problem of municipality expenditures and «the general superficial scientific observations»².

We must admit that in Russian literature the beginning of local finance studies is connected with the fundamental and very profound work of V. Lebedev *Local Taxes. Research Experience. Theory and Practice of Local Taxation* (1886). It was one of the best works on local finance problems. Alongside we lay emphasis on the significance of M. Tsytovych's book as far as it was the only work devoted to the problems of local expenditures and their analysis in Ukrainian, Russian and European literature. Having analyzed the previous achievements in this field M. Tsytovych defined three periods in the development of the theory of local expenditures: till 60s of the 19th century, early 60s and the late 60s of the 19th century.

Theory of local expenditures was not developed till 60s of the 19th century in spite of above mentioned statements. Local finance problem was not theoretically generalized at that time. Only some issues had been discussed and conclusions often had been superficial³.

But a single approach to the understanding of the taxation nature was developed and this was positive for that period: «Tax can be justified as the taxpayer reward for benefits from the community activities and while allocating taxes one should take into consideration the amount of these benefits which certain taxpayers can get»⁴.

¹ Tsytovych N. M. *Local Prussian Expenditures and the Theory of Local Expenditures* / N. M. Tsytovych. — K.: Kulzhenko Publisher, 1898. — 735 p.

² *Ibid* P. 262.

³ *Ibid* P. 13

⁴ *Ibid* P. 16.

So, the followers of this approach emphasized on the tax paid conformity to the amount of benefits which had to be received by taxpayers. Unfortunately this statement has lost its original meaning, so an ordinary taxpayer doesn't always see his income taxation commensurate benefit.

The problems of revenue and expenditures interconnection were raised with the expansion of the state budget sources and with the increasing of its role in the economic development of the society. That's why a special attention to the problems of local finance and its development was paid in early 60s according to the trends of Free trade German School. It was exactly the school that substantiated the economical nature of local finance. So, the objective was «to give different economic benefits to local communities members»¹.

With the development of local economy in the late 60s of the 19th century there was a problem of additional sources for its financing. A system of local expenditures which was being developed at that time had been negatively perceived by the public. That's why a whole range of problems referred to the finance development draw attention of a certain number of economists and financiers. *A. Wagner* distinguished local expenditures as following: local officials' expenditures, public education expenditures and religion expenditures. *L. Stain* defined four expenditures categories: 1) public buildings and institutions expenditures; 2) general self-government state functions expenditures; 3) governmental officials reward expenditures; 4) self-government loan expenditures².

These both approaches had been criticized by *M. Tsytovych* as those that led to misunderstanding of government and self-government correlation. Among a number of economists and financiers that investigated local finance problems, *M. Tsytovych* especially emphasized on *A. Wagner's* scientific achievements. Making some critical remarks he admitted that «*A. Wagner* has substantiated this problem more than any of his predecessors»³.

Besides this, *M. Tsytovych* arrived at a conclusion that local finance studies «lack principal basis which can be formed only provided connection with general theory of distribution duties and obligation according to the social needs satisfaction»⁴.

In addition to study of the works of foreign researches, *M. Tsytovych* analyzed Ukrainian and Russian financiers' achievements referred to the local expenditures. Among them there were works of *V. Lebedev*, *I.*

¹ Tsytovych N. M. Local Prussian Expenditures and the Theory of Local Expenditures. — P. 25 — 26.

² Ibid P. 31

³ Ibid P. 44

⁴ Ibid P. 57

Tarasov, S. Ilovaisky. On his opinion, «professor Tarasov lists advantages of local financial economy according to Rau... Professor Ilovaisky shares the opinion of Professor V. Lebedev»¹.

At the same time M. Tsytovych appreciated greatly the works of Russian economist and financier L. V. Khodsky, our countryman professor's I. Kaufmann follower. But he didn't share his opinion that all the state economy fundamental provisions referred to local public economy.

The Ukrainian scientist agreed that basic principles of local and state economy ought to be the same. However, it was necessary to take into account peculiarities of a certain area in case of applying these principles to local economy, said M. Tsytovych². On his opinion General Theory of Local Expenditures could be developed in case of determining the level of state and local communities expenditures which were aimed at satisfaction of public needs³.

Profound critical analysis of foreign and Ukrainian financiers' scientific achievements made by M. Tsytovych, showed that none of the existing taxation theories could solve the problem.

M. Tsytovych started the initial research of local expenditures with the issue of local community solvency that «depends on the population and its average solvency»⁴. However he pointed to the independence of local authorities' expenditures on local authorities' solvency.

The Ukrainian scientist was the first among the financiers who pointed to the important principles of local finance development and taxation. The most important of them was the principle of social taxes fair allocation aiming at «the creation of favorable conditions for every citizen to satisfy social needs»⁵.

On the one hand, people's payments must be commensurate with their funds and on the other — with the level of satisfaction of these needs. According to general rule, members of local communities «shouldn't pay excess costs due to the particular expensiveness of social needs satisfaction in a certain area in comparison with other areas»⁶.

M. Tsytovych said that there had to be an exception of this general rule. This part of social expenses which is caused by conscious or unconscious person's actions, inefficient industrial activities or those that don't meet the requirements of the social institutions or bodies and at last by «such

¹ Tsytovych N. M. Local Prussian Expenditures and the Theory of Local Expenditures. — P. 58.

² Ibid P. 232.

³ Ibid P. 232.

⁴ Ibid P. 234. 511.

⁵ Ibid p. 254.

⁶ Ibid

conditions which require independent on a person particular expenses for social needs satisfaction, could put him in a situation more favorable in comparison with the other payers»¹.

M. Tsytovykh showed practical advantages of local financial economy in comparison with the state economy. First, the existence of financial sector with a special range of tasks which are performed by local people, strengthens the taxpayers' responsibility. Control over expenditures is better under such conditions².

Second, the existence of local financial sector allows local authorities to employ «gratuitous labour» to create public goods³. It becomes possible due to close relations with the local population and public activities based on self-government. The same results may be achieved through the state coercion but this affects the quality of services. However the scientist said that «gratuitous labour was good when it was simple enough and didn't take a person a lot of time»⁴. It was important not to allow unpaid jobs in favour of getting additional, shadow income sources⁵.

This threat is especially great to the local associations dealing mainly with the business side of management.

The Ukrainian scientist had done profound analysis both of local and state economy income resources. He identified untaxed income gained from different public organizations such as real estate income, industrial enterprises and public organizations income. The availability of these income resources depends on a certain country peculiarities and other circumstances as well as on the peculiarities of local associations. Due to these circumstances the advantages and disadvantages of local associations against the state ones are those of untaxed income. However, local associations have advantages in terms of general economic conditions which determine the availability of untaxed income resources. M. Tsytovykh said that «local associations can adapt to market conditions better than the State can do and they have more opportunities and incentives to reduce extra expenses. Providing more complex economic aspect of any business, local associations take greater part in local business management than the State. Local association position is also more beneficial than that of the State is, while gaining realty income. But it doesn't concern forestry income»⁶.

¹ Tsytovykh N. M. Local Prussian Expenditures and the Theory of Local Expenditures. — P. 255.

² Ibid P. 258.

³ Ibid P. 259.

⁴ Ibid

⁵ Ibid P. 260.

⁶ Ibid. P.262.

M. Tsytovych said that in the financial sector the private business income and the public business income were of greater importance for the local budget than for the State budget. The reasons of this are the following: 1) some public forms of business are more natural for local associations e.g. public utilities; 2) the State as an entrepreneur is at a lower level than the local associations are¹.

The state economy has more advantages over the local economy in allocating taxes. But as for the direct taxes local associations are relatively more beneficial due to the levying items assessment which can be done more successfully by the local associations than by the public authorities.

«Public authorities are more interested in a fair performance of this assignment and they know better the conditions and the circumstances of local activities»².

A problem of financial bodies decentralization raised by M. Tsytovych is still urgent today in Ukraine. His achievements can be a good theoretical basis of local self-government law drafting. The State can also allow local associations to take part in the management of the financial sector to some extent. But none of the ways of local people participation in the management of the financial sector can bring all the benefits they have while allocating their own taxes³.

That's why M. Tsytovych drew such conclusion: «... the direct taxes local associations are in better position than the Treasury is. When other things being equal, these taxes can bring them more revenue and can be allocated more equally within each single association than within the whole State»⁴.

As it is known this idea is still actual nowadays while Ukraine is trying to increase the power of local authorities. The State has considerable advantages in collecting indirect taxes in comparison with the local associations. Revealing the objective reasons of this phenomenon M. Tsytovych arrived at such conclusion: «indirect taxes are not equally important for the local and the State budget. They are much more important for the State budget»⁵.

But the advantages of indirect taxation over direct one are not absolute. As M. Tsytovych said «these advantages will be less significant when the direct taxation technique is more perfect and the direct taxation allocation is more balanced. And in such a case taxpayers can rely more on integrity and

¹ Tsytovych N. M. Local Prussian Expenditures and the Theory of Local Expenditures. — P. 264.

² Ibid P. 265

³ Ibid P. 266.

⁴ Ibid P.267 — 268 .

⁵ Ibid P. 271 — 272.

impartiality of the direct taxation assessment bodies. Taxpayers will be more convinced in the necessity of the existing amount of direct taxation which is caused and justified by the public interest and as the result a sense of civic duty will be stronger»¹.

Advantages pointed out by M. Tsytovych are still important today even for the countries with the most advanced system of direct taxation. Effective management of the local financial sector requires constant replenishment of financial resources. That's why analyzing the benefits of the state economy elements over the others M. Tsytovych admitted that «an association with unstable resources can not function properly»².

And in this regard a system of local taxation is of great importance. The more various taxation sources of local associations are, the more stable can be their financial means³. Large cities have distinct advantages and various income sources over small towns with the same system of taxation. The capitals and cities with millions of people had financial power which was not less than a power of an average state, said M. Tsytovych. That's why it should be taken into consideration while allocating management costs among different local associations. From the financial point of view «central management costs coverage has advantages over allocation of funds to local associations»⁴.

The scientist considered allocation of any costs to local associations to be unreasonable to facilitate national budget. Admitting a great importance and advantages of local finance, M. Tsytovych said that the State like a large enterprise had advantage to produce goods and services to meet social needs. But smaller unions, in their turn, have special advantages of small businesses: «more economy, stronger desire and greater ability to follow requirements of the economy principle»⁵.

Local associations «can estimate costs and control them more deliberately than some of the state authorities while estimating and controlling them using only paper data»⁶. Therefore in this case control is exercised by those authorities that express the will of public unions. Local population can also influence on solving this problem as it is more interested in local costs rather than in the national resources expenditures. «The economic principle is less observed by local businesses than by the private

¹ Tsytovych N. M. *Local Prussian Expenditures and the Theory of Local Expenditures.* — P. 275.

² *Ibid.* P. 278.

³ *Ibid.* P. 279.

⁴ *Ibid.* P. 281.

⁵ *Ibid.* P. 283.

⁶ *Ibid.* P. 284.

enterprises, but alongside it is more observed by local businesses in comparison with the national economic management»¹.

And here the scientist holds gradation. The economic principle is observed first of all by the communities, then by the counties and at least by the provincial and regional rural associations. Such peculiarities of public unions at different levels remain today. Analyzing thoroughly and comparing advantages and disadvantages of the state and the local economy, M. Tsytovych arrived at a conclusion which is still vital today especially for the development of the Theory of self-government: 1) local associations are sufficiently beneficial only in case of allocation local funds by the representatives of local population's will and when the local population can influence on their certain organizational structures; 2) to the greatest extent the observance of the economic principle may be expected in a case of local costs coverage by the local associations through taxes imposed on local population so as the necessity of tax payment encourages taxpayers to allocate them properly; 3) the less controlled any expenditures are, the more necessary they must be assigned to local funds. Conversely, expenditures which are easily controlled by the central authorities can be covered by national resources².

In general «local population expenditures coverage by local authorities increases self-government vitality and its significance as a means of public unity», said M. Tsytovych³.

High level of scientific substantiation shown in his work, allowed the author to formulate a number of fundamental rules which are still vital under new conditions of financial sector functioning. M. Tsytovych explained an important rule of expenditures coverage by the State and by the local associations. He said: «If it is necessary to transfer some authority to local associations, at least a certain amount of expenditures referred to this branch, must be covered by these associations and if certain branches are governed by the State, their expenditures must be covered by the State»⁴. So, the scientist showed the dependence between the associations' participation in different branches governing and their participation in these branches expenditures coverage. The scientist said, that there was no distinct border between the State and the local self-government bodies financial cooperation. It could be changed due to different circumstances. «There is a large area of financial cooperation of public associations within which they can act as a corrector when assignment of branches and individual business

¹ Tsytovych N. M. Local Prussian Expenditures and the Theory of Local Expenditures. — P. 286.

² Ibid P. 287 — 288.

³ Ibid P. 291.

⁴ Ibid P. 293 — 294.

management to the State and to the local associations is not the fairest and the most appropriate one)¹. This is the general meaning and purpose of public associations financial cooperation.

So, M. Tsytovykh identified the most important forms of such financial cooperation of the State and the local financial management: 1) the State involvement in the local associations expenditures; 2) local large associations involvement in local small associations expenditures; 3) financial cooperation of similar local associations; 4) small associations involvement in large associations expenditures i.e. local associations involvement in the State expenditures².

Various sources of the State budget formation require solving different problems of associations cooperation. The State is involved in the coverage of local costs: facilitates more equal allocation of these costs, increases the level of social needs satisfaction when local associations lack their own funds, supports local budget in case of random fluctuations of local revenues and expenditures due to various adverse conditions. According to the support of the State local associations can use the State resources and have the same financial benefits as the State has i.e. indirect taxation and sometimes generous sources of untaxed incomes. «Treasury funds can be spent only on the most important and necessary needs»³.

The Ukrainian scientist also studied the State and local taxation interaction and the problem of local authorities financial support. He arrived at a conclusion that « the state assistance to local associations could be fully beneficial when it is supported by the general Treasury funds»⁴. So, M. Tsytovykh was the first economist who had developed fundamentally the Theory of Local Finance but his research was incomplete and unfairly neglected by modern Ukrainian scientists and financiers.

His theoretical substantiations and conclusions are still relevant today; they are the bases of modern Theory of Self-Government and scientific developments on the Theory of Local Finance. The works of M. Tsytovykh are unique and important for the economists and financiers. The researcher himself is worthy of world-wide recognition as a founder of the Science of Local Finance.

Later some problems of local finances drew attention of V. Tverdokhlebov (*Western Municipal Taxation, Part 1 and Municipal Taxation. New Types of Local Taxes, Part 2* (1909) and M. Yasnopolsky (*Geographical distribution of state revenues and expenditures in Russia, Part 1* (1897)). Despite its

¹ Tsytovykh N. M. Local Prussian Expenditures and the Theory of Local Expenditures. P.299.

² Ibid P. 300.

³ Ibid P. 302.

⁴ Ibid P. 325.

drawbacks that was the first work on the problem of geographical distribution of state revenues and expenditures not only in Ukrainian and Russian financial literature but also in Western-European literature. M. Yasnopolsky's original vision of the problem of local finance can be explained by the colonial status of Ukrainian lands which belonged to the alien states in the late 19th — early 20th centuries. That's why unlike his colleagues, the scientist began to study the theoretical aspects of Economy and Finance. The famous researcher of the Ukrainian Economy and Finance S. Zlupko said that M. Yasnopolsky began to develop the Theory of Spatial Financial Econometrics¹.

The above mentioned work of M. Yasnopolsky is based on the profound previous research of regions especially Ukrainian provinces (*The railway from Malorossia to the Baltic Sea, 1868; The economic future of the South of Russia and its modern retardation, 1877; Trade terms of the South-western region and Malorossia with the North-western and especially Polish markets, 1873*).

M. Yasnopolsky was the first financier who began to investigate theoretical problems of geographical distribution of state revenues and expenditures. «The main idea of this work is to describe financial and physiological vision of Russia and we are trying to clear up at least the causes and effects of statistically fixed financial facts of economic life of our country and due to this we are going to estimate the phenomenon which we are interested in»². According to this principle he showed a great variety of natural, cultural and economic conditions of different parts of the Russian Empire and their impact on the strengthening of the financial laws which due to different circumstances can lead to different results. Principles and forms of financial policy can vary under different conditions³.

Population density, economic traditions and the historical past of the region as important factors should be taken into account while conducting the Economic Policy and carrying out financial activities of the State. M. Yasnopolsky showed the real growth of the economic role of the State in the late 19th century.

In his research he tried to show possibilities for financial activities which were effective not only for solving fiscal problems but also from the point of view of National Economy. So, he began to research the functions of the finance and the problem of regulating financial impact on the economy in

¹ Zlupko S. M. Economic Thought of Ukraine (from the old times to modern)/ S. M. Zlupko. — Lviv, 2000. P. 313. 518.

² Yasnopolsky N. P. About geographical distribution of state revenues and expenditures in Russia. Experience of financial and statistic research. P. 1.

³ Ibid P. 13

general and on the regions in particular. Decade later these ideas draw attention of G. M. Keynes.

The Ukrainian scientist was the first financier who examined both the state revenues and expenses as a whole. M. Yasnopolsky paid great attention to the state expenses in relation to income in real terms. He related geographical distribution of state expenses to characteristic features of financial system. The choice and number of the budget taxation forms «due to certain local peculiarities of the different parts of Empire should influence on geographical regional distribution of expenses»¹.

From 1868 to 1887 on the basis of various statistic data the scientist found out that geographical distribution of income was well-balanced: agricultural regions with fertile soil, involved in cattle breeding and developing processing industries, closely connected with agriculture, providing excise levied products, contributed the greatest revenues to the State Treasury funds. The scientist also revealed weaknesses of the capital provinces participation in state revenues opposed to higher taxes of the regions². So, domestic European regions such as Ukraine, Moscow and St. Petersburg capital provinces were of primary importance to replenish the State Treasury funds.

Solving the problem of the State Treasury local fees ratio to the number of the residents, the scientist drew a conclusion about indirect correlation between the amount of revenues from a certain region and the number of its residents. Thus, more populated regions were more solvent than those ones which were less populated. Greater amount of state fees per capita (twice — four times more) was in capital provinces that was proving their prosperity. Southwest (Ukraine) ranked the second with the great impact of direct taxation (customs fee, excise)³.

M. Yasnopolsky showed a lack of equal treatment and equal government involvement in the development of different regions. He said, that it led to all the imperfections (from economic point of view) and bias (politically) of the imperial financial system. Talking about Russian financial system in general M. Yasnopolsky said: «This all tax discrepancy on the population assets that we had pointed out above couldn't show up itself in uneven levying (relatively to the economic prosperity) in some of the Russian provinces which differ according to the distribution of the taxable items due to our financial legislation»⁴.

¹ Yasnopolsky N. P. About geographical distribution of state revenues and expenditures in Russia. Experience of financial and statistic research. — P. 41

² Ibid P. 51 — 52.

³ Ibid P. 68 — 73.

⁴ Ibid P. 96.

Studying the problem of shifting taxes M. Yasnopolsky showed that domestic regions especially agricultural ones including South-western provinces had to pay more to the Treasury. And this did not only make the situation worse, equating them to the least productive regions but also delayed the economic reproduction and development. «Due to the economic population resources, Baltic Capitals and Southern provinces are levied less than South-western provinces» .

Analyzing the financial system activity results for the efficient economic development of certain regions, M. Yasnopolsky arrived at a conclusion that producers of goods that were exported and subjected to customs duties received preference in comparison with the suppliers of the domestic market. So, the Ukrainian scientist was the first financier who showed the importance of financial activity of the regional economy formation. The scientist also said that encumbered Russian financial system couldn't promote effective, rational development of the Economy of Ukraine. The most of the Ukrainian industries had been exploited. Later, in 1938 the other Ukrainian developer Y. Glovinsky titled his research *Financial Exploitation of Ukraine*.

Studying the problem of State expenditures due to the certain regions, M. Yasnopolsky started a new trend in the financial science. On the basis of his research he has drawn a conclusion which is still relevant to the Financial State Policy. «Quantity and quality of this, that any State can receive from any of its regions and that, that it can give to its regions could always gradually influence on its economic situation»²

He considered expenditures effect to be much more powerful economic factor than incomes effect, so expenditures were much more concentrated and they were not equally allocated due to the different regions of the Empire, though both resulted from the entire financial system³. So, he raised the problem of the municipal self-government development. As a result of local and state self-government bodies discrepancy — the more power local bodies have, the greater opportunities they have for centralization and as a result they have unequal geographical allocation of all public expenditures. «The greater is the amount of local expenditures, the more centralized can be the state expenditures without any loss to the economic life of the people»⁴.

Local finance development depends on the development of the culture — the more developed the culture is, the stronger centralized budget resists.

¹ Yasnopolsky N. P. About geographical distribution of state revenues and expenditures in Russia. Experience of financial and statistic research P. 135.

² Ibid P. 563.

³ Ibid P. 567.

⁴ Ibid P. 580.

More complicated problems of the State and social development require differentiation of the state financial expenditures. The Ukrainian experience proved the viability of these findings in modern time. Problems raised by M. Yasnopolsky draw attention of many modern scholars to them. They were studied by M. Volobuev in his famous work *The problem of Ukrainian Economy* (1928).

In the beginning of the 20th century with the growth of local and rural finances there was a necessity of their theoretical explanation. During this period a number of researches devoted to the financial problems appeared, among them: the work of Y. Kulisher *Historical development of the community taxation in Germany* (1914) and the works of Russian economist P. Genzel *New type of local taxation* (1902) and *New trends of western community taxation* (1909). But unlike M. Tsytyvych these authors did their researches on the basis of German literature, German practice and German financial theory.

Only the work of V. Tverdokhlebov *Local finances* (1927) was devoted to the evolution of local finances and for a long time it had been one of the best works on the problem of local finances not only in the former Soviet Union but also in the western countries. The problems raised by V. Tverdokhlebov received further development in the work of G. Tiktin *Overview of the general theory of finance. Experience of theoretical financial science development on the social-economic basis* (1928). Then Marxist ideology determined local finances development in Ukraine and Russia.

Not less significant for the development of the theory of local finances are the works of I. Tarasov. Taking into account M. Bunge's views on private property and his strong emphasis on the economist's mission to deal with people, human nature and activity, circumstances resulting from our development, I. Tarasov tried to study profoundly the type of property, which inevitably became the product of productive forces overgrowth of the narrow limits of individual capitalist property. The third part of the 19th century saw rapid development of joint stock companies (English East-Indian Trade Company (1600) and Dutch East-Indian Trade Company (1602). That's why in 1876 — 1878 I. Tarasov visited Austria, Prussia, Germany and France where joint stock companies grew rapidly. He wanted to learn joint stock companies development experience and European legislation in order to provide domestic joint stock companies success. After his return to Kyiv, he published his famous book *Investigating of joint stock companies*.

In this book, the author showed a range of advantages of joint stock companies: 1) ability to expand the resources increase; 2) democratic enterprise management, i.e. a right of higher establishment authorities to be

shareholders of joint stock companies makes them interested in rapid economic development and weakens department monopoly; 3) money regulation by selling shares; 4) workers become more interested in better use of the production means. The urgency of the issues raised in this book and their practical significance for Russia in the end of the 19th century when joint stock companies had just begun to develop led to the republishing of this book not only in Ukraine. The second edition of the monograph was published in 1878 and in 1880 in Yaroslavl (Russia).

I. Tarasov was the first economist in Ukraine who carried out comprehensive analysis of the legal and economic nature of joint stock company as an important source of financing due to the shares selling. Alongside he showed social and economic importance of a joint stock company as well as the cost of equity relationship. Stocks and bonds can not be considered as actual capital, but only as a property capital. So, the owners of the property capital can make profit from it as its turnover is largely independent of the production of capital turnover. Property capital is much greater than actual capital is. I. Tarasov said that such deviation depended on the stock price which was much higher than the nominal value in the period of favorable market conditions and on the tendency of the average rate of loan interest decrease. I. Tarasov showed equity capital impact on the technical and organizational development of the productive forces. This profound research and analytical work had brought worldwide recognition to I. Tarasov. His book was cited by the famous scientists of the past such as L. Petrazhysky, A. Kaminka, G. Shershenevych and by the modern scholars: V. Yevtushevskyi, R. Kapelyushnykov, I. Shepeliev.

The urgency of the issues raised in this book and profoundness of the author's explanation contributed to the recognition of his book not only by the scientists. The work of I. Tarasov had been a compulsory text-book for more than a hundred years in the Universities during the process of studying the problems of joint stock companies and stock legislation. In his book *Investigating of joint stock companies* I. Tarasov carried out comprehensive analysis of stock legislation considering the problems of joint stock companies setting up and activities. The author paid great attention to the process of joint stock companies setting up. He showed a great number of the founders' excesses that used shares as a legitimate form of withdrawing funds from unsuspecting citizens. By the way it is still happening today. That's why I. Tarasov made a clear definition of a «founder» and his «legal status»: «...founders are persons and companies whose previous actions are aimed at the company setting up without hired labor...»¹.

¹ Tarasov I. T. *Investigating of joint stock companies* / I. T. Tarasov. — M. ; statut. 2000.

The most important of the previous actions is the decision of the company setting up since it determines the rest of the processes of creating a legal entity.

I. Tarasov objected to the existence of a joint stock company owned by a single person as it wasn't compliant with a joint stock company as a form of business due to different reasons including a lack of elective principle in a the company management. The scientist offered to eliminate undeserved privilege of the founders to share the first issuing stock among them and suggested involving of all the subscribers into the first issuing stock to write the Statute in order to protect the rights of all the shareholders. However, giving convincing arguments on this problem I. Tarasov didn't pay attention to the Achilles heel of his approach.

Eliminating one of the privileges he evoked the next one which was far more important. According to I. Tarasov's point of view the founders could raise authorized capital at the expense of others and usually they were not responsible for this. It gave them opportunity to use raised money in their own interests making a good basis for the founders' potential excesses.

Having analyzed the problem of organizing a subscription and scrutinized different scholars' points of view I. Tarasov arrived at a conclusion that the process of joint stock company's setting up consisted of different closely interconnected stages. Under such conditions a subscription to shares being only a part of the whole was compliant with it and was caused by the whole.

Organizing a subscription to shares in the process of setting up a joint stock company doesn't conform to our legislation. In this case issuing stock is shared among the founders of a joint stock company. However, as I. Tarasov predicted, a subscription to additional shares as a way of investment is considered to be a part of the consistent emission process. The scientist was also right about the necessity of the strict governmental control over the procedure of emission. I. Tarasov suggested that the State Bank had to set up control over this field. Nowadays in our country this function is really executed by the National Bank and the Ministry of Finance of Ukraine.

The process of subscription was shown by I. Tarasov not only as transferring shares to the customers but also as the obligation to pay for securities. The scientist saw the advantages of cash payment for shares over payment, involving different forms of customers' property. He said that different forms of customers' property as a way of payment could lead to different excesses such as unreasonable value of property overstated by the founders themselves. Imbalance between the real assets value investing into the authorized capital and its overstated evaluation essentially violates the interests of other shares buyers and joint stock company creditors. However,

this problem has no clear legal solution due to the modern Ukrainian legislation. There are no restrictions to joint stock companies to use non-cash means as a payment for shares with only rare exceptions relating, for example, to banks.

I. Tarasov's definition of the term «share» was close to scientific. He warned against artificial distinction of a document and the rights it certified, emphasizing that it could cause confusion. He said that it was a mistake to separate the rights and obligations which were certified by the share as a document from this document like it was a mistake to separate the rights certified by the bill as a document from it, but however nobody did it. The introduction of the so-called documentary securities was stated in the Ukrainian legislation, but as I. Tarasov predicted it brought nothing but confusion.

New phenomena had been always carefully analyzed by I. Tarasov. He was a worthy opponent to any scientist whose views on innovations didn't coincide with his own. An example is I. Tarasov's analysis of privileged shares which on his point of view had nothing common with the essence of Joint Stock Company. In addition to building a clear line of arguments I. Tarasov skillfully used random coincidences including psychological ones which were more important than logically verified arguments to prove his rightness. One of such random coincidences was Rednut's fraud. An executive of Great Northern Railway, Rednut was the first to have issued privileged shares in the history of joint stock companies. The first shares issue of this category was marked by a great scandal as Rednut organized the issuing of counterfeit securities evaluating at 221 000pounds alongside with the valid shares. Nowadays discrepancy of privileged shares to the essence of Joint Stock Company is confirmed by different restrictions on their issuing in the legislation of many countries including Ukraine.

Analyzing shares legal nature I. Tarasov paid great attention to studying the problem of a shareholder status because a great deal of scientists considered a shareholder to be a subject that owned shares. He said that a shareholder status first of all was legally connected with a Joint Stock Company and it was not necessary caused by shares ownership. Due to modern legislation it is possible to withdraw one's shares when a person is enlisted to receive profits by the time decision has been taken about paying dividends. The former owner of securities has a right to require profits when dividends are being paid, when a person who has bought shares hasn't got such a right. But a person that has bought shares can pretend to participate in the general stockholders meeting.

The Ukrainian scientist showed a significant change in the content of legal relationship between a shareholder and a company. It depended on a

shareholder representation. I. Tarasov said that a shareholder could represent himself, a number of shareholders that owned a greater amount of shares or he could represent a minority of shareholders. Nowadays, according to the legislation the rights of the shareholders are differentiated due to the amount of shares they owned.

I. Tarasov could be referred to those economists and scientists who began to carry out comprehensive analysis of the shareholders rights. In particular, he emphasized on the rights the shareholders bought which didn't correspond to the traditional classified civil rights. He said: «...new legal relationship of a joint stock company should carefully be referred to the old well-known legal forms meaning that new combinations cause new legal relationship».

Alongside with the analysis of traditional shareholders rights i.e. rights to dividends and terms of their providing, I. Tarasov studied non-property rights which importance had been ignored by many researches of joint stock company legislation. First of all it concerned participation in running the company i.e. rights to vote at the general stockholders meeting, to elect company governing bodies, to convene a shareholders meeting. I. Tarasov emphasized on the right to vote as «an integral part of a shareholder right»¹ without which it had not any practical value. He said that a shareholders meeting had not to be underestimated as a body which gave shareholders opportunity to run the company. «General stockholders meeting is a chief and obligatory joint stock company body...that's why if this body is ill or weak it doesn't mean that it could be cut without doing a harm to the whole body or destroying it, moreover the causes of general stockholders meeting incapacity are well-known and hard to overcome»².

I. Tarasov showed the main causes of ordinary shareholders inactivity, little importance of general stockholders meeting and offered the ways of their removal. Among them is building the system of protection of the owners of small shareholdings. This idea is still vital today for researchers and modern corporations.

I. Tarasov was a follower of Romano-Germanic legal school that's why he emphasized on the right of control as one of the most important shareholders rights and offered the ways of its exercise. He also developed a system of restrictions on potential excesses of this right. Following the rules of system analysis, the Ukrainian scientist revealed not only the nature and features of the shareholders rights but also described the ways these rights were exercised and protected. Not less attention the scientist paid to the problems of transformation and liquidation of joint stock companies.

¹ Tarasov I. T. Investigating of joint stock companies

² *Ibid*

Due to the number of the raised problems, variety of approaches, profoundness of their revealing and references, the title of I. Tarasov's work *Investigating of joint stock companies* corresponds to its content. It should be stated that his work is an important milestone of joint stock companies research and is worth studying today.

Some of the Ukrainian economists and financiers devoted their researches to the problems of finance development in the 19th century. Among them there are above mentioned works of I. Kaufmann and P. Migulin, works of P. Kovenko *February 19, 1861 Reform and its effect on finance. Redemption transactions in 1861–1907* and *Major reforms in the financial system of Russia carried out by M. H. Bunge* (1901). The most interesting among the works devoted to the financial institutions and financial Economy of Ukraine are the books of M. Sobolev *Customs policy in Russia in the late 19th century* (1911), M. Yasnopolsky *Essays on Russian budget law. Volume 1. Historical overview of our state budget and budget reform* (1912), M. Slabchenko *The Economy of the Hetmanate in the 17th — 18th centuries — Volume 4. Structure and management of the Hetmanate Economy in the 17th — 18th centuries* (1925) and the work of M. Dovnar-Zapolsky *The State Economy of Lithuanian Principality of the Jagiellonian. — Volume 1* (1901).

Along with the investigation of Financial Law, Ukrainian scientists conducted researches in different branches of Finance. These researches included above mentioned course in Finance developed by V. Tverdocklebov and his work *The State Credit. Theory and Technique* (1924), the second edition of this book was published in 1828 as *The State Credit*. This book is considered to be one of the most successful researches in the history of Finance as well as Y. Kulisher's *Overview of the Science of Finance* (1918) (the 2-nd edition, 1920). The title of Y. Kulisher's book having been incompatible with the content, his work had been criticized for a long time. However, the book contained a lot of information about taxation. It is of great interest to the scientists nowadays. We have a lack of fundamental researches on the problems of taxation today, so his book is of great interest to the scientists.

Great contribution was made into the development of Ukrainian and Russian financial system by our businessmen and banks employees. One of the most famous public activist, financier and banker of the pre-revolution Russia was V. Tarnovsky (1872–1952). He was born in 1872 in Kherson province. V. Tarnovsky had been in the 3-rd privileged Life-Guard infantry regiment since 1893 but after three years of service, he retired. Then he became involved in banking. He organized the Samara Merchant Bank and

became a manager of this bank. In 1902 V. Tarnovsky headed the Moscow International Commercial Bank.

In 1912 he was a director and a chairman of the Siberian Commercial Bank in St. Petersburg rating at that time as one of the ten Russian largest banks. The salient feature of the Siberian Commercial Bank was lending to trading and export service. V. Tarnovsky also studied the history of the Siberian Commercial Bank.

The October Revolution became a crucial event in V. Tarnovsky's life and his professional career. He was deprived of all his assets and positions he had occupied before. V. Tarnovsky lived in Russia but he didn't accept the revolution. In 1920 he signed an appeal together with twenty Russian and Ukrainian leaders to the Entente and emigrants, demanding to stop fighting against the Soviet Russia.

V. Tarnovsky was actively involved in building monetary and credit system of the Soviet state holding the position of the head of the Petrograd State Bank Office and the deputy chief of the North-West office of the State Bank. It is worth mentioning that he rejected the idea of eliminating money which had been discussed by the Bolsheviks and insisted on new currency introduction.

V. Tarnovsky offered to cease issuing paper money and open a bank issuing bills which could be changed for gold. At the same time paper money which had been already issued could be circulated with the bills at a fixed rate. So, V. Tarnovsky offered to introduce a system of dual currency. It was supposed paper money to be withdrawn gradually from circulation and be used for payment taxes and exchange for a commitment of government loans.

The Ukrainian financier V. Tarnovsky was the ideologist of Russian Monetary reform according to which new banknotes were issued, one new ruble was changed into 10 thousand rubles of any previous issues and also chervinets was issued in November, 1922. New banknotes were completely provided with platinum, gold, silver and foreign currency. Therefore at first they were issued in small quantities and there was a great demand on them.

These new banknotes were highly quoted in the world currency markets and showed the success of the monetary reform. However in 1926 there was a ban on export of Soviet money abroad; in 1928 — on import money, so it eventually caused inconvertibility of the Soviet currency.

Repressions of scientists and experts in many fields became a salient feature of the Soviet regime. Outstanding financiers both theorists and practitioners were also often repressed. In 1929 V. Tarnovsky was removed from the Soviet offices «due to the first category» and was deprived of social protection including pension provision, unemployment payment and a right to work in any governmental, public and cooperative bodies.

Later on some people were permitted to work in the People's Commissariat of Finance but V. Tarnovsky didn't work in this organization and there was no more information about his further life. New authorities didn't allow V. Tarnovsky to use his skills and talent of a banker to the full extent. Such approach helped to bury the talent and achievements of prominent experts with great organizational skills and well-developed thinking for a long time.

One more reason of unacknowledgement of scientific achievements of Ukrainian economists and financiers should be mentioned here. They were not introduced in good time to the world scientific community. One of the Ukrainian economists and financiers, a native of Russia is K. K. Gattenberg (1844–1893). After graduating from Kharkiv University he had been living in Ukraine all the time working at the department of police law in the Kharkiv University. But his works were unacknowledged. His ideas revealed in the article *Real Psychological Political Economy* (1881, issue of magazine «Mir») were world-wide significant. Criticizing the views of professor G. Schmoller (1838–1917) who headed a new historical school in Germany, K. K. Gattenberg defended the conception of classical school and deductive method of investigation. Accepting as the majority did the merits of ethic-historical school of Political Economy which were expressed in promoting of studying the economic life of peoples and economic phenomena research in connection with the law and morality, the Ukrainian scientist showed a mistake that had been made by this school in the evaluating of the role of classic school. That was a rejection of the Theory of Economy as a separate branch of economic science.

K. K. Gattenberg showed that G. Schmoller's political economy was either applied science or police law which investigated economic phenomena in connection with ethics and the state interference. According to the Ukrainian scientist point of view such doctrine had to take its place in the system of economic knowledge. However it didn't only reject the necessity of the Theory of Economy existence but it followed it. K. K. Gattenberg supported G. Schmoller's idea due to which any economic system was utopian without the state interference but striving for the ideal goal was not utopian. Impossibility to achieve the goal didn't make approaching it impossible.

In 1883 the book of Karl Menger (1840–1921) *Investigation of Social Sciences and Political Economy Methods* was published. This book had made the author world-wide famous and greatly influenced on the academic economists. Two years earlier the article of K. Gattenberg had been published in the provincial journal. Analyzing the ideas expressed by the Ukrainian scientist in his article we can see their identity with those of Karl

Menger but only with the time difference (two years earlier). However the article of the Ukrainian scientist had been published in the provincial journal and remained unknown to the academic economists, so it couldn't influence on the course of discussion. The book of K. Menger was issued by the best publisher of Germany and was distributed among the editorials of economic journals throughout Europe. We can draw the conclusion today that the originality of ideas is not of primary importance, but more important is their immediate presentation to the world scientific community, wide popularization of them by the national science regardless of the place these works have been published.

We can mention the whole range of other pioneer achievements in the field of the Ukrainian financial science done by the representatives of the Kyiv School. This will be done in the 2-d volume of this edition. We should emphasize once more on the fact that the most of the works of Ukrainian authors, pioneers in the research of the whole range of the financial problems have been forgotten, they are unknown and their authors are not famous. Each of the modern Ukrainian scientists should know that his research is historical no matter how new is the approach to it. Unfortunately, this historical and conceptual aspect of many pioneer achievements of the Ukrainian financiers in different times is not taken into account because they are unknown but at the same time the works of foreign researches are cited often. It helps foreign researches to ascend the business Olympus also at the expense of Ukrainian economists. But why Ukrainian academic financiers violating all legal principles promote the ideas of foreign scientists which are often so far from our reality. The Science of Finance receives nothing of it. It also concerns our Russian colleagues.

Not to be unfounded we can cite one of the Russian editions: «Theoretical conceptions of market failure are of great importance in the process of substantiation of the necessity of the public sector including the economic activity of the State. The conception of public benefits is the most important one. It was offered for the first time in 1954 by American professor P. Samuelson and developed in the latest 50-s by his countryman, professor Musgrave as the conception of significant social benefits (deserved benefits)»¹.

In fact, it is not quite true. It was well-known that this problem had been raised by T. Campanula in his work *The Town of the Sun*. The author revealed production of free and public social benefits as a means of preventing and correcting human vices.

¹ Zhiltsov E. N. Economy of public sector and non-commercial organizations: textbook. — M.: MSU. — 1995. — P. 18

We also know that such historical concept as *public benefits* has long been associated primarily with France. At the end of 1464 the association of feudal nobility *the league for public benefits* was founded in France to struggle against the policy of its unification into the centralized state held by Louis 19. Members of this association were struggling for *common good* of French people. This information may be found in scientific literature in Germany and Russia but not in the USA or Great Britain. These countries identify themselves as arbiters in the scientific world. However, there were no historic traditions in the development of issues of the public sector of Economy in these countries. There was not any novelty in the Theory of the Public Sector presented by the above mentioned authors. Moreover they submitted incorrect interpretation of the public benefits features and causes of creation of noncommercial organizations. However, they are often cited today by modern scientists¹.

Public benefits have a small range of features and can be defined in comparison with the private benefits. Non-competitiveness, a lack of competition in consumption and impossibility to prevent the consumption of benefits can be referred to the characteristic features of public benefits. Well-known in Ukraine Russian financier of the 19th century E. R. Vreden (1836–1891) was criticized by the Ukrainian economist and financier I. Kaufmann. Among public benefits E. R. Vreden distinguished protection of the country inside and outside, law and military affairs. He emphasized on such peculiarities of social production as: unprofitability, a lack of competition and economic justification; impossibility to sell benefits for use; legally stated governmental monopoly; direct borrowing of financial resources from business to provide elements and factors of production, duties and taxes, a lack of supply and demand. Due to these features social production can be regarded as non-market, public and free to use.

It seems that the science doesn't progress while we try to compare these two approaches with the difference in time nearly a century and vice versa it seems to be regressing, deliberately be subjected to oblivion in order to emerge as a new «scientific thought».

Paying a tribute to the genius of the great American scientist of the world renown we oppose against worshipping him and attributing to him false merits. P. Samuelson won Nobel Prize in 1970 for his contribution into research of the scientific analysis of Economics. However, his analysis is based on the previous achievements and this should be the determining

¹ Yurieva T. V. Economy of non-commercial organizations. — M.: Yurist, 2002;

Yakobson L. I. The State sector of Economy.: Economic theory and Politics. — M.: GUBSE, 2000, ets.

factor while referring to his works. Everybody having read the above mentioned work of E. Vreden has no doubt in his pioneering development of the scientific conception of the public sector of Economy and social benefits. It also can be referred to many scientific provisions of the Science of Finance in Ukraine. The reasons of such attitude can be explained by our profound knowledge of the foreign economists' works and our passive oblivion of the national achievements in the Finance and Economics of different periods.

4.6. Decay and ideology promotion during the Soviet period

In the national financial thought the works of scholars who lived and worked in the so-called Soviet period take a special place. These were tough and controversial times of made up 'innovations' for Ukraine that cost its people dearly. The iridescent dreams of a happy future where men would not exploit one another were unnaturally combined with the horrors of famine and repression, the revolutionary enthusiasm — with strict regulations of the administrative-command system and ideologization of the society. The national financial science was largely isolated from the global one, for ideological reasons a special concept, the 'socialist' theory of finance was imposed. It was to be based on a new — Marxist-Leninist — basis.

Under these circumstances the appraisal of economists and financiers of the period, their theoretical concepts and discussions was mostly possible only in the context of that complex, sometimes overly cruel, bloody and dramatic era.

So, as a whole, Soviet period was not the best time for the Ukrainian financial thought. Generally speaking these were the days of its decline. However, analyzing and evaluating the overall financial state of Ukrainian thought of that time, one should keep in mind that it maintained its identity and high scientific and theoretical level till almost the end of the 20th century. The 1930s became a turning point of the century in this regard. Since that time a period ruination and degradation of Ukrainian financial thought lasted for almost 40 years, dragging on until the mid to late 60s. The seventies and eighties were the years of gradual recovery and research broadening in the field of finance. Finally, the 90s signified the dynamic revival of Ukrainian financial thought, with this tendency still ongoing now.

It should be emphasized again that up till the end of the 1920s a high level of financial science of the XIX — early XX century remained. It was

based on the scientific achievements of the financial theories (in Marxist terminology called 'the old bourgeois theories of financial science'). Some of the old-school professors continued to work productively. Ukrainian university students could still read the works of I. Yanzhul, I. Patlayevskyy, Russian financiers — I. Ozerov, V. Lebedev, L. Hodskyy and their followers in Ukraine — M. Sobolev, K. Voblyy and many others who were adherent of pure financial science and the theory of 'societal needs'. Therefore, the nature and functions of finance were interpreted based on these ideas. At this time, a certain continuity of prerevolutionary financial thought remained, developing in line with the global trends. Its best representatives established the theoretical and methodological foundations of Ukrainian financial science. Thus, there was still an opportunity to have open scientific debate and form new scientific views on certain concepts of financial science and the history of financial thought in the 1920s in Ukraine.

However an active process of ideology promotion began and ultimately led to a significant lag between the Ukrainian financial thought and the global one. This was furthered by ignoring the objective economic laws, including the law of value, the nature, place and role of finance in society and its socio-economic development. During the 1918–1921 the Leninist view on money firmly took root among public officials, which affected the views of scientists as well. It proclaimed money as a relic of capitalism and not compatible with the ideology of socialism — the first stage of communism.

Scientific articles and publications were dominated by the notion that the sooner money disappears, the sooner the final victory of socialism and subsequently communism will come.

In addition, these tendencies in the financial thought development were influenced by the other factors. Civil war, the terrible dilapidation in the agriculture — all this and more caused the policy of the war communism. During this period rigid centralization was introduced in the goods distribution, rationing — in the levels of supply, non-monetary wages and local budgets abolishment. This ultimately contributed to a significant reduction in the use of money and finance, their social and economic depreciation, reduction of their role in the society. In the period of war communism under the influence of these circumstances the sphere of commodity-monetary and financial relations functioning decreased dramatically, which in turn increased the idea of possible money and finance extinction, its irrelevance, and its impending disappearance.

The idea of money and finance irrelevance under socialism, in fact, was supported by the state itself, not to mention the idea of 'communism'. According to the Bolshevik doctrine come communism, there would be no

State or money, therefore objective reasons for finance existence would cease.

The newspaper *The Economic Life* (1918–1937) (from 1937 to 1941 — *Finance Gazette*) was established in 1918 to conduct discussions with the opposition magazines *Economist* and *Economic Recovery* (their editors were mainly representatives of Kyiv financial school — P. Mihulin, V. Tverdokhlebov etc.). This outlet expressed the views of Marxists Scholarly Society and, if to analysed, its themes show the permeation of the finance irrelevance ideas in the scientific circles.

Marxism enrooted in the Russian scientific world, thus that is where the vast majority of scientists undertook a theoretical study of financial and economic policy of the Soviet state. In particular, one of the spokesmen of Leninist ideology in the financial science, Y. Larin noted that permanent money extinction increased as the organization of the Soviet economy improved; the time would come when money would lose its value, and be only what it really is — coloured paper¹. All over the country financial and credit system and state financial activity collapse took place.

In January 1920 the National Bank was liquidated. In the party documents the issue of liquidating of National Finance Commissariat was raised repeatedly, referencing it having 'outlived its time'.² The dominant attitude to finance as to an institution of the old exploiting society appeared and the authorities in their activities acted out of necessity to fund current needs.

The New Economic Policy and economic development to some extent proved the fallacy of this thesis; the money still remained the only universal equivalent, were inherent feature of the very concept of 'state', while the monetary relations largely determined the inner nature of finance. Financiers and economists of the old generation tried to continue producing the scientific works on financial issues. In particular, this pertained to the new work of M. Alekseyenko *Budgetary Law of National Representation* (Kharkiv, 1918), in which he raised the issue of functions division between the legislative and executive government branches when it comes to finance. He also outlined scientifically-founded principles and the nature of budget process in his understanding.

Later, another Ukrainian scientist M. Sobolev, developing this idea would indicate that 'the budget law is a system of all laws that determine the procedure of formulation, budget hearings, adoption, and budget execution.

¹ See: Larin Yu Money / Yu. Larin // *Economic life*. — 1920. — November 7.

² The decisions of the party and the government on economic matters: [collection of documents for 50 years]: in 16 volumes / edited by K.M. Bogolyubov, M.S. Smirtyukova. — M.: Politizdat, 1967. — Vol. I. (1917–1928). — P. 258.

Budget law defines who must make the budget proposal and the order of formulating it, who ultimately formulates it as a whole, which institutions are involved in the discussion, who approves it and in which order.¹ So, they talked about the basic legal provisions behind the budget functioning, about budget process principles, its nature, role and importance.

Ukrainian financiers scientifically substantiated an important thesis of functions division: the executive government formulates the budget, the parliament adopts it. Proponents of the parliamentary system consistently defended this form of budgetary process, where the function of government is to offer and the function of Parliament — to approve. The government must not only submit the budget proposal, but must also follow the legal framework in its implementation in strict accordance with parliamentary adopted law on the budget for the next fiscal year. Any changes in the budget require agreement and approval by the parliament.

Exploring this issue, Ukrainian scientist V. Tverdokhlebov remarked that America just in the early 1920s got the first real budget, finishing with the detrimental system of secret discussion in 'standing committees' and approaching the sound English system of accountability before parliament and the country, while the right of initiative was maintained by the executive government.²

Thus, Ukrainian financiers and economists pointed out that the budget is not merely a financial plan that comes with the activities of public financial body, but also has the characteristics of a political document. The experience of the democratic states development confirmed that the revenue approval, including that of taxes — is a political mean, which ensures the continual convening of Parliament and gives it a very effective tool for working with the executive branch. In parliamentary states budget adoption is an expression of governmental confidence by the majority parliamentary members, whereas rejecting the budget is one of the most dramatic expressions of distrust. During this period a number of fundamental financial and legal works were published. Among them were the works of Ukrainian economists and financiers of the period — G. Tiktin³, M. Sobolev⁴, L. Yasnopolsky⁵ and others. They defended and deepened the main financial science ideas created in the period of its development in the late

¹ Sobolev M.N. Essays of financial science (public talk). — P. 139-140.

² Tverdohlebov V.N. Latest financial problems. — P. 76.

³ Tiktin G.I. Essays on the general theory of public finance. The experience of building a theoretical financial science on the public-economic basis / G.I. Tiktin. — Odessa, 1926. — 51 p.

⁴ Sobolev M.N. Essays of financial science (public talk). — 186 p.

⁵ Yasnopolskyi N.P. Government revenue and expenditure / N.P. Yasnopolskyi. — M.: Typography of G. Lissner and D. Sobko, 1907. — 39 p.

19th — early 20th century. Even under attack and sharp criticism of Marxism Ukrainian scientists have tried to develop and defend scientific ideas.¹

The situation developed entirely different in the late 20th century. In Soviet Ukraine, as in other Soviet republics, only the views that did not contradict the Marxism-Leninism preserved the right to exist in financial thought. It started with the higher education system reorganization, which resulted in the traditional financial centres of science — universities — losing influence on its development. The scientists who had not agreed to change their methodological views were forced to either stop professional practice or to emigrate. A new prolonged period of weakening attention to the problems of financial science began. It was to some extent reinforced by the fact that in economic practice and theory the belief that under socialism the main function of money is counting means started to dominate again.

Gradually one of the primary principles of socialism was realized — to expropriate and redistribute. In the course of carrying out the government-approved plan the profits of an enterprise were confiscated for the benefit of the State and were then re-divided. It was the main principle of the Soviet state financial development. Long and utter underestimation, both in practice and in theory, of the role and meaning of the value law, finance, commodity-money relations and money in general caused the underestimation of the finance science itself.

The ideological factor should also be taken into account — the proclamation of the need to combat 'bourgeois ideology' and the capital influence. This provoked almost complete denial of the positive experience that was compiled in pre-revolutionary Ukrainian financial science. The standing conquered by Ukrainian scientists in the financial field was being lost; their works were not only revised, but removed as those of 'bourgeois economists'. The tomes of S. Hlovaiskyy, I. Patlayevskyy, I. Tiktin, I. Yanzhul and other scientists were removed during the second half of 19th — early 20th century. They are usually unknown by the modern generation as well, because the theoretical development of financial law as an independent law branch actually started only in the early 1950s the twentieth century to matters.² The return to the scholarly heritage of the late nineteenth — early twentieth century would begin, in fact, only in the second half of the 1980s and actually continues today.

Representatives of the new 'scientific' thought carried out an audit of the previous financial science achievements in order to adapt completely revised

¹ Kulisher I.M. Sketches of financial science. — Issue 1. — 252 p.

² Khalfina R.O. To the problem of subject and system of the Soviet financial law / R.O. Khalfina // Questions of Soviet administrative and financial law; edited by V.F. Kotok. — M.: Publishing house of USSR Academy of Sciences, 1952. — P. 194-195.

orthodox Marxism regulations to the financial science development. The new socio-economic conditions of transition from capitalism to socialism and state socialism were taken into account. For example, the textbook *Local Finance* by V. Tverdokhlebov, which was published in Odessa in 1919, following the general characteristics of self-government contained detailed analysis of the governmental financial provision system, which was formed in pre-revolutionary Ukraine and Russia, at the levels of zemstvo, municipal дума and uprava, county and village uprava. The system of local taxes and fees, the organization of local government and control over it was analysed in details; a large block of questions was set about the municipal credit: communal banks, government bonds, private equity forms of credit, the purpose and activities of municipal and zemstvo credit banks.

Some sections of the book included an overview of financing municipal utilities companies — water supply, power plants, steam houses, etc.; an analysis of tariffs and payments, which were set for them, sources and amounts of profit received. All of the above was shown in relation to the local government organization and Western local finance systems — English, French and German ones.¹

It is significant that in the preface to this edition the scientist indicated the general tendency in the local finance development. 'One of the most characteristic modern history features is the increase in the public sector, government and other public law unions gradually encompass almost all public life and economy sectors.'² In the late 19th — early 20th century all states gradually began to transfer some of their functions related to public education, health, and urban maintenance to local unions. A wide municipalisation process was happening in Europe and the United States, accompanied by rapid financial rights growth and expansion.

Under the influence of changes in the late 1920s in Ukraine, which were the result of extreme centralization of the financial system, V. Tverdokhlebov revised his *Local Finance* which was to be published in 1927. According to the author, he had to write the book anew, because during the and after war dramatic changes had happened, and the local Soviet Russia (Ukraine) financial system was being established on entirely different unprecedented principles³. In this edition chapters on local finance organization in old Russia were cut, and a significant place was taken up by the material outlining the current legislation of the USSR.⁴

¹ See: Tverdohlebov V.N. *Local Finance*. — 135 p.

² *Ibid* — P. 1.

³ See: Tverdohlebov V.N. *Local Finance* / V.N. Tverdohlebov. — M.: Publishing house of People's Commissariat of Internal Affairs of the RSFSR, 1927. — 264 p.

⁴ *Ibid*.

In Ukraine, this course was very popular, because Kyiv Institute of National Economy (1920) specialized in the local economics field. Economists for municipal services were taught there. This specialization started with Kiev Commercial Institute (since 1908), which of 1912 included a local economics department and local (zemstvo and municipal) economics office was established.

The Faculty of Economics contained 19 economic disciplines seven of which were profile courses devoted to local finance (organization of zemstvo small loans, local finance, local self-government structure, zemstvo municipal economics, zemstvo self-government policy, zemstvo economic activity, zemstvo and municipal buildings and businesses organization).¹ In addition, in 1919 at the Kiev State Commercial Institute (now — Kyiv National Economic University) the first in Ukraine and Russia department of local finance was created. On the basis of this department and the local economics office, initiated by the Faculty of Economics Dean P. Kovanko, research and development department of local economics was established, which became the basis for the same-name specialization students.

In Ukrainian universities of this period the course *Finance* was still being studied. However, among this discipline's teachers gradually a distinction forms: 1) those, whose financial research and teaching were based mainly on the works of famous pre-revolutionary Ukrainian and Russian financiers — I. Yanzhul, I. Patlayevskyy, I. Ozerov, V. Lebedev, L. Hodskyy etc.; 2) teachers who followed the Marxist economic theory representatives. In their courses the former tried to apply comparative historical method of presenting the financial, and especially tax, policy in the developed capitalist countries of Western Europe and the Soviet Union, make the most of their predecessors' achievements in the financial science. They are also known as 'followers' (M. Sobolev, K. Voblyyy, V. Tverdokhlebov and others). By their work, as emphasized by M. Sobolev in the preface to his book they tried, 'to meet the needs of the broad readers' community in a small volume and intelligible book, which would give an opportunity to learn the basic problems of financial management.'²

The course *Financial Science* by V. Tverdokhlebov, which he gave in Petrograd Polytechnic Institute, gave a typical example of the financial science in both the capitalist countries and the Soviet state. The 1927/28 school year program of this course has been preserved.

¹ Kyiv National Economic University named after Vadym Hetman. Centenary progress (1902-2006). — K., 2006. — P. 14; 110.

² Sobolev M.N. Essays of financial science (public talk). — P. 1.

It is not accompanied by any author's explanations, comments, lists only the main sections of the course and provides an overview of financial science curriculum, which was taught by the so-called followers:

The essence of financial science.

Revenues and expenditures.

State industry, trade and credit companies.

Railways, history of railways in Russia.

The general theory of taxes.

Direct taxation and its history in Russia.

Tax burden shifting theory.

Income tax, its history and current state in England, Prussia, France, and Italy.

Income tax in the USSR.

Indirect taxes.

Customs duties; State credit — general notion, state credit in the USSR.

Local Finance.

The budget, the unified budget in USSR.¹

The second category of the 'scientists', representatives of the Marxist movement, began to adapt the orthodox Marxist principles to the financial science development. The main directions of this revision in financial science were:

1) drastically reconsidering the fundamental provisions of the old economic and financial science;

2) 'withering away' of the state with which finances were organically linked was put off for unspecified long time and went beyond not just transition period, but socialism in general. The historical fate of finance and financial science was very different from what the Marxist forecasts anticipated;

3) spreading thoughts on comprehensive development of financial science in the works of Marx, Engels, Lenin.

The tone of this process was set by the Russian economist M. Bogolepov, well-known in Ukraine, as in 1910 he defended his master's thesis *Public Debt (the Theory of State Credit)*. *Typological Essay* in Kharkiv University, then repeatedly came here to lecture university students. Even in 1920s he put forward four points of difference from the 'bourgeois science' in his approach to study finance.

These were presented as the need to study finance in close contact with 1) economic system and state organizations; 2) the world economy;

¹ Essays on the History of Fiscal Science: St. Petersburg State University. — P. 400.

3) political economy and theory of the state; 4) class point of view¹; hence the conclusion about the necessity to distinguish between the bourgeois society finance and that of society transitioning to socialism. Concerning socialism finance and financial science under socialism, the need for their existence was denied, considering it a relic of capitalism.

It should be noted that the influence and authority of M. Bogolepov was quite significant because of his active cooperation with one of the Soviet political and economic leaders, and during the NEP period a Minister of Finance — G. Sokolnikov (1922–1926). It was during his work in the People's Commissariat of Finance in 1920 that Conjunction Institute was established, headed by M. Tugan-Baranovsky's student, the prominent Russian economist N. D. Kondratiev. In 1921 the Institute of Economic Research was also established. Many Ukrainian and Russian economists of the time worked in these institutions and stayed in Russia and Ukraine. It was the centre of the scientific thought formation in the 1920s Ukraine and Russia.

Institute for Economic Research was a scientific body for development of financial problems, where preliminary discussions were held on the economic management issues the country was facing, and critically evaluated the results of the implemented activities. In its scientific and consulting capacity the Institute covered all sides of finance and finance related issues of agriculture, industry, trade, transport, and sport. Within this institution many valuable scholarly monographies, books and articles on financial issues were prepared and published. *Bulletin of Finance* became the official agency of People's Commissariat of Finance. Ukrainian scientists took an active part in publishing their research results here.

In Ukraine the coordination of creative financial thought started earlier. Back in period of the Ukrainian Academy of Sciences (UAS) formation in November 1918 a socio-economic department was formed, initiated by, and in fact headed by, Tugan-Baranovsky. It included the departments of banks, money and finance.² Aside from Tugan-Baranovsky, in active collaboration with the departments to develop scientific programs of financial problems were Voblyy K., R. Orzhentsky and many others.

In just a month after the creation of the UAS, on December 5, 1918 Research Institute of Economic Conditions and the Ukrainian Economy was established. M. Tugan-Baranovsky was its first director. Then, M. V. Ptukha (1884–1961), K. G. Voblyy, and R. M. Orzhentsky acted as directors of the

¹ Finance theory: textbook / [P.M. Leonenko, P.I. Yukhimenko, A.A. Iliencko and others]; edited by O.D. Vasylyk — K.: Center of educational literature, 2005. — P. 86.

² Ptukha M.V. Five years of the third socio-economic department of Ukrainian Academy of Sciences (1919-1923) / M.V. Ptukha. — K., 1924. — P. 4-5.

institute consequently. Initiated by the latter the Institute would be closed in 1922 due to lack of funding¹. At the same time government agencies actively funded programs of similar Institute established in Moscow, which largely borrowed the experience of Ukrainian scientists and continued researching economic conditions and the economy of the Union as a whole.

It should be noted that the task of the Ukrainian Institute's scientists was not only to study the economic conditions. With the active involvement of Kyiv Institute of National Economy students, collection of the materials was carried out. Staff members later conducted scientific study of them, characterizing the state of production, trade and money market and the labour market. The Institute performed the important function of forecasting markets for the nearest future.

In general, without any exaggeration a rather high level of financial research in the 1920s can be noted in the Ukrainian Academy of Sciences (UAS), acting members of which were Tugan-Baranovsky, K. Voblyy, V. Vernadsky, R. Orzhentsky, M. Ptukha etc. It was here that the centre of financial science problems research moved to from the universities. The paradox consisted in the fact that for a long time in UAS scientific research was carried out with the support of the Soviet government and the state budget, but was mostly not 'Soviet' in terms of both the methodology, and the subject. In particular, if new-born university professors strongly opposed themselves to the pre-revolutionary 'bourgeois' and 'nationalist' science, the academic financial science actually continued the best traditions of their predecessors. The Academy researchers examined the government finances from this perspective as well. However, the scope of such studies in the total volume was quite small.

The Association of Economists initiated by R. Orzhentsky played an important role in spreading the scientific achievements and revitalization of scientific thought of this period. R. Orzhentsky became its first chairman.

Association pursued its aim to promote the development of economic and financial science in Ukraine, to spread economic knowledge, to unite economists, theorists and practitioners alike for their successful work. There was a section of Applied Economics, which actively discussed the financial science problems and started active preparations of numerous terminological dictionaries. As a result, the first terminological dictionary of accounting was created.² In 1923 K. Voblyy was elected the Association Chairman. Sections (of which there were already six) were headed by: in Theoretical Economics —

¹ Ptukha M.V. Five years of the third socio-economic department of Ukrainian Academy of Sciences (1919-1923). — P. 12.

² Ibid. — P. 14.

E. Slutsky; in Applied Economics — L. Yasnopolsky; in Statistics — M. Ptukha; in Economy Accounting — M. Pleskachevsky; in Study of the Ukrainian Agriculture — F. Zadorozhny; in Cooperative sector — V. Hanchel.

The Association's work was supplemented by socio-economic department of UAS holding scientific problem seminars. In particular, under the R. Orzhentsky's guidance statistical and economic seminar operated on the basis of two divisions (theoretical statistics and economics). The theoretical foundations of statistics were studied by the Russian economist O.I. Chuprov's principles, in particular through his famous work *Essays on the Theory of Statistics*, while the theoretical economics — by the works of Ricardo¹. Hence, one could argue that till the end the 1920s Ukrainian financial thought developed in line with the global financial thought's fundamentals and principles, upholding the traditions of the Kiev financial scientific school.

In 1926 M. P. Brukhanov (1926–1930) headed the People's Commissariat of Finance. He sharply restricted scientific financial activities. In 1927 Institute for Economic Research was closed. One of the last reports of the Public Credit Commission of the Institute was made by the University of St. Vladimir alumnus V. Zheleznov.

In 1927 the Commission discussed the immediate tasks of the USSR public credit. Ukrainian financiers advocated the voluntariness principle in the allocation of government loans, although in practice M. Bukovetsky's proposal to expand the application of coercive state loans prevailed. M. Bukovetsky in his arguments referred to the international experience, where even highly developed countries such as England, used the forced state loans practice. Application of this method in the USSR, in his opinion, could contribute to the rational reallocation of free capital among various sectors of the economy.

Ukrainian scientists opposed such corporate capital usage. Their main arguments were that increasing costs for bringing extremely worn and obsolete equipment to good condition, while simultaneously reducing the selling prices could greatly reduce the profits of state industrial enterprises and cause a suspension of reserve and emergency capital accumulation. Therefore, V. Zheleznov said 'public credit operations designed for these capitals may become unproductive or even completely ineffective'.²

B. Zheleznov considered it undesirable for state to extract the depreciation fund to redistribute, as it could disrupt the normal functioning

¹ Ptukha M.V. Five years of the third socio-economic department of Ukrainian Academy of Sciences (1919-1923). — P. 25.

² Zheleznov V.Y. The immediate objectives of the USSR state loan / V.Y. Zheleznov // Finance Bulletin. — 1927. — № 4. — P. 43.

of state enterprises. Unlike his Russian colleague M. Bukovetsky, who did not deny the necessity and importance of state capital redistribution in the industry, but rejected implementation of it by credit forms, V. Zhelezov permitted such redistribution of capital. He believed that 'reserve capital of enterprises could be stored in a special industrial loan bank and be realized in a specific order.'¹

In 1928 the Conjunction Institute was closed. In the 1928–1930 several times the editorial board of *Bulletin of Finance* was changed; instead of highly skilled financial professionals the Stalinist ideology representatives became its members, significantly changing the content of the magazine. Already in 1930 *Bulletin of Finance* was renamed into a new magazine *The Financial Problems of Planned Economy* (in 1931 — *Credit and Planned Economy*), later as *The Financial Problems* (released only twice) and soon thereafter the magazine was closed.

In 1931 the Moscow conference of Marxist financiers took place, under pressure from which financial science teaching was greatly restricted.² Discussions started on the problems of Soviet finance's essence as fundamentally different from that of capitalist countries finance; they would continue into the 1950s. At the centre of the debate, in which Ukrainian financiers were pulled into, were the issues of: financial relations — monetary funds at the state's disposal or a system of industrial relations tied to the formation and use of funds; finance — expression of only monetary relations or all the economic relations; finance — distributive or redistributive relations; what functions finance do; what the financial system includes and others.

Despite all tragic changes for the financial science, the 1920s were still productive. Ukrainian scientists together with Russian colleagues studied specified problems of financial science. Among the publications of this period it is necessary to name a series of books called *Library of Financial Knowledge*, which included a fundamental collective monograph on tax matters in foreign countries.³ Like other publication of this series, it was a generalization of research conducted within the Institute of Economic Research.⁴ Russian and Ukrainian scientists-financiers, studying and describing contemporary tax levy forms in six major capitalist states had

¹ Zhelezov V.Y. The immediate objectives of the USSR state loan. — P. 40.

² 70th anniversary of NIFI // *Finance*. — 2007. — № 3. — P. 68.

³ See: *Taxes in foreign countries* / compiled by A.I. Bukovetsky, P. Hansel, I.M. Kulisher, V.N. Tverdohlebov; edited by V.N. Tverdohlebov. — M., 1926.

⁴ Hansel P.P. *Direct taxes: Essay on the theory and practice* / P.P. Hansel. — M., 1927; Mikaladze P.V. *Direct taxes: Essays on the Theory and Practice* / P.V. Mikaladze. — L., 1927; Pontovich E.E. *Financial Control* / E.E. Pontovich. — L., 1928.

tried to explore the issue of optimal taxation in Soviet conditions.¹ This was emphasized by K. Shmelev. 'Their experience,' — wrote the scientist — 'is the most instructive for the Soviet Union.' In particular, M. Sirinov stressed not only its theoretical, but practical significance. 'Our tax system (Ukrainian and Russian — *Author*),' — said the scientist — 'is far from perfect. We are always looking for new ways and do not always know that other peoples have «been there and done that» and the journey does not always end favourably'².

Ukrainian financiers actively participated in the preparation of *Financial Encyclopaedia* done by the Institute of Economic Research. Ukrainian scientist V. Tverdokhlebov was appointed as the Chairman of the Finance Committee that was engaged in the publication preparation. He was actively helped by J. Kulisher and others. Encyclopaedia was published in Moscow in 1924.³ The review of this edition is interesting and instructive for modern publishers of such literature. It noted that the editors, 'highlighting the «practical and technical aspects of the issues»... did not limit themselves to simple inquiries and generalization of modern financial practices and legislation, but also widely introduced (in all main articles) historical and comparative overview of the situation for same issue in foreign countries, as well as the analysis of Russian and foreign literature.

This favourably distinguishes work being reviewed, from other similar publications and brings it to the type of *Encyclopaedic Dictionary* by Brockhaus and Efron or foreign specialized dictionaries...⁴ In 1927 *Financial Encyclopaedia* was reprinted, edited by G. Sokolnikov, D. Bogolepov, A. Bukovetsky, M. Derevenko and D. Tarasov. One third of work was updated, and the rest — radically redesigned⁵ in the Marxism-Leninism spirit.

In the early 1920s J. Kulisher, M. Sobolev and other Ukrainian financiers contributed to the preparation of *Trade-Industrial and Financial Dictionary* in three volumes, released in 1924–1926, edited by G. Tsyperovych. As already noted, M. Sobolev prepared *Essays of Financial Science* (1925) with regard to the social and economic changes, but it was not yet ideologically

¹ Taxes in foreign countries / Edited by V.N. Tverdokhlebov. — M.: Finizdat, 1926. — P. 5.

² Sirinov M.A. [Book Review: «Taxes in foreign countries». — M., 1926] / M. A. Sirinov // Finance Bulletin. — 1926. — № 11. — P. 114.

³ Financial encyclopedia / Edited by I.A. Blinov, A.I. Bukovetsky. — M.: State Publishing House, 1924.

⁴ See: Book Review: Financial Encyclopedia / Edited by I.A. Blinov, A.I. Bukovetsky. — M.: State Publishing House, 1924 // Finance Bulletin. — 1924. — № 9, 10. — P. 313-314.

⁵ See: Financial Encyclopedia / Edited by G.Y. Sokolnikov, N.P. Bogolepova, A.I. Bukovetsky and D.G. Tarasova. — M.: State Publishing House, 1927. — 580 p.

compromised. All the attempts of Ukrainian economists to give finance studying a scientific basis would be halted in the 1930s.

At the turn of 1920–1930s of the Soviet government firmly undertook to form a 'new' Marxist-Leninist financial science. The Ukrainian scientists were finally ordered to end the traditional manifestations of intellectual opposition, to change methodology based on the principles and ideology of Marxism-Leninism, reject the bourgeois-liberal values of the old financial thought and faithfully serve the ideas of proletarian dictatorship, theoretically justifying the new state financial policies.

In 1929 in the *Library of Financial Knowledge* series A. Bukovetsky's work 'Introduction to Financial science' was released, in the preface to which the author said that it was 'the first attempt in the financial literature — based on Marxist ideas — of historical materialism — to present just the accession into financial science.'¹

The signal to start the mass criticism of 'followers' in Ukraine and Russia came with the first negative review in the *Bulletin of Finance*.

In particular, one of the quasi-theorists D. Butkov wrote, 'Marxism permeated the finance only slightly', in the financial science 'are still firmly rooted bourgeois apologists, who have been refuted in the economic field long ago and sneak in the alien to Marxism concepts through financial science into the same economics'.² That was the beginning of Stalinist ideology attack.

Destruction of the real financial scientists like the 'followers' was accompanied by glorification of quasi-theorists. Physical elimination of the old professorship that had more or less loyal attitude to the Marxism-Leninism ideology, but was very far from Stalinist views began. In these circumstances, not only the idea of methodological positions revision and 'converging theory to life' was disastrous, but especially those uncompromising forms in which it was realized. Intolerance of dissent, the practice of attaching ideological labels, governmental directives to reject the methodology and concepts of local economists-financiers of late 19th — early 20th century repeatedly led to the fact that financiers to some extent lost the 'bourgeois' subjectivism deficiencies and 'formal-dogmatic approach', but instead resorted to absolute class approach.

In the 1930s the works of M. Bogolepov had a significant influence on the Ukrainian financial thought. The Russian scientist, as already noted, was among the first to begin exploring the nature of Soviet finance. There came a

¹ Bukovetsky A.I. Introduction to Financial Sciences / A.I. Bukovetsky. — L., 1929. — P. 3.

² Butkov D. «Marxist sociology» in Fiscal Science / D. Butkov // Finance Bulletin. — 1929. — № 9. — P. 145.

time when the Ukrainian financial thought began to gravitate around the 'centre' — Moscow. The guidelines for Ukrainian financial thought were made by M. Bogolepov in his works: *The Issue of the Soviet Budgetary Law* (1940) and *Soviet Financial System* (1945). The crucial distinction between courses *Finance of the USSR* and *Finance of Capitalist States* was chosen by him as the central problem of scientific research: fundamental differences of the Soviet finance and finance of capitalist countries and criticism of 'bourgeois' theories were the main dominant of the socialist financial science. All studies were built on the Marxism-Leninism classics' quotes and the decisions of the party; the 'bourgeois' economists' works were removed from public libraries. This and the lack of tangible and objective scientific research resulted in furthering the lag of the domestic financial science from the global one.

In 1930 a textbook by a group of authors headed by M. Bogolepov was published. It was called *Fundamentals of the USSR Financial System* and became the basis of the textbook *The USSR Finances*, prepared by a group of employees of the Moscow Financial and Economic Institute and the People's Commissariat of the USSR (published in 1933 in two editions).

The textbook stated that the USSR finances are a form, 'the means to influence economic relations within the socialist sector and between the socialist and the rest of the national economy sectors', an important 'lever of planned allocation and reallocation of monetary resources through monitoring ruble for the purpose of expanded reproduction of socialist relations, restructuring of retail sector and limitation displacement and elimination of capitalist elements and classes'¹.

Courses *USSR Finance* and *The USSR Money and Credit* were saturated with superficial outlining of financial development, monetary circulation and credit at stages of socialist construction, leading to descriptiveness and parallelism, repetition of the same materials in these works, and in fact — to the lack of science.

The essence of financial science was again mainly confined to the state budget and its 'driving belts'. On the basis of establishing uniformity of Soviet loan and finance in 1937 these courses were combined in a discipline called 'USSR Finance and Credit', which attempted to bring the necessity and function of the Soviet Finance and relations within the expanded socialist reproduction. The course was stripped to the USSR budget and credit characterization. In the new edition of the textbook 'USSR Finance and Credit' (1940), Soviet finance was characterized as a special 'system of

¹ *Finance of the USSR* [textbook for students of financial and economic institutions] / Edited by V.P. Dyachenko. — M.: Gosfinizdat, 1933. — Issue 1. — P. 34.

forms and methods of planned money usage by the socialist state for ruble control over the production and circulation of goods, promotion of socialist accumulation and allocation of national income'. The authors emphasize that by 'finance the socialist state provides allocation and reallocation of funds in the interest of increasing social wealth, systematic improvement of Soviet citizens' welfare, strengthening of the socialist state and its defence capability'.¹

In the 1930s a significant part of Ukrainian and Russian economists argued that the law of value does not work in a socialist economy. This largely prevented the full identification of the nature and functions of Soviet money, credit, finance, their role in the expanded reproduction, not to mention the basics of price formation, allocation and circulation of financial resources of enterprises and so on. According to the voluntarist understanding of economic laws Soviet finances were considered only as a system of forms and methods of money use by the socialist state in accordance to its objectives and functions.

Money itself was considered an instrument of bourgeois economy that was taken up by the Soviet state and adapted to the interests of socialism, in order to extensively expand the Soviet trade and thus prepare the necessary conditions for the barter exchange. This approach was maintained until the early 1950s.

In 1960–1980s discussions remained on the issues of classification of Economic Sciences and the place of financial science, finance functions, the nature and structure of the financial system, the nature of social relationships that were included in the concept of Soviet finance, their connections with the law of value idea under socialism circumstances.

In the mid-1960s the study of the finance's role in the economy and restructuring of state-enterprise relationships expands, deepening the understanding of finance. For instance, Ukrainian scientist M. Bohachevskyy characterizes finance as 'economic relations of planned production, allocation and use of national revenue and total gross national product in their monetary form to ensure expanded socialist reproduction and meeting the personal and societal needs of proletariat, as well as controlling through the ruble activities of socialist enterprises, organizations and institutions'². This definition of M. Bohachevskyy was finally sufficiently all-encompassing. Such approach was fixed in encyclopaedias, particularly in the financial and credit dictionary (1964), edited by V. F. Garbuzov, in

¹ Finance and credit of the USSR: textbook. — 2nd edition, revised and expanded. — M.: Gosfinizdat, 1940. P. 38.

² Bogachevsky M.B. Finance and financial system of the USSR / M.B. Bogachevsky. — Lviv, 1956. — P. 12.

which the finance also was considered as a special sphere of economic relations and its component, whereas the financial science — as a tool for learning finance, its place and role in economic and social development.

The peculiarity of discussions among Ukrainian scientists of this period on the aforementioned issues was that for each of them a dominant point of view along with the 'peripheral' ones was set within the general Marxist paradigm. The latter served as a corner stone, which kept the inner unity of theoretical construction of socialist finance despite some conflicting views of scientists.

The distinguishing characteristic of the specialized Ukrainian financial literature was the thorough analysis of the foreign countries' public finances, especially the theory and practice of taxation in the works of famous national scholars M. Bohachevskyy, V. Fedosov, V. Sutorminoy and others.

In particular M. Bohachevskyy in his writings, *US and English Finance in the General Crisis of Capitalism* (1954) and *The Budget of a Capitalist State* (1960) analysed in detail the formation of a capitalist state budget and its budgetary procedures that were almost absent in the Soviet literature.

This period has also seen the innovative works of V. Vlasenko (1909–1970), who is the author of a fundamental monograph *The Theory of Money in Russia. The end of 19th century — pre-revolutionary period of the 20th century.* (1963), in which he analysed scientific activities of almost all representatives of the Kiev school from the standpoint of Marxism. At this time, the Department of Finance in Kiev Finance and Credit Institute was headed by a wonderful lecturer, fundamentally well-versed financier P. Rubanovskyy. His work *Accounting of State Revenue, Taxes and Fees*¹ was quite popular among practitioners and students. The department housed rather well-known Ukrainian scientists, in the theory of finance — M. Karpov, in money and credit — S. Gorokhov, in corporate finance — I. Mukhin, in budget — A. Mahazanyk, in current capital — M. Solopenko, in finance of foreign corporations — B. Sutormina and others. A significant contribution to the study of corporate finance problems, their interrelations with budget made scientists A. Danilenko, D. Polozenko, P. Verba and others.

V. Vlasenko, P. Rubanovskyy, V. Sutormina, Fedosov and others are the most typical representatives of Ukrainian financial thought of the Soviet period, who preserved the traditions of Kiev scientific school.

An important step in the finance theory development in the second half of the 1960s was made in studying the essence and functions of finance, financial system and financial planning. For example, M. Bohachevskyy in

¹ Rubanovskii P. Accounting for State Revenues, taxes and charges / P. Rubanovskii. — M.: Gosfinizdat, 1940. — 112.

the textbook *USSR Finance and Credit* (1964) proposed to study the theory of the budget, including the question of its nature, revenues and expenditures, budget planning basics, theory of government debt and state insurance. The author paid special attention to corporate finance.

Taxes in capitalist states attracted considerable attention of researchers. Progress in the study of this question was made with the return to the comparative analysis, reflection of taxation systems in their historical development¹.

By critically analysing the Western taxation theories, the researchers contributed the latest ideas to the taxation theory, considered tax policy as an important tool for reproduction regulation, and financial policies — as a 'dam from short-term fluctuations.'²

General characterization of the taxation system of some capitalist countries (USA, England, France — M. Bohachevskyy, V. Sutormina, Germany — V. Fedosov) keeps its scientific value even today. In particular, M. Bohachevskyy examined a system of direct and indirect taxes in the USA, England, France and analysed the problem of tax evasion in these countries.³

V. Fedosov in detail analysed the Bund tax system (of central government), states and regions in Germany. The originality of his work is marked by the fact that the author presented the material though comparison with other European countries of the 'Common Market'. Some local budgeting aspects are also important for the development of local self-government in Ukraine. In his later work *The Taxes in the Modern Capitalism Economy (on the Example of Germany)* (1977), V. Fedosov paid great attention to the theory of tax burden shifting, which was considered to be the most difficult and most important in the theory of taxation by the Kyiv School representatives. The researcher touched upon some theoretical aspects, which are at the forefront of the modern financial science. In particular, the problem of relation between shifting taxes and economic growth, the relative suitability of different types of taxes to be shifted, the impact of the cyclical fluctuations of the economy on the shifting process, the issue of shifting certain types of taxes, and others.⁴

An important aspect of the work of Ukrainian economists and financiers in the 1970s was to prepare educational material for students and lecturers of

¹ See: Bogachevsky M.B. Taxes of capitalist states / M.B. Bogachevsky. — M., 1961. — Chapter II.

² Fedosov V.M. Taxes in the system of state-monopoly capitalism in FRG / V.M. Fedosov. — M.: Finansy, 1969. — P. 14-29.

³ See: Bogachevsky M.B. Taxes of capitalist states. — P. 145-236.

⁴ Fedosov V.M. Taxes in the system of state-monopoly capitalism (FRG as an example) / V.M. Fedosov. — K.: Vyscha Shkola, 1977. — P. 102-151.

economic universities and faculties, financial business employees of Ukraine. One of the first such manuals in Ukrainian was prepared by a group of authors (M. Berkov, S. Ogorodnyk, V. Fedosov, M. Oleksiyenko, I. Gal, O. Zaitsev, and others), edited by Professor M. Berkov. This was an important step in the development of Ukrainian financial thought, as under socialist circumstances Ukrainian scientists promoted the idea of preserving money, commodity-money economy and studied the law of value.

'The objective connection between money and commodities discovered by Karl Marx,' — the authors stressed — 'fully keeps its power in the socialist economy.'¹

In the aforementioned textbook the authors expressed their understanding of the term 'finance'. In particular, V. Fedosov and S. Ogorodnyk emphasized that 'it is not money, but economic relations, which appear in the formation, allocation and use of income, savings and corresponding sources of public funds.'² The flow of the money funds, their formation and usage create the material basis of finance. The authors identify two functions of finance: allocation and control. The idea expressed in the textbook has not lost its relevance today, saying every financial transaction involves an allocation of national product and national income and control over this process. 'Allocation and control functions that are objective,' — the authors pointed out — 'are closely linked and work in the organic unity. The funds turnover in the economy is impossible without finance allocation function, the effectiveness of their usage increases as a result of the control function.'³

In the textbook *Finance and the Financial System of the USSR* it is specified that the essence of the allocation and control processes by means of finance — is the transformation of value content of the national product in very specific types of income, ensuring control through ruble⁴.

In the textbook *USSR Finance and Credit* for the first time in Ukrainian financial literature the corporate finance nature is defined. By its scientific components it is close to the modern definitions. The authors explain that it is an economic relation, by which 'monetary income and funds are created and used to meet their own and state needs'⁵. The authors give a scientific interpretation of 'profit' and 'profitability' concepts. The same can be said about the definitions of 'state budget', 'budget system' and others.

¹ *Finance and Credit in the USSR: textbook* / [S.Ya. Ogorodnyk, M.M. Oleksiienko, M.I. Savluk, V.M. Fedosov and others]; Edited by M.T. Berkova. — Lviv: Publishing Association «Vyshcha Shkola» at Lviv University, 1974. — P. 4

² *Ibid.* — P. 50.

³ *Ibid.* — P. 59.

⁴ Fedosov V.M. *Finances and financial system of the USSR: textbook* of V.M. Fedosov, O. F. Kuznetsov. — K., 1975.

⁵ *Finance and credit in the USSR.* — P. 77.

In the second edition of the above-mentioned work¹ the authors had greatly expanded the content of textbook, especially by reviewing the evolution of and financial planning and organization changes, credit, payments and cash flow. However, the textbook maintains the established Marxist-Leninist canons, while differing from the other works by scientism and the depth of analysis of the financial science categories. The authors were unable to save its Ukrainian identity; it was translated into Russian due to the increasing attention from the Central Committee of the Communist Party to the study of the Russian language.

Along with the Ukrainian scientists and financiers preparing the educational literature for the course *USSR Finance and Credit*² considerable attention was paid to the educational literature preparation in the field of capitalist states' finance. Soviet ideology artificially narrowed the possibilities for adequate scientific analysis of the financial sector, especially when it concerned the theoretical and pragmatic issues of capitalist countries' finance. However, even in these circumstances, the Ukrainian scientists tried to analyse the nature and content of financial phenomena as objectively and impartially as possible.

In 1970 a vivid example of this was the release of the first textbook *Finances of Capitalist Countries* in Ukrainian, which survived several editions (Russian translation in 1976 and 1983). The innovative character of the author — V. Sutormina manifested both in the content of the book and in the approaches to the presentation of the material. In addition to the review of general approaches to the essence of the capitalist state finances, the scientist analysed the financial systems of a number of developed countries — the US, Britain, France, Germany and Japan. The systematic presentation was given not only to the genesis of capitalist states finance, but to the specifics of tax and budget policy. The issues of finances of state enterprises, local finance, and organization of financial control were also investigated. Apart from some aspects of politicization that were typical for the entire financial and economic literature of this period, it was a step forward in terms of providing objective scientific information for comparative analysis of different countries' financial systems by the future experts.

The logical continuation of this trend was the work of V. Stepanenko, V. Fedosov and V. Sutormina *Critique of Bourgeois and Reformist Theories*

¹ Finance and credit in the USSR.: textbook / edited by N.T. Berkov. — 2nd edition, revised and expanded. — Lviv: Vyscha Shkola, 1987. — 373 p.

² See: Bohachevskiy M.B. Finance and Credit of the USSR / M.B. Bohachevskiy. — M.: Economics, 1964.

Fedosov V.M. Finances and financial system of the USSR: Textbook / V.M. Fedosov, O.F. Kuznetsov. — K., 1975.

of *Monetary and Financial Relations of Capitalism* (1979)¹. The contents of the work fully reflect the authors' critical approach to the most important theoretical issues of financial science — inflation and monetary role of gold, public finances. The book was one of the first in Ukraine in which the origins, evolution and foundations of Western financial thought were investigated and revealed. It was noted in the Yearbook of the Great Soviet Encyclopaedia (1980, Vol. 24) among significant monographs released by USSR Academy of Sciences in 1979. It received one of the awards at the competition of scientific works in the system of the Ministry of Education of Ukraine in 1980. The issues investigated in that monograph remain the focus of Professors' V. Sutormina and V. Fedosov research².

In this context the work of V. Fedosov *Modern Capitalism and Taxes (Questions of Methodology and Taxes)*³ should be mentioned. For the first time in Ukrainian financial science it considers the methodological principles of tax research, general philosophical assumptions, foundations of methodology and scientific cognition theory of this complex financial category, the peculiarities of their functioning as a specific form of monetary relations.

Also worth noting is the Ukrainian scientist-financier of the Soviet era M. Oleksiyenko. He dedicated his whole life to creative development of the economic and financial sciences. In his writings he analysed a large amount of historical material and practical applications. The history of the USSR financial and credit system the scientist investigated in the process of its growth and development, emphasizing the need to strengthen the financial management of enterprises, to empower the local governments and strengthening their financial base.

In the collective monograph⁴ and in his own book *Money Accumulation of and the Reserves for Its Growth* (1972) M. Oleksiyenko considered the issue of reducing social labour costs of production and the role of financial and economic incentives to increase cash savings.

Special attention in M. Oleksiyenko studies was paid to strengthening financial power and resources of local councils, including village, town and

¹ Stepanenko V.A. Criticism of bourgeois and reformist theories of monetary and financial relations of capitalism / V.A. Stepanenko, V.N. Sutormina, V.M. Fedosov. — K.: Naukova Dumka, 1979. — 331 p.

² Finances of capitalist system: textbook / [B.H. Boldyrev, L.P. Okunev, L.P. Pavlov and others]; edited by B.G. Boldyrev. — Moscow: Finance and Statistics, 1990. — P. 227-267; Finance Theory: textbook / edited by V.M. Fedosov, S.I. Yuriy. — K.: TSUL, 2010. — P. 104-207.

³ Fedosov V.M. Modern capitalism and taxes (questions of methodology and theory): [monograph] / V.M. Fedosov. — K.: Vyshcha shkola, 1987. — 126 p.

⁴ Alekseenko M.M. Reproduction of fixed assets of industry and efficiency of their use / M.M. Alekseenko, P.S. Balitska, L.G. Gorbenko. — L.: Publishing Association « Vyshcha Shkola » at Lviv University, 1978. — 171 p.

city ones.¹ Along with the famous Ukrainian scientists and financiers S. Ogorodnyk, V. Fedosov and others, M. Oleksiyenko actively participated in writing the books on the USSR finance and credit, industry finance.²

The first textbook in the USSR in which questions on the crisis of Soviet economy and finance were sharply raised, was a textbook by Ukrainian scientists called *Public Finance* (1991). By the way, it was the first in the Soviet Union tutorial with this name. The best scientists and financiers of the country took part in writing it. The issues discussed in it were very relevant and were at the centre of the scientists' focus.

In 1970–1980s collaborative research of Ukrainian scientists with the scientists from Eastern European countries intensified. For example, the Department of Finance of Kyiv National Economic Institute actively collaborated with colleagues from Slovakia (Bratislava) and Poland (Katowice). The result was displayed in quite interesting joint publications. In particular, in 1989 in Katowice a monograph *The Financial and Credit Mechanism and Its Role in Increasing Production Under Socialist Regime* was published together with Ukrainian scientists. In it based on the materials from Ukraine and Poland current issues of economy and finance development were considered.

Evidently, even in Soviet conditions, trapped by party and ideological dogmas, Ukrainian financial thought managed to not only survive through its individual representatives, but on some issues of public finance and taxes theory, study of finance abroad and global financial thought to even move forward.

Yet, on the whole Ukrainian financial science at this time developed in the wake of then current party political doctrine and could not become a metaphorical compass for radical changes in the market changes that occurred in the late 1980s. However, pluralism and democratization of public life to some extent opened up the possibilities for financial science. The influence of political structures, the Marxist-Leninist ideology and dogma weakened.

This is especially true for the financial thought of Ukraine. Financial science began to gradually exempt from ideological overwriting. Ukrainian financiers began to explore the ideas of their pre-revolutionary predecessors more deeply. The scope of research expanded in terms of categorical and conceptual apparatus of financial science, which belongs to the global theoretical values. Methodological arsenal of the Ukrainian financial thought notably enriched. In the strictest sense, the revival of the financial science finally began.

¹ Alekseenko M.M. Budget and financial work of rural and village councils of people's deputies / M.M. Alekseenko, R.I. Saranchuk, D.N. Kiselev. — M.: Finance and Statistics. — 268 p.

² Finance and Credit in the USSR / Edited by M.T. Berkova, M.M. Oleksiyenko. Finance of socialist industry: textbook / M.M. Oleksiyenko, T.I. Yeremenko, O.P. Zaitsev. — Lviv: Publishing Association «Vyscha Shkola» at Lviv University, 1971. — 258 p.

Section 5

REVIVAL OF UKRAINE'S FINANCIAL THOUGHT AT THE MODERN STAGE

The Soviet era in the development of Ukrainian financial thought came to an end with the proclaiming of Ukraine's independence in the early 90's. The Soviet financial thought was actually based on two central initial postulates: 1) interpretation of the essence of finance as any relationship and 2) characterization of finance in capitalist countries as a means of additional (financial) exploitation of workers. However, in the West the postulates were on the margins of the main currents of financial thought.

In the Marxist definitions of finance as a relationship, only several variations were allowed: industrial, social, economic, monetary, financial, etc. After a long ideological deformations and the actual total collapse of financial science and financial thought a period of revival began. They freed from the Communist Party's ideologization and Marxist-Leninist class tenets and dogmas. Entirely different theoretical and methodological approaches and principles are being formed; a complex process of formation and development of financial science and financial opinion of independent and sovereign Ukraine is going on.

The search for new approaches to fundamental nature of financial science began; financiers faced important issues on developing trends, tools, instruments for macro-financial stabilization and economic growth, strengthening the national currency, the revenue base of the state and corporate finance, financial market development, expansion of financial basis for local governance, and effective financial management. Changing and expanding the object of research inevitably caused the reconsideration of previous ideas about the nature and role of finance, value and historical mission of financial thought, and also led to the formation of new attitudes, approaches, and a new financial outlook. The range of theoretical positions and postulates of financial science, as well as its pragmatic aspects significantly expanded.

Hence, it is worth noting the contribution of representatives of the new generation of Kyiv financial school of thought, in particular scholars from the Department of Finance at Kyiv Economic University named after Vadym Hetman, whose research papers contributed to channeling Ukrainian financial thought, into the mainstream of the global financial science. They

prepared first new Ukrainian textbooks, manuals and monographs on various areas of financial science¹. In a wide range of their research interests of high priority are the issues of methodology and theory of finance (especially tax), global financial thought, the place and role of finance and taxes in the economies of leading countries, budget and fiscal management, macro-financial budgeting, fiscal federalism, etc.

A monograph «State — Taxes — Business (from international practice of fiscal regulation of market economy)», written by V. Sutormina, V. Fedosov, and V. Andrushchenko and published in 1992, is considered a significant study for the national science of finance. The relevance and timeliness of the work at that time cannot be overemphasized: the young Ukrainian state had just begun to form its own tax system, and its sovereignty was largely dependent on the budget capacity. In these circumstances, the work devoted to actual problems of fiscal regulation of economic processes was extremely timely, and its ideas have been in the focus of Ukrainian economists and financiers for years.

In the book, based on original sources of financial and statistical institutions, official publications of legislative and executive branches of the world's leading countries, the authors describe the place and role of taxes in the system of market relations, organization and instruments of taxation, activity and functions of tax authorities, forms and methods of their work. A particular attention is paid to applying scientific achievements of the Western financial thought to the tax policy of the Western countries.

The first Ukrainian textbook «Tax System of Ukraine», edited by V. Fedosov, is also noteworthy. The book gives a detailed analysis of Ukraine's tax policy and tax system, fundamentals of tax administration and taxation, functions, rights and obligations of taxpayers. The mechanisms of paying various taxes as well as their structural and logical circuits are also dealt with in the textbook.

The method of calculating taxes and payments to the budget is illustrated by numerous examples.

A particularly important study undertaken by Andrushchenko and Fedosov entitled «Zaporizhzhya Sich as Ukrainian phenomenon» was among

¹ See: State Finance: [Textbook for students of economic in high schools and departments] / Fedosov V.M., Oborodnikov S.Y., Sutormina V.N. — Kyiv: Lybid, 1991. — 276 p.; State — Taxes — Business (from international experience of fiscal regulation of market economy): [monograph] / Sutormina V.M., Fedosov V.M., Andrushchenko V.L. — K: Lybid, 1992. — 328 p.; Finance foreign corporations: teach. guidance. / Sutormina V.M., Fedosov V.M., Ryazanov N.S.; eds. V. Fedosov. — Kyiv: Lybid, 1993. — 247 p.; The tax system of Ukraine / [Fedosov V.M., Oparin V.N., P'yatachenko G. et al.]; eds. V. Fedosov. — Kyiv: Lybid, 1994. — 464 p.; Andrushchenko V.L. Zaporizhzhya Sich as Ukrainian phenomenon / Andruschenko V.L., V. Fedosov; eds. V. Fedosov. — K: Testament, 1995. — 173 p.

the publications of that period. The book is about Ukrainian Cossacks, a unique phenomenon in our national history, Zaporizhian Sich and its public institutions. The research is based on slightly known (or completely unknown) facts related to the preconditions of establishment and development of Cossacks activity, social values, principles of economy and finance, treasury and treasure of the state of Zaporizhzhya, its culture and financial economic system.

Andrushchenko's works contributed to further deepening and broadening of knowledge about the evolution and trends of the global financial thought. In particular, achievements of financial science of the West are revealed in a separate study «Financial Thought of the West in the 20th Century. Theoretical conceptualization and scientific problems of public finances» (2000). The Ukrainian scholar builds his criticism of Marxist definitions of finance on the fact that at one time the concept of relationship became the bastion of cost economy. In his opinion, the concept of relationship does not provide quantification or criteria for measuring, and therefore becomes a theoretical invitation to waste. From V. Andrushchenko's point of view, considering finance as abstract relationships does not reflect the fundamental economic characteristics of financial phenomena: a quantitative dimension, limited resources, comparable quality, risk and uncertainty. Taking into consideration these critical observations, V. Andrushchenko regards finance «as a set of always limited monetary funds held by public authorities and concomitant institutional and organizational activities»¹.

The scholar examines the key areas of financial thought in the West in terms of themes and doctrines, describes schools of thought and views of scholars, financiers, especially some of them who were little known in the domestic financial literature. Already in the preface the scientist declares his attempt to revive and follow the former national tradition of «studying Western financial thought initiated by M. Aleksyeyenko, M. Bunge, I. Genzel, S. Ilovaisky, J. Kulisher, M. Mitalino, I. Ozerov, G. Tiktin, M. Tsytovykh, I. Yanzhul and many others, and followed by M. Bohachevskyy, B. Boldyrev, L. Kisterskyy, P. Leonenko, V. Stepanenko, V. Sutormina, V. Fedosov, A. Chukhno, etc»². The author emphasizes the great importance of examining key issues of finance through a historical perspective of financial thought. «Theory, science and art equally owe their existence to the achievements of the financial thought. A thought is an intellectual process at any stage of cognition of financial phenomena and with any possible results,

¹ Andrushchenko V.L. Financial thought of the West in the 20th century. The theoretical conceptualization and scientific problems of public finance / Andrushchenko V.L. — Lviv: Mason, 2000. — P. 5.

² Andrushchenko V.L. Financial Thought of the West in the 20th Century. — P. 10.

from a hypothesis to valid conclusions. The financial thought integrates everything that has been said about science and theory; it possesses theoretical and empirical tools to obtain knowledge»¹.

V. Andrushchenko identifies characterizing features of the modern paradigm of Western financial thought. In the author's opinion, they are specified by:

— The method of research: methodological individualism that assumes that financial events analyzed through the prism of beliefs, behavior and interests of individuals;

— The understanding of the nature of finance: interpretation of public finance as monetary substance dual in its similarities and differences in relation to other monetary forms;

— The social orientation: rejection of old-fashioned ideas about fiscal exploitation of people by the state;

— The ethics of scholarly dispute: recognition of inconsistency and diversity of scientific cognition, tolerance towards opposite opinions².

All this made it possible to make a further step forward and increment of new scientific knowledge, to lay a new foundation for financial recovery and development of new Kyiv School of Thought in Ukraine in terms of democratization and building an independent state. This particularly refers to the theoretical and methodological foundations of finance and taxes, their objective and subjective essence, methodological tools of financial opinions and characteristics of financial categories, the need for deep and radical restructuring of finance to transfer to the institutional model of a market economy.

In this process, it is important to apply institutional principles with the aim of exposing the internal structure of finance, and financial infrastructure of a market economy, as well as studying institutional factors of fiscal policy and justifying the thesis that the policy should be based on fundamental theoretical basis within a given financial and economic doctrine. Apart from that, the policy's priorities, strategic and tactical tasks, and criteria for their realization should be defined considering the necessity of a thorough reforming of financial model, economy and the country's finance.

The scientific outlook of financial science is quite broad and multidimensional. It includes public finance, corporate finance, insurance, financial markets and international finance. The central and dominant position here belongs to public finances, through which the state exercises its functions aimed primarily at ensuring macroeconomic and macro-financial

¹ Andrushchenko V.L. *Financial Thought of the West in the 20th Century*. — P. 15.

² See: *Ibid.* — P. 6-7.

stabilization of the economy and social development. Therefore, under the conditions of market transformations, domestic science of finance pays a particular attention to issues of public finances and their major components such as budget and taxes. In their studies, Ukrainian scholars and practitioners have analyzed theoretical, methodological and practical principles of the state budget, budget system, fiscal policy, budgetary mechanism and budget process, disclosed the essence, characteristics and problems of public financial management. A special place in investigating the public finance issues is devoted to taxes, taxation, tax system and tax management.

The vast majority of scientific papers in the field of finance studies are related to the problems of public finances. However, each researcher uses his own approaches to solving problems and formulates recommendations. All of that leads to scientific disputes, creative discussions and the availability of possible solutions.

The main research areas in the field of public finances are:

- Enhancement of financial stability of the public sector;
- Economic nature and the role of budget in the social and economic development of the state;
- Fiscal policy in the context of macro-financial stabilization and economic growth;
- Budgetary mechanism, the state's financial control over budget funds, budget management;
- State budget revenues strengthening and budget revenues restructuring;
- Taxes, administration of taxes, tax system, tax debt, the tax reform;
- Optimization of expenditures;
- Macro-financial budgeting, its techniques and technology;
- Optimization of the budget deficit;
- Financial relations with international financial organizations, the public debt and its management;
- Fiscal risk management;
- Local finances, strengthening the financial base of local governments.

A new theoretical and methodological foundation enabled the domestic scholars to take a new view of a wide variety of financial issues. In the studies of this direction S. Liovochkin's monograph «Macro-financial Stabilization in Ukraine in the Context of Economic Growth» (2003) is worth noting. The author defines and investigates its key parameters and carries out a comparative analysis of Keynesian and monetary principles of macroeconomic regulation. In the scholar's opinion, the choice of the main directions of macroeconomic policy «should be based on the compliance of various theoretical postulates with certain historical, political, economic, and

social conditions of the country rather than on their intrinsic characteristics»¹. Analyzing existing interpretations of the concept of «financial mechanism», the author makes a number of further refinements to the definition. He postulates that, «the financial mechanism is a set of forms and methods of impact on social and economic development, which embraces the system of financial indicators and financial instruments, allowing evaluation and implementation of the impact»²

In the study, financial methods of impact on the economic growth are fully and comprehensively characterized from new perspectives, scientific assessment of the potential opportunities and effectiveness of the means of fiscal and monetary policy are given. For the first time in the domestic financial literature, the Ukrainian scholar through considering the aggregate parameters of macroeconomic stabilization highlights its two components: purely macroeconomic and macro-financial. The scientist emphasizes, that «in this context finance is regarded as one of the main components of macroeconomic regulation. Thus, the key financial indicators are included into the basic parameters of macroeconomic stability»³.

In the above-mentioned study, for the first time in the Ukrainian financial literature S. Liovochkin made a thorough analysis of the nature and trends of fiscal, monetary and debt policy of Ukraine during the years of independence, and also assessed the results of using the key financial instruments of macroeconomic regulation (taxes, investments, subsidies, public loans, legal reserve requirements, the NBU rate of discount) in terms of their influence on creating preconditions for sustainable GDP growth in our country. The author concludes that «in Ukraine the efficiency of using financial instruments and levers of influence for sustainable GDP growth is quite low. Neither taxes and government credits, nor government subsidies, investments, reserve requirements and accounting policies of the NBU play a significant role in the proper financial policy»⁴. The issues of the financial mechanism, its structure, functioning and nature, raised by the scientist, have been further developed in the studies of Ukrainian scholars, economists and financiers.

Analyzing the problems of public finance functioning, we should mention I. Lunina's monographs, entitled «Public Finance of Ukraine in the Transition Period» (2000) and «Public Finance and Reformation of Interbudget Relations» (2006). These fundamental works deeply reveal the

¹ Liovochkin S. Macro-financial Stabilization in Ukraine in the Context of Economic Growth, [monograph] / Liovochkin S.V. — K: Our culture and science, 2003. — P. 75.

² Ibid. — P. 97.

³ Ibid. — P. 13.

⁴ Ibid. — P. 411.

place and role of public finance in the modern economy, a range of relevant problems, and internal mechanisms of functioning and trends of development. The author brings out an opinion on a rational tax system and optimization of government expenditures (including expenditures on the economy), and comes to a conclusion on the necessity of radical reformation of government revenue and expenditure, consistent reduction of direct and hidden (indirect) company subsidies¹.

In Lunina's works, particular attention is paid to issues of interbudget relations. In the author's view, the lack of effective and clear mechanism of interregional redistribution of financial resources, significant differences in development stages of regions and living conditions potentially leads to social conflict and political instability. In terms of building a democratic society, the decentralized solving of public problems offers a possibility to adjust the provision of public goods and services to the needs of individual citizens and residents of different regions. I. Lunina develops an approach to the reformation of interbudget relations, which is based on the theory of social welfare, as well as compliance with the principles of territorial fiscal equality and national solidarity. The author analyzes economic criteria for decentralization of the state functions and division of authority between the levels of government as well as the theoretical foundations of inter-level income distribution and the formation of a balanced system of interbudget relations.

Adhering to the traditions established by the representatives of Kyiv School in the nineteenth century, the author applies a comparative analysis to using the factual data of such countries as Germany, Austria, and Switzerland. The experience embodied in a range of main existing approaches to solving problems of local budgets is observed in both Switzerland (a typical federal state where basic government functions are concentrated in local government bodies, namely cantons) and Austria (a unitary state with highly centralized management). Thus, I. Lunina concludes that the organization of interbudget relations and processes of fiscal equalization in different countries is determined primarily by the distribution of power between levels of government and degree of their financial independence². In the book «Public Finance and Reformation of Interbudget Relations», she specifies that «the reformation of interbudget relations in Ukraine should be performed through providing institutional symmetry and adhering to the principle of fiscal fairness. This makes it possible not only to finance expenditures of local

¹ See: Lunina I.O. Public Finance of Ukraine in the Transition Period [monograph] / I.O. Lunina. — H: Fort, 2000. — P. 102.

² See: Lunina I. Public Finance of Ukraine in the Transition Period. — Sec. 5.

budgets, but also create preconditions for boosting economic activity in the regions».¹

In Lunina's opinion, the current concept of reformation of interbudget relations in Ukraine is aimed at solving the current budget problems and maintaining the high centralization of budgetary decisions. The regulations of the Budget Code of Ukraine do not eliminate such serious shortcomings of the current practice of local budgets, as lack of motivation of local authorities for increasing government revenue; lack of incentives for improving efficiency and finding a rational structure of public expenditures; lack of mechanisms for monitoring the use of local budgets.

A notable study by M. Krupka «Financial and Credit Mechanism of Innovative Development of Ukraine's Economics» deals with both theory and practice of the financial mechanism and its components.²

The monograph written by M. Artus is an original study, in which the author investigates the functioning of the financial mechanism of the market economy in terms of prices³. The scientist argues that an important aspect of the state regulatory impact on entities' operations through finance and prices is their participation in distribution and redistribution of the GDP. The author stresses that «finance and price are the economic relations embodied in the form of money. Finance is related to the formation and use of financial resources and funds, and the price is an indicator measuring the beneficial effects of using exchange objects. The interrelationship between finance and prices as independent economic categories lies within various forms of distribution and redistribution of gross domestic product. At the same time, their functional impact on the distribution process stipulates the indissoluble and complementary unity without which they cannot properly implement distribution and redistribution functions»⁴.

M. Artus tries to identify how the price system through the distributive function and the functioning of the financial mechanism makes an impact on the formation of optimal amounts of entities' financial resources in the process of social production, and on the coordination of economic operators' interests. As the author notes, «the financial mechanism includes complex interaction of financial techniques, financial levers and financial instruments which allow to provide optimal parameters of financial resources formation

¹ Lunina I. *Public Finance and Reformation of Interbudget Relations*: [monograph] / Lunina I.O. — K.: Scientific thought, 2006. — P. 5.

² Krupka M.I. *Financial and Credit Mechanism of Innovative Development of Ukraine's Economics*: [monograph] / Krupka M.I. — Lviv: Ed. Center LNU. Ivan Franko, 2001. — 608 p.

³ See: Artus M. *The Functioning of the Price Mechanism in the Financial market of Ukraine's Economy*: [monograph] / M. Artus — K.: New World — 2000, 2008. — 307 p.

⁴ *Ibid.* — P. 45.

and maximum efficiency of their use for social and economic development of society».¹ It is stated in the book that the price management within the financial mechanism belongs to one of the most difficult and definitively unsolved problems of economic science. Today, there is no single point of view on many issues concerning theory and practice of the functioning of financial mechanism and market pricing. However, the scholar's position seems to be sound, namely the notion that the research is the continuation of a scholarly discussion on the categories of finance².

The problems concerning the functioning of the financial mechanism in the public pension system are under consideration in the research written by O. Bobyr and S. Smynov³. The authors historically consider the evolution of the functioning the financial mechanism of pensions, justify the essence of this definition as a system of «financial and non-financial methods which are used to relevant government and non-government institutions to create the necessary institutions to certain pension funds and their effective utilization»⁴. For his part, S. Onyshko defines financial mechanism as a «system of financial relationships that occur in the stages of creation, distribution and redistribution of the GDP over the creation, accumulation and use of financial resources ... Financial mechanism is a form of finance in economic and social development»⁵.

In his book «Macro-financial Stabilization in Ukraine in the Context of Economic Growth», S. Liovochkin went further and substantiated the expediency of separation of macroeconomic and macro-financial stability, defined their main parameters, systematized macro-financial indicators and gave criterion assessment for financial instruments of macroeconomic regulation⁶. It was first proposed to consider the mechanisms for state financial impact on the social and economic development of society through a set of financial indicators and specific financial instruments. The latter allow implementing and evaluating the impact of state power and administration on resolving the problems of development.

The aggregate of macro level indicators includes three groups of indexes: macroeconomic solvency (stability of the currency, commercial banks

¹ See: Artus M. The Functioning of the Price Mechanism in the Financial market of Ukraine's Economy: [monograph] / M. Artus — K: New World — 2000, 2008. — P. 61.

² See: *Ibid.* — P. 22.

³ See: Bobyr O.I. Financial Mechanism of the Pension System: [monograph] / O.I. Bobyr, S. Smynov. — Dnepropetrovsk: Science and Education, 2008. — 249 p.

⁴ Bobyr O.I. Financial Mechanism of the Pension System. — P. 218.

⁵ Onyshko S.V. Financial Support for Innovative Development / Onyshko S.V. — Irpin: Nat. DPS Academy of Ukraine, 2004. — P. 145.

⁶ Liovochkin S. Macro-financial Stabilization in Ukraine in the Context of Economic Growth. — P. 75.

liquidity, budget deficit, balance of payments); financial effectiveness (efficiency of financial resources and investment, activity of the stock market, capitalization of income); macroeconomic debt (integrated debt of business entities, the level of public debt). The tools of implementing the policy of macro-financial stabilization include fiscal (taxes and fees, government loans, grants and investments) and monetary (monetary adjustment, devaluation or revaluation) policy and corresponding leverage (tax rates, incentives and penalties, interest rates, foreign exchange intervention, open market operations, etc.). The necessity of complete coordination of fiscal and monetary policy of the Ukrainian state is argued.

S. Liovochkin's attempt to divide the problems of macro-financial stabilization and economic growth into separate areas of financial science had its quite fruitful results. The fact is that macro-financial stabilization and constant economic growth in Ukraine are impossible without the formation and use of innovative development as well as without deep financial restructuring.

In this respect, S. Onyshko's research, in particular her monograph «Financial Support for Innovative Development» (2004) is noteworthy¹. It highlights the important and urgent financial problems of innovative development in post reform changes. Particular emphasis is placed on the building a reliable system of financial security of innovative development, its sources. Purposely, the processes of formation of financial sources of innovative development in macroeconomic (the state) and microeconomic (entities) levels are analyzed. Author introduces the new definitions into the conceptual framework of financial science: «mechanism of financial support innovative development», «financial resources to innovation development», «financial potential of innovative development», etc. The paper also examines global trends in innovation, mechanism of their financial support, sources of formation financial potential. The author's approaches to building reliable and efficient mechanism for financial support of innovative development are quite interesting.

The study of topical issues is deepened in the book «Financial and Economic Mechanism of Innovative and Investment Development of Ukraine» prepared by a team led by Professor O. Kyrychenko. It covers theoretical and methodological issues of formation the strategy for innovative and investment development of the national economy and the formation of its financial and economic mechanism². The authors consider

¹ See: Onyshko S.V. *Financial Support for Innovative Development*. — 464 p.

² *Financial and Economic Mechanism of Innovative and Investment Development of Ukraine: [monograph] / Kyrychenko O.A., Yerokhin S.A., etc. Ed. O.A. Kyrychenko. — K: Nat. Academy of Management, 2008. — 252 p.*

the role of financial and economic, including financial and credit mechanism as a tool that helps to stimulate innovative activity in the country from the perspectives of post-industrial model of market economy.

The scientists show the increasing role of regional component of financial and credit mechanism of innovative orientation. Sufficiently effective and flexible institutional forms of support for innovative activity often ripen at the regional level.

At the same time, as the authors point out, today, the need for the development of the economic relations of finance is defined by the need to create a unified system of financial impact on a balanced movement of resources and capital, to apply the new market legislation on money management and forming the targeted funds, to stimulate business innovative activity, economic growth, capital accumulation, effective reproductive performance.

Problems of investment and innovative development in Ukraine in completely different perspective (mechanism and functioning of monetary relations) found their continuation in S. Arzhevitin's studies. In his book «Transformation of Monetary Relations in Contemporary Ukraine's Economy»¹ the concept of investment and innovative development of Ukraine aimed at restoring economic growth and overcoming structural imbalances through a mechanism of monetary relations is formulated. The necessity of state policy of making structural changes, creating a number of new state banks (bank of development, bank of rehabilitation, land bank), increasing state regulation is proved.

Earlier, in 1999, some aspects of this issue were the object of I. Lyutyi's study in his very interesting book «Monetary Policy in Transitional Economic Formation»². The author examines the features of monetary policy in Ukraine and the need to coordinate it with fiscal policy. Much attention is given to the place and role of the National Bank of Ukraine in stabilizing the money market.

In this respect the work «Monetarism: Theory and Practice» by P. Yukhymenko should be mentioned³. It investigates the methodology of monetarism in the context of the global and domestic economic thought. The analysis done in the book proves that the successful implementation of monetarism policy is possible if it is oriented not only on purely monetary

¹ See: Arzhevitin S.M. Transformation of Monetary Relations in Contemporary Ukraine's Economy: [monograph] / Arzhevitin S.M. — K: Workshop Books, 2010. — 384 p.

² See: Lyutyi I.O. Monetary Policy in Transitional Economic Formation: [monograph] / Lyutyi I.O. — K: Atika, 1999. — 239 p.

³ See: Yukhymenko P.I. Monetarism: Theory and Practice: [monograph] / Yukhymenko P.I. — K: Condor, 2005. — 312 p.

indicators (inflation, money supply, exchange rate, gold and exchange reserve), but also on the performance of resource use in the market economy, and competitiveness (capital productivity, labor productivity, capital intensity, employment, etc.). The researcher grounds that the basis of monetary policy in Ukraine should be prolonged, predictable, economically justified strengthening of hryvnia in its relationship with the real and resource security, increasing trust in financial, banking and credit institutions. The current fiscal policy should be focused on profitability, optimization of the structure and levels of expenditures, the support for businesses that are promising from the standpoint of the budget, and active economic growth of the real economy.

The author proves the importance of increasing the supply of credit funds in terms of imperfect information on the market and shifting the focus of monetary policy of Ukraine from the transactional function of money to the credit function, and strengthening of the latter for effective functioning of the market economy in Ukraine.

Taking into account the current stage of market economy, the scientist grounds the expediency of stimulatory monetary policy on retention of moderate tight fiscal policy that is the so-called opposite «crowding out effect»: the growth of investment by reducing the government or consumer spending. As the scientist postulates, in terms of financial globalization, the strengthening of public finances should be done primarily via the use of economic instruments, namely, more flexible application of the tax and customs policy, the rate policy, regulated emissions, reformation of the banking system, etc.

P. Yukhymenko analyzes the general trends of monetary policy in the EU countries and countries with transitional economies, sources and mechanisms of formation of the monetary base of the economy. The main objective of economic policy is attained by supporting a stable price level, which is achieved by monetary stability and performing the following rule: the money mass constantly grows by the rate, which depends on the ratio of long-term rate of production increase and the velocity of money turnover. The policy of «accurate superstructure», that implies an active response for the current situation, is considered inefficient, and one that does not meet the goal of supporting the stability of economic development¹.

The book reveals the role of the budget as the main factor of resource offers in economy. According to the monetarist principles, the author substantiates the need for funding through the budgets of higher-priority areas of economic development, whose resources multiply and enter the rest

¹ See: Yukhymenko P.I. Monetarism: Theory and Practice. — Sec. 3.

sectors of economy producing in «chain» the demand and stimulating growth in the adjacent and other industries. The scientist argues that the role of fiscal policy as instruments for regulating the national economy is growing.

As it is demonstrated in the monograph by P. Yukhymenko, in the last two decades, the characteristic features of performing the monetary policy in the major Western countries is the transition to a more active liquidity management, which is accompanied by a change in the role and extent of fixed monetary instruments. The reduction in reserve requirements and in credit transactions in most countries were compensated by the growing role of open market operations, which are characterized by greater flexibility, a wide selection of tools and transparency of signals sent to the market for channeling monetary policy¹.

The works of V. Vlasjuk are devoted to the system theoretical study of management tools in performing financial and credit policy and the approaches to the problem used by various schools of thought. The author analyzes and studies the system of leverages in performing the financial and credit policy of Ukraine. He identifies the most capable elements of transformations in finance, including leverages for reproduction processes, and substantiates the priorities and directions for improving the financial and credit policy². Some problems discussed by Ukrainian scientist were further developed in D'yakonova's study³.

The issues of macro-financial stabilization and economic growth in the context of financial restructuring were thoroughly examined by S. Liovochkin, V. Oparin, V. Fedosov in their collective monograph⁴, published at the beginning of the new millennium. The authors summed up the experience and the results of the reforms undertaken in the real and financial sectors of Ukraine's economy and in public finance management in terms of solving problems of transformational changes, defined the directions of strengthening the role of finance in sustainable economic growth and assessed the financial potential of Ukraine.

The core foundation of the monographic study was the recognition of the necessity to develop a clear economic (financial) state doctrine and scientifically justified financial strategy and tactics for development, whose

¹ See: Yukhymenko P.I. *Monetarism: Theory and Practice*. — Sec. 5.

² See: Vlasjuk V.Y. *Theoretical and Practical Aspects of Financial and Credit System*: [Monograph] / Vlasjuk V. Y. — Dnipropetrovsk: DDFa, 2005. — 246 p. Vlasjuk V.Y. *Leverage of Managerial Impacts on the Financial and Credit Policies*: [monograph] / Vlasjuk V.Y. — Dnipropetrovsk: DNUZT, 2006. — 268 p.

³ See: D'yakonova I.I.: *The Development of Credit as the Path to the Stability of the Banking System*: [monograph] / D'yakonova I.I. — Sumy: University book, 2007. — 108 p.

⁴ See: Fedosov V., Oparin V., Liovochkin S. *Financial Restructuring in Ukraine: Problems and specifically focuses* [monograph] / ed. By V. Fedosov. — K: MBK, 2002. — 387 p.

milestone is the general assistance for formation and increase of national capital by strengthening the role of incomes and employment. It was proved that the transformation of the financial system in transitional economies should be an integrated process, as the reforms conducted in specific areas (budget and tax system, banking, securities markets and insurance) without a systematic approach have been, are and will be not efficient. A positive effect in some areas is often accompanied by negative consequences in others.

The authors' significant achievements were the suggestions for improvement the budget, tax, debt and other components of the financial policy, which still remain relevant in the context of today's goals of deepening reforms. In particular, it was noted that public finance improvement should be based on the compulsory reformation of social policy, because spending on social security and social funding have remained and still remain the key factor of the budget deficit. The fundamental pension reform and the introduction of health insurance should be among the priorities in this area. Interminable delaying of these reforms only aggravates the problem. Particular attention was also drawn to the necessity of significant improvement of the budgetary system based on the introduction of the fiscal federalism principles. In this context, it was proposed to establish a system of financial equalization aimed not only on the income redistribution between budgets but on the formation of equivalent regions and local authorities' financial potential.

The development of financial science, like any other field of knowledge is related to the expansion of categorical and conceptual apparatus, as new phenomena are constantly appearing and the knowledge about already known facts are extending. Today, the creative search of the above mentioned scientists is aimed at studying the new issues, related to the functioning of the financial infrastructure of the market infrastructure¹. The introduction of each new definition (that is a kind of financial innovation) is always a step forward that expands the scope of financial science, contributing to its development and strengthening. In particular, the term «financial infrastructure» enriches the theory by making it possible to explore a specific, namely supportive, view on finance as a social phenomenon. Some of the related concepts, such as «financial system», «financial sector», «financial market» or «market of financial services» used

¹ See: S. Liovochkin. *Financial Infrastructure of a Market Economy: Conceptual Approaches* / Liovochkin S., Oparin V., Fedosov V. // *Economy of Ukraine*. — 2008. — № 11. — P. 57-71; Fedosov V. *Institutional Financial Infrastructure of Ukraine: Current State and Problems of Development* / V.M. Fedosov, V.N. Oparin, S.V. Liovochkin // *Finance of Ukraine*. — 2008. — № 12. — P. 3-21; *Finance Theory: textbook.* / Ed. V. Fedosov, S. Yuriy. — K: Center of Educational Literature, 2010. — P. 15-56.

today do not allow to cover the whole spectrum of the problems in the functioning of finance.

It is for the first time that the scientists consider not individual infrastructure elements of finance (e.g. infrastructure of security market), but financial infrastructure as a whole phenomenon according to the essence and functions of finance, which allows them to consider finance as a separate component of overall economic infrastructure. The main public purpose of finance is primarily creating together with other components of economic infrastructure the proper conditions for the reproduction process, which is the basis of society vital functions. In turn, the realization of this infrastructure purpose of finance is performed by means of relevant financial bodies and institutions, which mediate cash flows and direct financial resources to ensure individual and social needs.

Studying issues on financial infrastructure is based on determining the nature of relationships and interdependence between the economy and finances. The fact that finance is intended to serve for the needs of economy is an axiom, but not vice versa, when the economy serves for finance. In the market economy finances play the dominant supportive role. On the entity level, the transformation of financial resources, involved in the processes of producing goods and services takes place with the help of the mechanism of corporate finance functioning. Consumption processes are indirectly channeled through household finances, providing simple reproduction and formation of savings, which are the basis of investment, and thus expanded reproduction. Public finances through the system of public purchases and public services essentially provide the same needs, mediating redistributive processes. The scholars argue that the implementation of such a role of finance is exercised through the infrastructure that could be viewed in two dimensions.

First is the external (concerning economic environment) dimension which sees finance as one of the fundamental components of the economic infrastructure. From this perspective, the financial infrastructure is closely related to the structure of the financial system in terms of its meaning content.

In other words, it is a set of spheres (subsystems), parts (elements) and individual components of the financial system by which financial relationships (payments, fees, charges, taxes, duties and levies, transfers, investments, etc.) are indirectly channeled. Based on using them cash flows are carried on and needs of social reproduction are provided. Consideration of the individual components can be carried out from the standpoint of financial transactions (payments to the budget, interaction with banks, insurance companies, institutional investors' framework, etc.), and

exercising the influence of one subject upon another. In this context financial infrastructure is a reflection of the unity of all public institutions formed to meet the requirements of individual subjects.

Secondly, in the internal (concerning finance itself) dimension financial infrastructure logically can be regarded as a unity of various institutional entities, which provide the operation of finance as a whole, and in certain areas and parts of the financial system. On the one hand, finance is an objective phenomenon, they carry an objective principle. In the market economy (as well as in the administrative one) the processes of public reproduction are impossible without finance. On the other hand, the functioning of finance does not happen automatically by itself; it is provided by the appropriate infrastructure, which is formed in each country and internationally. This infrastructure of finance has a definite subjective basis. Corresponding to general laws of formation and development, in each country it also has its own specific features in composition, level of maturity, structure, legislative regulations and others. The financial infrastructure is continuously getting more advanced and complicated; new financial institutions and instruments that satisfy new needs of individuals, legal entities, state and international entities are appearing.

A considerable contribution to solving the important scientific problems such as investigating the theoretical and methodological foundations of the financial system, the optimization of its structure in order to ensure sustainable economic growth, the formation of structural and integrated financial policy in the post-transitional period was made by V. Oparin, a representative of the new generation of Kyiv financial school of thought. His views and scientific findings are fully expressed in the book «The Financial System of Ukraine: Theoretical and Methodological Aspects»¹, which was the basis of the scientist's doctoral dissertation.

In Oparin's monograph finances are regarded as an institutional structure of society. A lot of attention was paid to the «pure» financial theory, financial contradiction and their overcoming / solving on the basis of a democratic system of checks and balances. The approaches to financial management based on the formation and development of an integrated, powerful and efficient financial system were outlined, the indicators that characterize its resource potential were determined, the types of the financial models according to the consistency and proportions of national product distribution were distinguished.

¹ See: Oparin V.N. Financial System of Ukraine: Theoretical and Methodological Aspects / V.N. Oparin — K: MBK, 2005. — 239 p.

Considering macro-financial issues it is particularly important to mention a first fundamental research on budget revenues of Ukraine written by Ts. Ohon¹. In the study, the author reveals the theoretical foundations and practices of forming budget revenues and ways of their application under conditions of restructuring public financial resources and strengthening the factor of public decision making. The scholar claims that «budget revenues is a form of expression of a part of mobilized financial resources in the process of GDP distribution and redistribution in the shape of monetary fund flowing to the budget in unpaid and irreversible manner in accordance with the current budget and tax law»².

According to Ts. Ohon, budget revenues, as financial resources of the state, are intended for exercising state functions aimed at country's social and economic development; social protection for all social groups. The author determines the four main functions of budget revenues: fiscal (distributive), regulative, stimulating and controlling³. The scholar reveals important aspects of planning, budgeting and controlling over state and local budgets as an integrated system. He also offers new approaches to the development of budget policy and organization of budget process. A particular focus is given to the analysis of dialectic connection «commitment — income — expenditure» and the efficient search for mechanisms and tools to ensure their sustainable development.

The research work titled «Formation and Functioning of Budget System of Ukraine» and written by a group of authors under the editorship of A. Mazaraki is dedicated to the study of the nature and effectiveness of budget system of Ukraine⁴. It summarizes the budget policy tendencies at different stages of its development. In the book, a special attention is given to analyzing the principles of the budget system and state budget as the key unit of the budget system of Ukraine. The basic principles of planning revenues are determined; the mechanism of managing public expenditures is disclosed. The scientists emphasize that «the budget revenues have to become a major tool of fiscal policy formation, development and improvement in the context of a unified policy of public finances»⁵.

The paper analyzes development stages of the treasury system of budget execution, its advantages and disadvantages, the main directions for further

¹ See: Ts. H. Ohon: Budget Revenues of Ukraine: Theory and Practice: [monograph] / Ohon Ts.H. — K.: KNTEU, 2003. — 580 p.

² Ibid. — P. 156.

³ See: Ibid. — P. 165.

⁴ See: Formation and Functioning of the Budget System of Ukraine: [monograph] / [S. Bulgakov, Kolodyi O.T., Yermoshenko L.E. et al.], ed. by Mazaraki A.A. — K.: Book, 2003. — 344 p.

⁵ Formation and Functioning of Budget System of Ukraine. — P. 152.

improvement. The treasury system is designed to consolidate funds for acquisitions on correspondent accounts and do accounts of the State Treasury by type of revenues, as well as other necessary parameters. The authors postulate that «firstly, it allows to expedite the dates of payments twice, to obtain information on the payment day of payment; secondly, to eliminate a threat of delays in passing the budget revenues, and their loss in case of financial failure (bankruptcy) of banks»¹. According to the procedure specified, the State Treasury forms the database for reporting on its own. As the authors claim, the introduction of the treasury model of cash execution of the state budget revenues was a new stage in the implementation of state control over the state budget expenditures². The issues of the book have found their continuation in the monograph «The Budget System of Ukraine and the European Union», edited by A.Mazaraki³. The formation and development of the budget system in Ukraine and the EU, especially the budget process, the functioning of local budgets and the formation of budget revenues are investigated in the work. The problems of reforming the budget system, internal control and audit, accounting and financial reporting in the public sector are disclosed. A particular attention is paid to the management of budget deficit and public debt.

A significant event in the establishment and development of the financial thought in independent Ukraine was the publication of textbooks «Finance» (2008) and «Theory of Finance» (2010), edited by V. Fedosov and S. Yuriy⁴.

High scientific potential, theoretical and professional level of the textbooks made it possible to reveal not only the fundamentals of theory and practice of finance, the operation of financial institutions, but also their essence and trends; to introduce a range of contemporary problems in domestic and international finance and to outline their solutions in the context of positive foreign experience.

The book «Finance» consists of 19 chapters. The first five are devoted to theoretical, methodological and organizational aspects of finance; there are also highlighted the subject of financial science as cognition of the essence of finance, its genesis and evolution, advancement and development of financial science, nature of financial policy and financial law, taxes and the tax system. The specific features of each part of financial system are

¹ Formation and Functioning of Budget System of Ukraine. — P. 192.

² See: *Ibid.* — P. 195.

³ See: *The Budget System of Ukraine and the European Union: [monograph] / [S. Bulgakov, Baranowskyy A.I., Kucher G.V. et al.]; ed. by Mazaraki A.A. — K: KNTEU, 2010. — 396 p.*

⁴ See: *Finance: textbook. / [S.I. Yuriy, V. Fedosov, L.M. Alekseyenko et al.]; eds. S. Yuriy, V. Fedosov. — K: Knowledge, 2008. — 611 p. ; Theory of Finance: textbook. / [P. I. Yukhymenko, V.M. Fedosov, L.L. Lazebnyk et al.]; ed. by V. Fedosov, S. Yuriy. — K: Educational Literature Center, 2010. — 576 p.*

revealed in the next chapters. This makes it possible to understand the internal economic nature of finance, the peculiarities of different financial institutions, and also to reveal the specifics of financial activity on the macro- and microeconomic levels. While researching the relationship between the problems of state decision making and the interests of entities one can fully understand the profound nature of finance and evaluate the effectiveness of the financial mechanism of the state.

The textbooks «Finances» and «Theory of Finance» are worth mentioning as those that give new approaches and enhance new scientific knowledge. Several positions of theory and practice are revealed in a new way. Firstly, it concerns the nature and role of financial infrastructure, its components, and institutional features of the financial system of Ukraine, the basics of financial policy and elaboration of a range of concepts and categories of the conceptual apparatus. It is stressed, that in the financial market the financial policy «is reflected in the adoption of legislative and regulatory acts on financial issues of market participants, the regulation of issue and circulation of financial assets, creation of investor protection and implementation of financial control over the compliance of the rights of financial assets issuers and individuals engaged in the professional activity in the financial market»¹.

Secondly, it concerns the formation and development of financial science, including characteristic features of the genesis and evolution of Western and Ukrainian financial thought.

Thirdly, it concerns the disclosure of economic nature, essence and functional purpose of international finance, their characteristics as financial categories.

It should be noted that some scientists and financiers of research institutions have made a significant contribution to the development of financial science. A. Danylenko's published works are devoted to the theory and practice of functioning the state financial management and anti-inflation fight. A number of publications deal with the financial, fiscal, budgetary, monetary policy, monetary market, currency regulation, causes and consequences of the financial crisis (2008–2009) and others. The monograph (in three volumes) «Financial and Monetary Levers of Economic Development», dedicated to the 90th anniversary of the National Academy of Sciences of Ukraine, was published in the end of 2008, is notable among the works of recent years². The leading national scientists and financiers,

¹ Theory of Finance. — P. 214.

² See: Financial and monetary levers of economic development: In 3 vol. / Ed. A.I. Danylenko. — K. Phoenix, 2008; V. 1: Fiscal policy, tax and budget leverage of its implementation. — 468 p.; V. 2: Mechanism of money and stock markets and their impact on the economy of Ukraine. — 442 p.; V. 3: Finance companies, trends, status and management problems. — 308 p.

such as A. Danylenko, O. Baranowsky, M. Bilyk, V. Mishchenko, M. Savluk, A. Sokolovska, O. Tereshchenko, L. Shablysta, N. Sheludko etc. took part in the preparing of this edition. The books deal with theoretical and practical aspects of financial policy, including the formation and use of Ukraine's financial potential, financial market development and strengthening corporate finance. The shortcomings of the tax system are analyzed, and the trends of its reforming with due regard to the world experience are suggested. The theoretical bases for the formation of the budget policy are examined and the principles of the effective distribution of public expenditures are determined. The issues on balance of incomes and expenditures and the problems of local budget are also covered. A thorough attention is given to the topics of formation the effective debt policy. The current situation of financial security of Ukraine, whose guarantee is defined as an important component of financial policy, is analyzed. The theoretical views on the role of the monetary policy in the system of regulation of economic development in the late 20th and early 21st century are summarized in the monographic publication. Macro- and microeconomic aspects of its implementation in Ukraine are investigated. The mechanism of the impact of NBU exchange-rate policy on macro- and micro processes, as well as the role of securities in the financial system of economic development of Ukraine is considered.

It is worth mentioning that the book gives the definition of some benchmarks in the structure of public expenditures, including optimal parameters of investment activity of the state (the share of public investment to the GDP), and describes the necessary level of funding the «core» government spending for providing the state's capacity¹. In this aspect, the material which gives the quantitative assessment of risks and threats to the stability of the national financial system is rather interesting².

The original approach is given to researching the economic nature of finance of household. It is revealed in the context of the theory of human capital «as a set of costs that are invested, accumulated and reproduced by a man and aimed at preserving his health, gaining skills, professional development, knowledge, business activity, increasing productivity and work efficiency through motivation to ensure his needs in a particular historic period»³.

The authors of these monographic publications mostly focus on the theoretical aspects of financial policy, whereas D. Polozenko's study «Fiscal

¹ See: *Financial and Monetary Levers of Economic Development*. — T. I. — P. 81.

² See: *Ibid.* — P. 342-346.

³ *Ibid.* — P. 365.

Policy under Conditions of Transformational Economy of Ukraine» (1992–2008) is a supplement to their work as a reflection of its practical realization under conditions of transformational economy of Ukraine¹. The author concentrates on the budget policy that contributes to the solution of social problems. The researcher's suggestions for improving the role and responsibility of the country's business to guarantee employees vital activity through increasing the share of wages in GDP, which is still much lower than in the EU countries, are essential. This concerns the need for more efficient use of budgetary resources, especially in the social sphere, which is extremely sensitive to lack of funds. D. Polozenko notices that the system of interbudget transfers, which are quite important resource for local government, neither stimulates the search of additional financial resources nor contributes to providing the adequate social benefits for local population. The conclusion is that the system of governmental leveling the revenues and expenditures of local budgets requires radical changes in favor of local governments.

D. Polozenko analyzes the nature of such a category as social capital, emphasizing that social capital is a multidimensional concept, it contributes to the development of human capital, which is the individual's potential to generate income. As a result, he concludes that the term «social finance» is not justified, because it causes the meaning reduction of the term of social sphere. The problem of inflation, that is the devaluation of money through price increases, was not left unnoticed by the researcher. He emphasizes that it is impossible to achieve financial stability without monetary stability, and therefore the government has to implement state budget expenditures within actual income, if it concerns for the state of money turnover in the country.

Publishing a series entitled «Fiscal policy in the context of social and economic development of Ukraine» (2004) became a certain contribution to the development of national financial science. It deals with the results of researches made by Ukrainian scientists in the field of public finance and fiscal policy. The authors claims that «a new approach to fiscal policy is to understand that public finance is an important element of modern economics, which carry a real impact on the whole system of GDP reproduction»².

The paper assesses alternatives of medium-term forecast of dynamics of the key macroeconomic and budgetary indices according to the priorities of

¹ See: Polozenko D.V. *Fiscal Policy in Conditions of Transformational Economy of Ukraine (1992-2008)* / Polozenko D.V. — K: NDFI, 2008. — 392 p.

² *Fiscal Policy in the Context of Social and Economic Development of Ukraine: In 6 v. / Ed. col.: Mykola Azarov (Chairman) and others. — Vol 1: Priorities of Fiscal Policy and Economic Growth of Ukraine / M. Azarov, F.O. Yaroshenko, V.M. Heyets (supervisor) and others. — K: NDFI, 2004. — P. 18.*

social and economic development of Ukraine. It examines different approaches to the formation of a transparent system of state funding. The author's concept of monetary and fiscal policies co-ordination is proposed. Fiscal and monetary systems are considered as components of the economic system, forming a special part of the fiscal space associated with the money functioning and budget movement. The importance of coherence between the entities of fiscal and monetary systems is stipulated for the unity of institutional architectonics of the budget and monetary space.

The theoretical issues of fiscal policy and institutional conditions of the efficiency of public spending in Ukraine were further developed in collective monograph devoted to scientific and practical issues of financial system of Ukraine¹. The study reveals the theoretical issues of budgetary policy of economic regulation and coordination mechanism of budget and monetary policy in the economic development of the institutional positions. As the authors point out, «the institutional approach involves consideration of financial and budget management as a dynamic system that constantly improves and adapts to the basic tasks of social and economic development»². The scientists adhere to the principle that budget is one of the main instruments of state regulation of the economy, and the formation of effective budget system is a necessary condition for achieving high levels of economic development of any country. The study shows that fiscal policy of the country that is implemented through budgetary mechanisms should provide economic and financial balance and effective impact on the social and economic processes. Institutional model of budget policy proposed by the authors «should combine, according to the principles of economic architectonics, social and innovation budgets components that maintain the qualitative level of functioning the financial and economic system of the state»³.

The development of ideas on reforming the tax system of Ukraine, justification of the main directions of its development taking into account the implementation of appropriate balanced fiscal and social policy, which leads to the need to improve its fiscal effectiveness, regulating potential and social orientation takes an important role in the work. The most important task of reforming the tax system, according to the authors, is ensuring the convergence of interests of economic entities, namely the taxpayers, with the social and economic needs of society. Carrying out the idea of necessity of the tax system development in an evolutionary way under the long-term

¹ See: *Finance of Ukraine: Institutional Transformations and Directions of Development* / edited by I. Chugunova. — K: DNUAFU, 2009. — 848 p.

² *Ibid.* — P. 10.

³ *Ibid.* — P. 15.

macroeconomic goals of the state, the scientists pay attention to the following two aspects: 1) building socially oriented economy; 2) stimulation of the development of domestic production and ensuring its competitiveness. According to the researchers, the main characteristics that the tax system in the process of transformation must gain, are the possibility of increasing the tax base, strengthening the efficiency of regulatory potential and social orientation.

In the financial literature, institutional architectonics of budget and monetary space has already been under consideration. Yet, the present study reveals the essence of institutional architectonics of budget system and institutional basis of the budgetary control system. The concept of «adaptive institutional architectonics of the budget system», which is based on a system of budgetary control and allows the optimum relationship between elements of the system and the cyclical nature of the social and economic development, is introduced. Applying into practice the developed principles of institutional architectonics reveals some opportunities to determine the level of functioning and the budget balance as an essential tool of state regulation of the economy.

Defining the institutional model of fiscal policy and the ways of increasing its efficiency including transaction costs in the system of state regulation of social and economic development of society is also perspective in the pragmatic aspect.

The paper shows the relationship between the systems of budget regulation and relevant institutional changes of current economic environment. The state's role in improving the basic institutions of economic development such as ownership, management, labor, and as a result the conditions for the formation and implementation of the effective budget policy is considered from some new points of view. The necessity of forming the system of institutes that would ensure the development of public finance, taking into account the principles of institutional architectonics of the budget system of Ukraine is justified. It is concluded that the public finance system needs to adapt to dynamic processes taking place in the society.

A special attention is paid to potential budget forecasting and planning in order to direct the limited budgetary resources to fulfilling the high-priority tasks of state policy. The authors emphasize on the need to ensure the transparency of information to achieve planned results, giving to the citizens the opportunity to assess the government activity¹. However, the scientists

¹ Fiscal Policy in the Context of Social and Economic Development of Ukraine T. 4: A Software Target Method of Budgeting / M.Y. Azarov, F.O. Yaroshenko, A. Amosha (supervisor) and others. — K.: NDFI, 2004. — P. 10.

warn that the real transition to the software target budgeting in an enhanced version can occur in quite a long time. «Forcing the untrained reforms can cause the opposite to intended results, especially the loss of control over the part of government spending and reducing their effectiveness»¹. The authors show the nature, role and benefits of program and target budgeting on the basis of comparative analysis². However, it should not be forgotten that one of the main conditions for ensuring the effectiveness of fiscal policy, as Russian scientists accentuate, is «the transparency of the whole budget process, which implies openness, truthfulness and informational accuracy»³.

The issues of state financial control of budget flows which are important in terms of pragmatic aspect and have not been studied thoroughly are considered. In particular, the matter of control technology, its forms and methods, internal audit and criteria of its quality are examined. As a result the knowledge about pragmatic field of these problems has been expanded. It was partially covered in the financial research works by I. Stefanyuk, G. Dmytrenko, N. Ruban and others⁴.

The study also analyzes the financing of the social sphere, various approaches to evaluating the social orientation of fiscal policy; its social priorities are also determined. A particular attention is paid to the importance of complexity in reforming the social sphere that stimulates an increase of material funding and cardinal changes in income policy, more effective high-wage provision of working population. Problems of social orientation of fiscal policy were further developed in monographic publication by V. Tropina «Fiscal Regulation of Social Development» (2008), which deals with the effect of financial instruments on social development and gives the assessment of the effectiveness of fiscal regulation of social relations. It is emphasized that «only the dialectic unity of government regulation and market instruments ensure the progressive development of Ukraine's social sector infrastructure effectively»⁵. Among the wide range of instruments of state regulation the author emphasizes the importance of fiscal practices, whose opportunity to actively influence the economy and social sphere is based on the essence of category «public finance» as a particular, specific

¹ Fiscal Policy in the Context of Social and Economic Development of Ukraine. — P. 94.

² See: *Ibid* — P. 129.

³ Osadchaya I. Evolution of Macroeconomic Theory after Keynes / I. Osadchaya // Questions of economics. — 2006. — № 5. — P. 13.

⁴ See: Kostrykova L.A. Financial Control of Target Uses of the Budget Funds: [monograph] / L.A. Kostrykova, V.I. Chyzyh, V.V. Razumtsev. — Lugansk: SNU, 2009. — 292 p.; Dmytrenko H.V. State Financial Control in Ukraine (tax, treasury, budget): [monograph] / H.V. Dmytrenko. — K., Consultant, 2009. — 175 p.; Ivanova I.M. State and Financial Control. Development Paradigms: [monograph] / I. Ivanova. — K: Akadem.publish, 2010. — 168 p.

⁵ Tropina V.B. Fiscal regulation of social development / Tropina V.B. — K: NDFI, 2008. — P. 282.

form of monetary relations associated with the process of distribution (redistribution) of a share of the national product, the formation and use of centralized funds of public purpose.

The underlying concept of fiscal ensuring of the implementation of state social function, which is a hierarchical system of instruments where the leading role belongs to the budget, is revealed in the monograph. The author proves an important role of the subsystem of interbudget relations for ensuring the integrity of the national society, social harmony and stability in the society through the distribution of financial flows and social benefits for the country's sustainable social and economic and cultural development of individual regions and the country as a whole. The scientist concludes that the effective scientifically justified state incomes policy should function.

As V. Tropina claims, one of the most important areas of social stability is an equitable income distribution and leveling in Ukrainian society. A moderate difference in income is not only a major factor of motivation, but also leads to increasing the amount of solvent demand and improving its structure by approaching to the structure of real needs. Deviations from optimal parameters in the distribution relations (equalization of income or excessive differentiation) take out the social system from the stable mode of operation and can lead to serious social cataclysms. Today, an unprecedented income differentiation is one of the most important factors of threat to national security of Ukraine.

V. Tropina focuses on the important problem of state's social policy. When planning some important metrics and parameters that give an idea of the standard of living and income of various social groups that are formed by the redistribution of financial budget resources are rarely taken into account. However, international practice demonstrates the need for the legal use of a special range of social indicators in the budget process, including social norms into the system of macroeconomic indicators and state budget. The standard level of consumption in the regions of food, medicines, household, services and transport; permitted levels of poverty and unemployment; minimum level of wages, pensions, benefits, etc. are the most important of them. These vital issues are also found in N. Vyshnevskya's research¹.

Considering the social aspect of the problem, V. Tropina emphasizes that regional disparities of living conditions of the population of our country are a serious threat to social stability of Ukrainian society. Adoption of the Budget and Tax Codes did not resolve the main problems concerning financial security of the needs of the Ukrainian regions. Budget analysis shows the

¹ See: Vyshnevskya N.V. Budget: a Regional Perspective: [monograph] / Vyshnevskya N.V. — Luck: RIO «Tower» Wolyn state University Press, 2007. — 244 p.

trend of annual increase in amount and the number of interbudget transfers given to local governments in the form of grants and subsidies. A characteristic feature of planning the expenditures by interbudget transfers is the lack of a systematic approach to the calculation of the subventions as well as to the determination of the volume of financial resources provided by the state budget to local budgets. The considerable centralization of financial resources is the main problem of interbudget relations. More and more local budgets are becoming increasingly subsidized and dependent on the budget transfers provided to them from the state budget.

Analysis of the structure of expenditures of consolidated budget of Ukraine shows that according to its main parameters it is impossible to solve the problems of reproduction of human capital and increasing social and economic potential of the society. The use of public spending as the means of ensuring the stable processes of social dynamics should prognosticate primarily the promotion of economic growth, which makes it possible to create the necessary conditions to ensure the adequate living standards (including the regulation of wages in the public sector); fair income equality and resolution of regional disparities conditions of life; protection of socially vulnerable groups through social assistance; improving the demography, the development of public health, formation and dynamic development of the middle class as the basis of social stability; environmental protection in order to maintain the required parameters of the environment of human life¹.

The end of 20th and the beginning of 21st century was distinguished by further intensification of research in the budget sphere. A number of books and monographs devoted to the principles of budget functioning, fiscal policy and system, budget mechanism and management were published.

The first textbook «The Budget System of Ukraine», edited by S. Yuriy and Y. Beskid was published in 2000. It deals with the principles, composition and structure of the Ukraine's budget system, the financial relationship between different budgets, the practical aspects of financial authorities' work. It is focused on the work of local financial authorities, their structural units in the process of designing and implementing budgets, estimates of budgetary institutions².

In 2001 S. Yuriy, V. Demyanyshyn, Y. Buzduhan published the monograph «Anthology of budget mechanism»³. The authors focused their attention on the deep study of problems of the budget mechanism and

¹ See: Tropina V.B. Fiscal Regulation of Social Development. — Sec. 4.

² See: Budgetary system of Ukraine: teach. guidances. / [S.I. Yuriy, Y. M. Beskid, V.G. Demyanyshyn et al.]; eds. S.I. Yuriy and Y. M. Beskid. — K., NIOS, 2000. — 400 p.

³ See: S. Yuriy. Anthology of budget mechanism: [monograph] / S. Yuriy, Demyanyshyn V.G., Buzduhan Y.M. — Ternopil: Econ. dumka, 2001. — 250 p.

determined the directions of its improvement in the period of reforming the state budget system. It is emphasized that the underestimation of budget mechanisms problems could lead to a financial crisis from which it is extremely difficult to find the way out. Scientific research is based on the theoretical dominants of the state budget, its role in state regulation of social and economic processes in the society. The disclosure of the nature of budgetary mechanism, its structure, forms, methods, instruments, tools, incentives, sanctions is closely connected with the budget process, making it possible to provide the unity of theory and practice. Critically evaluating the views of national scientists and practitioners, the authors analyzed the state and prospects of the development of budget planning and budget regulation, taxation, implementation of the budget outlay part, deficit correlation with public debt, fiscal reporting and budget control.

In Ukraine, the first fundamental textbook «Budget Management»¹, edited by V. Fedosov, was published in 2004. It deals with the organization of the budget work and implementation. The budget as a management object, its revenues, expenditures and structure is characterized in details. The components of budget management such as budget process management (budget planning and execution of the budget), accounting and reporting of budget execution, monitoring of budget execution are comprehensively covered. A particular attention is paid to the global experience of theory and practice budget management: the place and role of budget in the global financial thought, budget federalism, administrative and management resource of financial bureaucracy, modern technology of budget management (especially budgeting), budget deficit optimizing and public debt management, organization of budgetary control and audit in the democracy, etc.

V. Demyanyshyn's book «Theoretical Conceptualization and Practical Implementation of Budget Doctrine of Ukraine»², which formed the basis of his doctoral thesis, became the result of years of research. The author has attempted the justification for the doctrine of the budget, which could be a solid foundation for the implementation of the proposals in the practice of the state. The paper gives the author's approaches to the interpretation of the essence of fiscal policy, its strategy and tactics, its principles, problems of formulation and evaluation criteria. The state, problems and drawbacks of legislative, regulatory and informational support of budget policy of Ukraine

¹ See: Budget Management: textbook. / [Fedosov V., Oparin V., Safonov L. et al.]; ed. by V. Fedosov. — K.: KNEU, 2004. — 864 p.

² See: Demyanyshyn V.G. Theoretical Conceptualization and Practical Implementation of Fiscal Doctrine of Ukraine: [monograph] / V.G. Demyanyshyn. — Trenopil: TNEU, 2008. — 496 p.

in modern terms were revealed; the ways of its improvement in accordance with the principles of fiscal doctrine were suggested.

In the above-mentioned works of Demyanyshyn, a particular attention is paid to budget mechanism as a pragmatic model of implementation of the budget doctrine. It is accentuated on the nature of the budgetary mechanism, its structure and role in the practical implementation of the strategic principles of fiscal doctrine. Its components, including revenue-raising mechanism and the use of budget funds, methods of budget deficits and budget debt management, regulation mechanism of interbudget relations are analyzed. Theoretical and practical issues of the budget process organization are considered. It is offered to concretize the stages of drafting the budget, to review the approaches to resolving the political and economic issues during the process of budget investigation and approval.

The scientific works of I. Chugunov, Y. Pasichnyk, K. Pavlyuk, V. Zagorsky, L. Lysyak and many other scientists are devoted to certain aspects of the budget, the budget system and fiscal policy. They reveal the principles of formation of effective fiscal policy and its impact on economic growth, the place and role of the budget, the tax base of the state in economic and social development. The features of budget system functioning, the peculiarities of interbudget relations are considered. Y. Pasichnyk in his monographic edition «Budget potential of economic growth in Ukraine» (2005) clarifies the nature of the budget system and budgetary role in the potential of sustainable economic growth. The author concludes that in today's realities of Ukraine «the foundation of economic growth, its generating factor and the coordinating lever should be the fiscal capacity, and all the history of economic theories and concepts confirms that during the transformational periods of state's development it has the significant national resource, namely the fiscal capacity»¹.

Exploring the budget system, its resources and enhancing the process of economic growth in Ukraine from neo-institutional position, Y. Pasichnyk analyzes in details the place of budget as a part of the financial system, outlines the role of the budget system in architectonics of social and financial systems. In architectonics of financial system budget system is its main structural element; it accumulates large funds of financial resources for implementation the state functions. At the same time it affects the movement of financial flows in the country and plays an important role in the mechanism of state regulation. In architectonics of social system budget

¹ Pasichnyk Y.V. Budget Potential for Economic Growth in Ukraine: [monograph] / Pasichnyk Y. — Donetsk: LLC «South-East», Ltd, 2005. — P. 64.

system serves as the basic controller, which is owned by the state and through which it affects the processes of social and economic development.

The budget system through taxes, fees, tax privileges, subsidies and subventions has the potential possibilities to the enhancement of business sector's activity, attraction the foreign investments, normal functionality of social services, which all together creates the conditions for sustainable economic development¹.

According to a very clear definition of the budget management as a control system, the object of which is the state budget², L. Lysyak provides the indicators for evaluating the effectiveness of fiscal policy in the aspect of management efficiency³. This is important in terms of regulating function of budget system, whose main aspects were examined by I. Chuhunov⁴. The scientist considers the budget as an important tool of the reproductive process. It is the basis for creating the conditions for social programs, retention of the environment, promotion of scientific and technological progress, defense support, performing other state functions. It is therefore important to establish an effective system of budgeting process management, which «depends on the degree of understanding of the economic essence of the regulation and the main factors that determine its development»⁵.

In his monographic publication I. Chugunov distinguishes the stages of formation and development of budget system of Ukraine. As it is shown in the study, the initial stage of the budget system (1992–1994) is characterized by unsatisfactory level of its adjusting function; the presence of a significant volume of budget deficit, including the emission sources of its coverage, increasing public debt, inadequate regulation of interbudget relations. The phase of partial balancing of the budget system (1995–2000), according to researcher, is characterized by insufficient level of regulatory function of budget system, increasing budget debts from paying taxes and fees, reducing the size of the budget deficit using non-equity sources of its coverage, reducing the amount of state debt, the gradual introduction of treasury system performance. Next step to the further balance of the budget system (since the 2000s) is characterized by a more or less satisfactory level of adjusting function of the budget system, reduction of public debt,

¹ See: Pasichnyk Y. V. Budget Potential for Economic Growth in Ukraine. — P. 115-116.

² See: Budget Management. — P. 24-25.

³ See: Lysyak L.V. Fiscal Policy in the State Regulation of Social and Economic Development of Ukraine: [monograph] / Lysyak L.V. — K.: DNUAFU, 2009. — P. 549-550.

⁴ See: Chuhunov I.Y. Fiscal Adjustment Mechanism of Economic Development: [monograph] / Chuhunov I.Y. — K.: NIOS, 2003. — 488 p.; Chuhunov I. Theoretical Foundations of Budgetary Regulation: [monograph] / Chuhunov I.Y. — K.: NDFI, 2005. — 259 p.

⁵ Chuhunov I. Fiscal Adjustment Mechanism of Economic Development. — P. 12.

strengthening of the budget deficit (surplus), the introduction of program method of budget planning, reform of interbudget relations system, clearer normative and legal regulation of the budget process.

K. Pavlyuk's fundamental work¹ is dedicated to research issues of budget and budget process. In the monograph the author reveals the economic nature and functions of the budget; shows the growth of its role in providing and regulating social and economic development; considers the methodological basis for building and development the budget process.

On the basis of studying the role of the state in transforming economy K. Pavlyuk justifies the increasing role of the budget in the social and economic processes. Revealing the factors that affect the impact of the budget on the economy and social sphere, the author pays a particular attention to the budget process, interpreting it in broad and narrow sense. Under the broad interpretation of the budget process, all the activities of the legislative, executive and judicial power in the public sector should be subordinated with rigid routine standards that ensure the legality, appropriateness and effectiveness of this activity. In a narrow sense, the budget process is defined as the activity of legislative, executive and judicial authorities in shaping the goals and objectives of fiscal policy for next year and the medium-term perspective, with the preparation, review and approval of budgets and evaluation of the results and control at all stages. There are following principles of the budget process to be referred to: completeness; unity; transparency; publicity; validity and accuracy; effectiveness; correspondence between revenues and expenditures; fairness and impartiality; specialization; accountability of the budget process; timeliness; urgency.

The book of K. Pavlyuk describes the trends and priorities of revenues and expenditures of local budgets, justified approaches to improve the system of interbudget relations. The criteria for the allocation of functions between the state and local authorities, and hence the distribution of costs between different levels of budgets are outlined. According to the author, the following criteria must be applied: territorial compliance; economic efficiency; economic feasibility; social justice. The organization and implementation of state budgets at all levels is analyzed. The basic reasons that influenced the level of implementation of budget revenue are revealed, namely rejection of evidence from projections of gross domestic product; changes in consumer and producer price; increase in salary arrears and social benefits; increase tax arrears of payments to the budget; providing installments and delays payments to the budget; increase in tax benefits;

¹ See: Pavlyuk K.V. Budget and the Budget Process in Terms of Transitive Economy of Ukraine: [monograph] / Pavlyuk K.V. — K: NDFI, 2006. — 584 p.

evasion of taxes and duties and other obligatory payments to the budget. According to the author, a violation of proportionality and priority funding budget expenditures contributed to the failure in previous years the schedule of payment of arrears of state and local budgets on wages and other social benefits.

V. Zagorsky's monograph «Budget and taxation system in Ukraine: Problems of Development» (2008) is devoted to another issue of budget system in the context of tax. It discusses the principles, nature, mechanisms and principles of the budget system and taxation. The essence of the definition of «state system» is understood as a «set of budgets of different levels, which are formed according to the legal regulations and administrative-territorial structure and ensure effective distribution of revenues needed for social and economic development»¹. According to the author's opinion, the budget performs the same function as the general finance, and the budget system is the most effective means of financial regulation of income distribution and redistribution of financial resources among the different levels in order to level their revenue base². Special attention is paid to the principles of development and contradictions of budget system and fiscal policy issues at national and regional levels.

In her book «Fiscal Policy in the State regulation of Social and Economic Development of Ukraine» (2009) L. Lysyak focuses on budget policy research, analyzes its regulatory functions, both formed and evolved, as well as the development of market mechanisms, and the development of market relations. She concludes that even now the components of fiscal policy in their undeveloped unity are not fully used, and this, in turn, 'makes the interpretation of ambiguous concepts and inadequate approach to achieve the objectives of fiscal policy, strengthening the objective component in the formation and implementation, easing regulatory effects to achieve defined goals»³.

Fiscal policies, as L. Lysyak said, play a significant role in the formation of appropriate institutional environment for active private self-development of the economy. However, an important prerequisite for this is to create institutional conditions to optimize fiscal relations to ensure the formation of a highly efficient system of public finance. The current budget policy to determine priorities for further development of Ukrainian society should consider objectively necessary reorientation of the economy mainly on endogenous growth factors. L. Lysyak underlines that «fiscal policy as an

¹ See: Zagorsky V.S. Budget and Taxation System in Ukraine: Problems of Development: [monograph] / Zagorsky V.S. — H: ID «INZHEK», 2008. — P. 19.

² Ibid — P. 21-22.

³ Lysyak L.V. Fiscal Policy in the State Regulation of Social and Economic Development of Ukraine: [monograph] / Lysyak L.V. — K: DNUAFU, 2009. — P. 199.

important element of state regulation should be based on long-term program of economic and social development of Ukraine, taking into account the basic principles which should form the priority directions of budgetary policy for a period of well-defined priorities. The main source for implementation of the priorities of the budget policy that has innovative and investment character, should be the development budget»¹.

Issues of relationship between politics and social and economic processes, including the impact of fiscal, debt, monetary, exchange rate policy and the banking system, insurance and stock markets on the macroeconomic situation are disclosed in the monograph of O. Baranovskyy «Financial security in Ukraine (methodological assessment and mechanisms to ensure)»². The author clarifies the basics of financial security, treating it as highly complex multi-level system formed from a number of subsystems, each of which has its own structure and logic development³. Therefore, defects or errors in compliance with some financial security parameters directly affect the other and its entire totality. O. Baranovsky argues, «The weakening of financial security, households, businesses, individual sectors and regions cannot adversely affect the financial security of the state as a whole, and vice versa»⁴. He justifies the need for management decisions take into account all the factors that affect this or that performance indicators, their interrelation and interdependence, and identify specific consequences of certain actions.

In his book the Ukrainian scientist provides the author's method of evaluating the financial security of Ukraine as a whole and its individual components. He reveals the state and problems of monetary circulation and inflation in Ukraine.

In the above work O. Baranovskyy, considering the multidimensional category of «financial security», reviews only its individual components. Revealing the issue of financial security, he cites indicators that largely complemented by concrete calculations describing the level of a particular aspect of financial security. Overall, the author concludes that «the level of individual components of financial security in Ukraine today is still very far from optimal»⁵. The practice shows that there are many dangers that interfere with normal development of financial and credit sector in Ukraine.

¹ Lysyak L.V. Fiscal Policy in the State Regulation of Social and Economic Development of Ukraine. — P. 553.

² See: Baranovskyy O.I. Financial Security in Ukraine (methodological evaluation mechanisms and ensuring): [monograph] / Baranovskyy O.I. — K: KNTEU, 2004. — 759 p.

³ See: *Ibid.* — P. 5.

⁴ *Ibid.* — P. 710.

⁵ *Ibid.*

Another monograph of O. Baranovskyy «Financial Crisis: Background, Consequences and Ways of Prevention» (2009) contains, along with a set of theoretical principles of formation and current financial crisis and including the general crisis in the banking sector, a comprehensive analysis of the current situation in the global financial markets and in domestic banking system, the insurance market, the stock market of Ukraine and others. The author thoroughly investigates the prerequisites of financial crises, their nature, types, and indicators of vulnerability of the financial sector. In his view, the general financial crisis arises from inadequate behavior of investors and financial intermediaries, and major players- professionals directly interested in the local financial crises that allow them to generate income from the difference in exchange rates, interest rates, purchase of securities in different countries, etc¹.

Given the current trend of world civilization, characterized by extensive use of external debt borrowings, the focus of scientists and financiers are efficiency issues of debt policy as one of the components of the debt security. In today's world, in fact, no more countries have relied solely on their own ability that seems logical to the process of globalization and internationalization of world economic relations monetary sphere. In this connection it is interesting the chapter «Ukraine and international financial institutions» in the «Message of the President of Ukraine to the Verkhovna Rada of Ukraine on the internal and external situation of Ukraine in 2000»², made by a group of researchers and practitioners in the financial part V. Fedosov, N. Hrebenyk, S. Liovochkin, T. Solianyuk, A. Filippenko, T. Hromayeva. It summarizes the Ukraine's cooperation with international financial institutions (1992–2000) based on the analysis of significant factual material. Solvency of Ukraine is disclosed; the areas of enhancement and optimization of cooperation between Ukraine and international financial institutions are outlined. Finally, the conclusions, suggestions and recommendations for improving the management of public debt and Ukraine's cooperation with international financial institutions are given.

T. Vakhnenko's work «External Debt in the System of World Economic Relations» (2006) is devoted to the state's debt problems³. It defines the financial and economic factors of instability of external debt in Ukraine; quantitative impact of external debt load on the level of exchange rates is

¹ See: Baranovskyy O. Financial Crisis: Background, Consequences and Ways to Prevent: [monograph] / O. Baranovskyy. — K: KNTEU, 2009. — P. 112.

² See: President Of Ukraine To The Verkhovna Rada of Ukraine on the Internal and External Situation of Ukraine in 2000. — K: Inform-kind. Center, 2001. — P. 158-169.

³ See: Vakhnenko T.P. External debt in the system of world economic relations / Vakhnenko T.P. — K: Phoenix, 2006. — 536 p.

calculated; principles of effective public debt management are disclosed. In this connection it is necessary to say a kind word to G. Kucher, the author of the first textbook in Ukraine «Public Debt Management»¹. The issues of essence, the economic nature and composition of public debt, displayed features of the mechanism of its operation and management are revealed on properly theoretical and scientific levels.

The optimization of internal and external borrowing is of great importance for the practical implementation of macroeconomic priorities and effective social policy. Therefore, the authors of the book «Fiscal Policy in the Context of Socio-Economic Development of Ukraine» in the sixth volume of «Strengthening Debt Policy» (2004) drew attention to the issue of public debt management technologies. Highlighting the impact of public debt on macroeconomic indicators and financial security of the state, scientists conclude «about the need for complex thought-phased solution to the problem of internal and external debt in order to avoid possible threats debt (financial and in general) security of Ukraine, the creation of an effective public debt management as an important attribute of public finances»². However, they believe that «policy loans should be structured to minimize the costs and risks associated with debt and maximize opportunities administration»³.

The authors of the above-mentioned publication summarize the accumulated experience of our country's debt management loans in terms of developing practical recommendations on the state debt policy in the context of globalization and the gradual integration of Ukraine into regional and global integration structure, whereas V. Kolosova aggravates the problem by considering a system of state control on the movement of country's financial flows and capital inflows⁴.

The author examines Ukraine cooperation with international financial organizations in 1992 and highlights several stages. Each stage corresponds to the areas of forming and reforming the Ukraine's financial system, including:

- Attracting significant amounts of money on structural adjustment loans;
- Development and implementation of investment projects;
- Deepening the cooperation with international financial institutions (IFIs) considering the areas of the state economy development.

¹ See: Kucher G. *Public Debt Management: textbook*. / Kucher G.V. — K: KNTEU, 2002. — 341 p.

² *Fiscal policy in the context of socio-economic development of Ukraine*. — Vol 6 — P. 321-322.

³ *Ibid.* — P. 126.

⁴ See: Kolosov V.P. *Development of Ukraine's Relations with International Financial Institutions* / Kolosov V.P. — K: NDFI, 2008. — 232 p.

According to V. Kolosova, Ukraine's cooperation with IFIs enables to conduct strategic stabilization measures to strengthen the economic sovereignty of the country; to reduce foreign economic and resource dependence from neighbors-monopolists; to start radical economic and structural reforms to improve the domestic economic environment and strengthening financial and economic security.

The monograph «Formation of financial system doctrine of Ukraine» (2004), edited by S. Yuriy and O. Desyatnyuk, is dedicated to the issue of dialectics of debt instruments building¹. It summarizes the principles of international debt management practices, including basic stand. First is the «government measures aimed at reducing the debt burden on the budget through large-scale restructuring operations, improve the budget process, expanding the range of exchange rate fluctuations, which reduces the need for external funding to support the balance of payments and lower interest rates to stimulate investment activity»². In the long term deficit financing system could provide some support investment structural adjustment and economic restructuring. Institutional arrangements, as V. Kozyuk noted, is budget development, operation of which will be subject to the criteria for becoming a postindustrial type of industrial and economic systems, budget expenditures during this period will be more transparent³.

The issue of debt policy, which is the prerogative of state jurisdiction, S. Yuriy and O. Desyatnyuk associate with the real threat of financial security. They emit dangerous limit, which consider the amount of debt, «which is more than 50% of GDP, exceeding the obligations on external debt 30% of exports, which ultimately negatively affect the credit rating of»⁴. In his study S. Yuriy analyzes the valid data of the National Institute for Strategic Studies five stages debt policy in Ukraine⁵. (Period 1 — 1991–1994. — Emission balance the budget; Period 2 — 1995–1996. — Commercial loans and placement of T-bills (T-bills), Period 3 — in 1997 — the first half of 1998 — revitalization of the government's domestic and foreign capital markets, Period 4 — the second half of 1998–2002. — systemic debt crisis, internal restructuring and external debt of Ukraine; Period 5 — in 2002 — up to now — the transition from crisis management to debt policy aimed at reducing the debt burden, the search for new sources

¹ See: *Doctrine. Formation Financial System of Ukraine: [monograph] / ed. Yuriy S. I., Desyatnyuk O.M. — Ternopil: Econ. thought, 2008. — P. 63-98.*

² *Formation Doctrine Ukraine's Financial System. — P. 64.*

³ See: *Kozyuk V. Public Debt / V.V. Kozyuk. — Ternopil: Carte blanche, 2002. — P. 221.*

⁴ *Formation doctrine Ukraine's Financial System. — P. 65.*

⁵ See: *Features and Priorities of Debt Policy of Ukraine / A.S. Halchynskiy, Z.S. Varnafat V.Y. Maystrishin and others. — K: Nat. Inst of strategist. Research, 2004. — 104 p.*

and forms of borrowing with the intention to increase the share of domestic component of public debt).

The authors pay particular attention to the last period and conclude that «the current debt policy in Ukraine, focused exclusively on solving tactical problems, is unable to secure economic growth, as justified by the excess growth of the rate of borrowings, the rising costs of servicing and repayment of public debt (in 2005 by 14.6 times) over GDP growth; increase spending on direct public debt service; prepayment of the State debt by attracting new debt, not because of budget surpluses and economic growth»¹ They distinguish the main factors that lead to inefficiencies of Ukraine's debt policy: uneven load debt on the economy; lack of regulated options of exchange debt, exchanges of debt for environmental protection; low investment focus of borrowed funds; opacity control process by using the received external resources and others².

However, they believe that Ukraine under conditions of unstable growth of GDP and imperfect institutional infrastructure of public finance borrowing needed to accelerate the reproduction processes and progressive institutional change. That is why «consistent with a moderate stimulatory fiscal policy expansion treasury Loan can provide improvements in the functioning of the social and economic system based on its market transformation»³.

The realities of our times necessitate constant attention as to the conceptual problems of the theory of taxation and to the specific pragmatic application of scientific concepts. In this context, professor Fedosov should be noted in the large scientific community of Ukrainian financiers. In his works:

— The attempt to complex research of methodological and theoretical foundations of taxes, their economic nature was made;

— The philosophical foundations of methodology and epistemology essence of taxes, the mechanism of their functioning and development were considered;

— A separate tax system was highlighted in the general system of economic relations; its boundaries, features, causes and factors of development were defined;

— The dual nature of tax inextricably linked to the nature of dual work order was revealed. This is manifested in close cooperation of economic content with state-legal form of the regulation of tax relations, which involves the development of non-economic forms and methods of coercion. The dialectics of objective and subjective in taxes was investigated;

¹ See: Features and Priorities of Debt Policy of Ukraine / A.S. Halchynskiy, Z.S. Varnafat V.Y. Maystrishin and others. — K: Nat. Inst of strategist. Research, 2004. — P. 86.

² Ibid. — P. 93.

³ Ibid. — P. 96.

— The essence of taxes as financial category was reviewed. Social purpose, characteristic intrinsic properties, features, functions and role of taxes as financial category, the internal laws of self-movement and development were identified and solved, the location of the system value categories of financial science was shown;

— The necessity, separation criteria and methodological tax as a prerequisite original category of public finances were proved; their specific properties and features were disclosed;

— The main trends, patterns and specificity of dialectical development tax form nationalization of national product, the nature of its basic contradiction as a source of self-motion were revealed;

— A quantitative analysis of the tax structure of leading world countries was performed; major structural changes and trends were revealed, new developments in the tax of the state were shown; and the specific features of tax management and tax administration were disclosed;

— The genesis, evolution and methodological features of the main directions of the global financial minds in the field of taxation were investigated.

One of the first research papers in the national finance literature which deals with theoretical and practical issues of the tax system of Ukraine was the textbook «Tax system of Ukraine»¹ (1994) under the editorship of V. Fedosov. The authors proposed the first definition of the term «tax system» as «a set of interrelated taxes and tax payments which complement each other»². Although the term has been lately extended in a number of financial publications³, the theoretical basis of its economic understanding has been preserved in all editions.

The theory and practice of tax system of Ukraine within its institutional framework is developed by A. Sokolovska⁴. The researcher defines the tax system of the state as a set of tax relationships relations between the state

¹ See: Tax system of Ukraine: textbook / [V.M. Fedosov, V.M. Oparin, H.O. Piatachenko and others]; Edited by V.M. Fedosov. — K.:Lybid, 1994. — 464 p.

² See: Ibid. — P. 449.

³ See: Finance: training studios: textbook / Edited by S.I. Yurii. — Ternopil: Kart-blansh, 2002. — P. 169

Theory of Finance: textbook / [P.M. Leonenko, P.I. Yukhymenko, A.A. Iliencko and others] / Edited by O.D. Vasylyk. — K.:Center of educational literature, 2005. — P. 454; Kudriashov V.P. Course of Finance: textbook / V.P. Kudriashov. — K.: Znannia, 2008. — P. 91

⁴ See: Sokolovska A.M. Tax system of Ukraine: theory and practice of formation: [monograph] / A.M. Sokolovska. — K.:NDFI, 2001. — 372 p.; Sokolovska A.M. Tax system of Ukraine: theory and practice of formation / A.M. Sokolovska. — K.: Znannia-Pres, 2004. — P. 454 ;Sokolovska A.M. Foundations of taxes theory: textbook / A.M. Sokolovska. — K.: Kondor, 2010. — 326 p. ; Maiburov I.A., Sokolovska A.M. Theory of taxation. Advanced course: textbook for Masters. — M.: YUNITI-DANA, 2011. — 591 p.

and taxpayers that are mediated by financial authorities performing tax administration and manifested in the certain forms of taxation. This approach makes it possible to develop a new concept of the state's tax system as a complex, multilevel one, to disclose a place and role of its structural constituents, as well as their interactions whose nature determines the efficiency of the system's functioning; to outline new approaches of reforming the tax system, which provide coordinated improvements to all its elements and ensure conformity to one another. The author analyzes the essence and forms of tax relations as those resulting from alienation of individual and corporate incomes, imposed by the state upon taxpayers in conformity with the law. This can be considered as a payment for services provided by the state, and for performing socially necessary functions. The appropriate organization of these relationship means the equivalence of tax payments and other public services, while the violation of the equivalence, the extension state's functions beyond social necessity (and the extension of taxation beyond its optimal level) is the main reason of conflicts in tax relationships. A. Sokolovska discloses in details the essentials of optimal taxation: the compatibility of the state's tax system with social, economic and political features; dependence of taxes on socially necessary functions of the state, agreement of taxation forms with the development level of fiscal institutions.

There are three types of development tendencies in Ukraine's tax system: objective tendencies corresponding to consistent patterns of the taxation evolution in developed countries; tendencies that formally correspond to trends of taxation, but are not recognized as objectively necessary for Ukraine, because of their unavailability for Ukraine's economic background and social life; specific tendencies resulting from tax transformation in transitional period or from poor tax policy¹. The analysis of Ukraine's tax authorities made it possible for the author to draw a conclusion about their expansion, and also about broad powers not typically granted to government agencies responsible for administering taxes, particularly in the absence of legal regulation of tax collectors' duties / responsibilities and taxpayers' rights².

The development of the national tax system started with the most difficult and the most critical stages of formation, namely searching for the tax structure inherent in the market economy, and arranging taxes into a coherent tax system. As shown in P. Melnyk's study, the system should be

¹ Sokolovska A.M. Tax system of Ukraine: theory and practice of formation: [monograph] / A.M. Sokolovska. — K.: NDFI, 2001. — 372 p.

² See: Sokolovska A.M. Tax system of Ukraine: theory and practice of formation / A.M. Sokolovska. — K.: Znannia-Pres, 2004. — Part 3.

based on a set of taxes adequate to the market economy, and on the necessity of budgeting process seen as a core determinant of an independent state¹. The monograph is a first attempt to generalize patterns of transformation of the state's role in transition economy, and features of building efficient Ukraine's tax system taken in conjunction with budget balance and solving debt problems. The researcher describes taxes and their economic essence as compulsory payments in the form of a percentage of the GDP value, which are received by the government, formalized in legislation, that allows the state to execute the functions, and as the instrument of economic development regulation².

Having analyzed the structural changes of tax pressure, problems of tax privilege and tax discipline, the researcher reveals the main trends of rationalizing the tax structure and improving basic types of taxes. All the recommended changes are based upon the key tax function called economic (stimulating), and from the author's point of view, it forms the basis for participants of tax relationships. It allows the state to encourage taxpayers to develop those fields and spheres of activities that meet the priorities of national economy, and to stimulate investment processes and rational use of resources, etc. On the other hand, through tax policy the government could prevent the development of sectors that are out of its scope.

These and other issues of taxes and tax policy were raised in scientific works «Mechanisms of Financial Resources Redistribution as an Instrument for Determining Tax Potential» by T. Yefymenko and «Taxation: Theory, Problems, and Solutions» under the editorship of V. Vyshnevsky³. Tax potential, methods for its evaluating, forms and methods for redistributing property and financial resources are in the focus of T. Yefymenko's monograph. The author also examines principles and factors of tax optimization.

The book, titled «Taxation: Theory, Problems, and Solutions» and written by a group of researchers, highlights theoretical and practical issues on functioning of the taxes, and discusses those concerning general practices and principles of taxation, the impact of taxes on the economy, tax regulation of commercial banks' activity, economic and mathematical modeling of tax

¹ See: Melnyk P.V. Development of tax system in transition economy: [monograph] / P.V. Melnyk. — Irpin: Academy of State Tax Service of Ukraine, 2001. — 362 p.

² See: Melnyk P.V. Development of tax system in transition economy. — P. 89

³ Yefymenko T.I. The mechanism of redistribution of financial resources as a factor in determining tax potential: [monograph] / T.I. Yefymenko. — Dnipropetrovsk: DUEP Publishing House, 2002. — 240 p. ;Taxation: theories, problems, solutions / [V.P. Vyshnevskiy, A.S. Verkin, E.N. Vishnevskaya and others]; Edited by V.P. Vyshnevskiy. — Donetsk: DNTU, 2006. — 504 p.

process, analysis of taxes within the framework of international capital flow, problems of Ukraine's tax system functioning.

The monograph «Taxation: scientific justification and organization of process» by V. Melnyk (2006) deals with the problems of theoretical principles of fiscal, socio economic, organizational and managerial dominants of taxes and taxation¹. The researcher demonstrates the connection of these dominants with the functions of taxes and their difference from the taxes elements. Particular attention is paid by highlighting the role of organizational and managerial dominants of taxes and taxation. Some issues of Ukraine's tax policy formation in a free-market environment have been further developed in research studies by Yu. Liashenko, V. Iliashenko, and O. Pokataieva.

In the monograph «Formation of Ukraine's Budget Revenues in Transition to Market Economy (Theory and Practice)»² Yu. Liashenko proves that solving current economic problems is based on the smooth operation of the national financial and credit system in general and of the state budget in particular. Tax revenues are in particular focus. The author postulates that «taxes are an efficient instrument of market economy for indirect control of the processes in economic activity of the state»³. The researcher pays special attention by using tax levers for support and stimulation of entrepreneurial activity, balanced economy growth, production extension, stimulation of investment activity, improving competitiveness of the state. Scientist comes to the conclusion that from the point of view of theoretical and methodological postulates the taxation in Ukraine doesn't meet the basic requirements of the tax systems construction in the democratic states, that are scientifically tested by world experience of their formation and functioning⁴. That's why they should be taken into consideration in the process of further reform of the Ukrainian taxation system.

The research paper «Formation of the State Tax Policy in Ukraine» by V. Ilyashenko and O. Pokatayeva dedicated to the issues of tax policy⁵. Considering tax policy in its narrow and broad meaning, the scientists underline that the tax policy is performed according to the certain principles

¹ Melnyk V.M. Taxation: scientific grounding and process organization: [monograph] / V.M. Melnyk. — K.: Computer press, 2006. — 277 p

² See: Liashenko Yu.I. Formation of budget of Ukraine in conditions of market transformation of the economy (theory and practice): [monograph] / Yu.I. Liashenko. — Irpin: Academy of STS of Ukraine, 2003. — 200 p.

³ Ibid — P. 4.

⁴ Ibid. — P. 151.

⁵ See: Iliashenko V.A. Formation of state tax policy in Ukraine: [monograph] / V.A. Iliashenko, O.V. Pokataieva. — Zaporizhzhia: KPU, 2009. — 196 p.

that reflect its tasks. The most important tasks are: social justice, equal intensity, economic efficiency, stability, flexibility. It emphasizes the necessity of coordination of tax policy with other directions of economic policy, and taxes — within a complex of other regulative methods.

One of the leading Ukrainian experts in the field of taxation is Professor A. Krysovaty, who developed himself as a scientist-financier within Kyiv scientific financial school. He published many interesting works in theory and practice of taxation among them there are monographs, textbooks, and articles. Some of his monographic publications¹ are quite popular in scientific society. He investigates the theoretical and fiscal principles of the state of common welfare. The conceptual principles of taxation in the socially oriented market economy are disclosed in the context of the state's financial economy analysis. The basic theoretical concepts of taxation and foundations of state's tax regulation are characterized. Contributing to the development of the field is the determination of criteria for state's effective fiscal policy that correspond to optimal taxation: fiscal sufficiency, economic efficiency, social justice, stability and flexibility. Some attention is paid to the issues of tax management and taxes administrating.

In his works Professor A. Krysovaty considers the issues of tax policy and the initial principles of its strategy and practice in the context of integration of Ukraine into the European Community. These findings give the opportunity to understand that fiscal policy is a product of constitutional democracy epoch in modern conceptual, essence and functional meaning. In this case, balancing of interests of the state and its subjects at the level of distribution and redistribution of a part of national product must be based on the primacy of individual that means the state does not exist for itself but to provide the greatest social and economic welfare of its citizens. The researcher stresses that the place and role of tax policy in the structure of state regulative instruments are determined by the conditions of the economic system and forms of the political system. Directions and forms of realization of tax policy depend on the level of state influence on social and economic processes. The tax policy strategy and tactic modifications are taken place with the change of state economy regulation model. It means that the initial condition of success and efficiency of further transformations is

¹ Krysovaty A.I. Taxation and market: conditions and opportunities of combination : [monograph] / A. I. Krysovaty. — Ternopil: Karpiuk Publishing House, 2000. — 246 p. ; Krysovaty A.I. Theoretical and organizational dominants and practice of tax policy implementation in Ukraine : [monograph] / A. I. Krysovaty. — Ternopil: Kart-Blansh, 2005. — 371 p. ; Krysovaty A.I. Dominants of tax harmonization: national and international vectors: [monograph] / A. I. Krysovaty, V. Valihura. — Ternopil: Pidruchnyky and posibnyky, 2010. — 248 p.

mandatory subordination of tax policy to the course of social and economic transformations, considering their bilateral interdependence.

It is positively estimated that pragmatism of fiscal policy realization is considered through the view point of efficiency estimation in transitive economy and state tax management in works by Andriy Krysovaty. In particular, monitoring of taxation system functionality and the issues of harmonization of tax law are outlined. The research papers provide a detailed consideration of consumption processes, taxation and pragmatism of keeping taxes into income and profits. As a result it is concluded that the tax constituent of social choice theory is of a particular importance because the taxation as the process of realization of tax policy deals with all social and personal interests.

The alternative systems of taxation are among special means of realization of tax stimulating function. The research «Alternative systems of taxation» by Y. Ivanov (2003) was devoted to the issues of their application and development on the modern stage of reformation of the national tax system. It investigated the theoretical and practical aspects of the simplified system of taxation, accounting and bookkeeping of small business, application of the special trade patent and fixed income tax. «The necessity of alternative taxation is preconditioned, — the author stresses, — on one side, by shortcomings of the current taxation system in Ukraine, its difficulties, internal-contradictions, inconsistency of basic tax laws with other branches of legislation and mainly fiscal orientation. On the other side, it is determined by the specific character of the current state of national economy that requires systematic stimulation of small business' development and support of agricultural producers that cannot be decided within the framework of current system taxation»¹.

The monograph analyzes the alternative systems of taxations and directions of their further development. The considerable attention is paid to the role of the alternative systems in realization of stimulating function of taxation, generalization of their specific lines, their place among other means of state's tax policy, and practical use. The author considers the alternative systems of taxation as one of the most effective means of realization of taxation stimulating function, harmonization of economic interests of the state, regions and taxpayers, and also providing of employment and self-employment². A considerable attention is paid to the research of classification of restrictions towards application of some alternative systems

¹ Ivanov Yu.B. Alternative tax system: [monograph] / Yu.B. Ivanov. — Kh.: KhXDEU: Tomado, 2003. — P. 4

² Ivanov Yu.B. Alternative tax system. — P. 477.

that determine possibilities of using one or another system by separate groups of taxpayers. Reducing the number of taxes and collections which are obligatory to pay within the framework of the alternative systems, and also the simplification of the fiscal accounting and financial reporting make it possible to cut off some of them and to shorten substantially waste of time of business subjects¹.

Also, «Tax System» (2006)² edited by team of authors Y. Ivanov, A. Krysovaty and O. Desyatnyuk was positively estimated by scientific society. It discloses the theoretical and practical positions of tax mechanism in Ukraine, outlines separate taxes, tax benefits and principles of tax administration. This textbook contains required reference book and its structure, scientific apparatus, introduction of new concepts, using visual means aimed at presenting new information and stimulating readers' interest to the bases of tax system functioning.

The current inefficient system of indirect taxation influences negatively the nature of social processes in Ukraine. Through the view point of reorientation of tax system on the needs of social welfare regulating, increasing of aggregate solvent demand on this base there is an interesting research paper (the monograph) «Consumption Taxes in the Economy of Ukraine» by I. Lyutyi, A. Dryga and M. Petrenko³. For the first time in the financial literature of Ukraine scientists investigate the major regularities of transformation of basic elements of indirect taxation mechanism in the conditions of market economy formation, systematize objects, and define features and tasks of indirect taxation and ways of its reformation. On the base of evaluation of current status of correlation and realization of fiscal and social functions of indirect taxes, scientists analyze the perspective directions of their balancing. The monograph defines main transformations of basic elements of indirect taxation that influence on formation of economic equilibrium, on its base the main participant groups of forming of solvent demand are segmented at the market of commodities and services depending on the level of incomes and projected evaluation of their behavior is carried out at the consumers' market owing to change of indirect taxation.

Positive contribution in the monograph is the justification of basic directions of improvement of taxation system, in particular the value-added tax, excise duties and duty to establish tax rates, principles of their differentiating and order of change and application, arrangement of the list of

¹ See: Ivanov Yu.B. *Alternative tax system*. — P. 52–75.

² Ivanov Yu.B. *Tax system: textbook*. / Yu.B. Ivanov, A.I. Krysovaty, O.M. Desyatnyuk. — K.: ATIKA, 2006. — 920 p.

³ See: Liutyi I.O. *Taxes on consumption in the economy of Ukraine: [monograph]* / I.O. Liutyi, A.B. Dryga, M.O. Petrenko. — K.: Znannia, 2005. — 335 p.

duty goods, optimization of correlation among duty, excise duties and value-added tax, coming from the necessity of activation of complex regulative influence of the last on the dynamics of elements of social welfare and balancing of fiscal interests. The mechanism of conceptually new directions of management of the indirect taxation system is proposed due to the development of national features of economy and finances in Ukraine¹.

These important and interesting issues are continued in monograph «Fiscal Regulation of Social Development of Society» by V. Tropina (2008) in which the important role of state influence on social processes by means of indirect taxes disclosed. First of all, in the scientist's view, it is shown through their indirect (through realization of fiscal function) impact on the social dynamics of society. As it is pointed out that, indirect taxes carry out direct influence on the rates of social and economic increase through the mechanism of VAT payments, specific excises and duties which are a raise to the cost of commodity thus influence on the level of welfare of population in general. Using indirect taxes, the state gets possibility to regulate the population incomes level, and thus aggregate demand level. In addition, by differentiating tax rates the state can carry out the equal distribution of tax burden on the different social groups, create terms for providing of state social guarantees, assisting in realization of principle of social justice.

The author comes to the conclusion, that the high and in fact the only rate of VAT in Ukraine provides considerable efficiency of fiscal function of this type of tax, at the same time it does not undermine the realization of its socio economic (mostly social and regulative) function. It is considered that the absence in Ukraine of such form of tax benefits, as differentiation of VAT rates, became the reason of widespread using of the other its form — tax exemption of sales turnover. In this regard, V. Tropina considers that the system of benefits from VAT in the countries of European Union is characterized by a greater social orientation, than in Ukraine. Practice of application of benefits from VAT in our country correspond to neither nature of VAT (as the dominant tax on a consumption) nor tasks concerning socio economic security of population in Ukraine in the conditions of society transformation and increase of social risks, that its accompanied².

As to the current benefits from excise taxation in Ukraine the analysis of their application testifies that as well as with VAT, tax exemption (complete or partial) from excise duties are done by means of violation of social justice

¹ See: Liutyi I.O. Taxes on consumption in the economy of Ukraine. — P. 307-324.

² Tropina V.B. Fiscal regulation of social development / V.B. Tropina. — K.: NDFI, 2008. — Part 2.

principle that shows up, in particular, in application of industry benefits. The granting of excise privileges, in fact, is not accompanied by thorough analysis of expenses and benefits correlation. The mechanism of tax exemption is not transparent and it creates the conditions for abuse and corruption. It undermines the stability of the tax system, and thus, substantially reduces the potential possibilities of the fiscal system in regulating of social processes in the country. In the end the team of scientists T. Yefymenko, I. Lunina, Balakin, V. Zyatkovskiy under the editorship of A. Sokolovska admitted that all these problems are characteristic for the tax system benefits in Ukraine¹.

The researcher V. Tropina underlines the importance of the financial regulating of socio economic processes by means of direct taxes. The system of taxation in Ukraine is characterized by a tendency of decline of elasticity both direct taxes and the whole tax system. Such phenomena prove that in the conditions of transitional economy direct taxes are unable to carry out the roles of built-in budgetary stabilization factors in connection with instability of political and economic situation. The personal income tax is the most important within the system of the personal taxation. Apart corporation income tax in the developed countries the personal income tax (except a large fiscal meaning) is a means of income redistribution and regulating of social tension in society. It is the major lever of regulating of social sphere by means of state finances. Nowadays the main approaches to the taxation of individual incomes in Ukraine are based on proportion of taxation. At the same time it is known that progressive taxation is one of the most important instruments of regulating of incomes differentiation, and this level has had a tendency to increase constantly for period of economy reformation of Ukraine. In such case, V. Tropina suggests to renew progressive taxation of individual income on the new principles.

In spite of a number of scientific and dissertation papers the problem of creation of the effective system of income taxation is still a challenge and more study of the problem is required from the theoretical point of view. In this context the monograph by Shvabiy K. discloses, examines and investigates the problems of methodology, theory and practice of incomes taxation². This work deals with the elements of increasing of scientific knowledge in investigating of economic nature, essence, role and meaning of definition «income» as an economic category and object of taxation. The

¹ See: Sokolovska A.M. The system of tax incentives in Ukraine in the context of European experience: [monograph] / A.M. Sokolovska, T.I. Yefimenko, I.O. Lunina, R.A. Balakin, V.I. Ziatkovskiy / Edited by A.M. Sokolovska. — K.: NDFI, 2006. — 320 p.

² Shvabii K.I. Taxation of incomes: problems of science and practice: [monograph] / K.I. Shvabii. — Irpin: National University of STS of Ukraine, 2009. — 296 p.

questions of modern theory of optimal incomes taxation mechanism are emphasized, international experience and methodology of Ukrainian school of political economy is analyzed (especially Podolynskiy's views).

The monograph «Modern Tendencies of the Development of European Taxation and the Newest Paradigm of Tax Policy in Ukraine»¹ (2010) was published by the team of authors S. Yuriy, A. Krysovaty, T. Koshchuk. It provides the insight into the basis of formation and realization of tax policy, impact of institutional factor on interdivision processes, regulations of tax systems development in European countries in the conditions of strengthening of integration processes. It is illustrated that «old» and «new» countries — members of European Union, using tax instruments, react on modern challenges of socio economic development; strengthening the separate instruments of the macroeconomic regulating. The basic vectors of tax reforms and transformation directions of strategy and tactics of tax policy are outlined in the context of integration of Ukraine into the European Community.

In 2010 the monograph «Dominants of Taxation Harmonization: National and International Vectors»² by A. Krysovaty and V. Valigura was published. The theoretical, organizational and practical aspects of taxation harmonization on national and international levels are investigated. It is offered a new vision of problems of interests' coordination of intra- and inter-state subjects of taxation. Monitoring and evaluation of efficiency of the national tax system functioning and fiscal misbalances of taxation in Ukraine are revealed. The balance of functioning of basic fiscal taxes in Ukraine is analyzed. Basic specifications and tendencies in the development of the tax systems of countries-members of European Union are described. The degree of conformity of the Ukrainian tax system to European taxation is established and development directions of the national system of taxation in the conditions of European integration are proposed.

The prospective area for the future development in fiscal sphere became the monograph «Monitoring of Tax Risks: Theory and Practice» (2009)³ by O. Desyatnyuk. It is one of the first researches in the area of tax risks. A positive feature of the monograph is considering a wide range of issues of monitoring risks in taxation. O. Desyatnyuk proves that tax risks and threats they cause to financial security of Ukraine in taxation, do not allow the tax

¹ Yuriy S.I. Modern trends in European taxation and tax policy newest paradigm in Ukraine: [monograph] / S.I. Yuriy, A.I. Krysovaty, T.V. Koshchuk. — Ternopil: TNEU, 2010. — 292 p.

² Krysovaty A.I. Dominants of tax harmonization: national and international vectors: [monograph] / A. Krysovaty, V. Valihura. — Ternopil: Pidruchnyky and posibnyky, 2010. — 248 p.

³ Desyatnyuk O.M. Monitoring of tax risks: theory and practice: [monograph] / O.M. Desyatnyuk. — Ternopil: TNEU, 2009. — 312 p.

system to react objectively to classical regulation actions for a market economy and influence negatively on advancement of national economy. The effectiveness of combating such negative phenomena the scientist connects to the construction of the system of warning and minimization on the basis of the permanent monitoring, whose information base serves to formation of the risk oriented system of taxes administrating. The aim of the constructions of this system the author sees in assuring of the greatest possible level of detection and prevention of tax law violation that will support the public confidence to the tax system. Transformation of tax administrating system into risk oriented system, according to approach offered by the researcher, can provide its transparency and minimize the influence of human factor on making decisions.

The analysis of major directions of construction of the system of prevention and minimization of tax risks which is resulted into a choice of criteria optimization is carried out in the monograph. On the practical side, determining optimal composition of events of risks minimization, it is necessary to take into account not only financial but also industrial, economic and social consequences. The author makes special emphasis on a transition from punitive to the stimulating function of taxation. O. Desyatnyuk stresses that the tax management dominant is a not a removal or non-admission of risks, but their maximal management, that resulted into synchronization of interests both taxpayers and states, and also society in general.

A special role in tax pragmatics takes the issues of tax debt that are still poorly researched. These questions were of interest in the monograph «Tax Debt in Ukraine: Reasons, Consequences, Management»¹ by O. Tymchenko, in which the issues of tax debt, its specificity, management principles, ways of optimization were disclosed. The author on the basis of methodological approaches of classical, Keynesian and institutional scientific schools analyzes the major characteristics and cause and effect relations of tax debt, dualism of interests of the state and tax payers as subjects of debt. It is given the definition of tax debt as a still not paid «tax obligation in a fixed term as a result of non-fulfillment tax payment duty by a payer before the state, coming from the legislation norms on the basis of reliable data about the objects of taxation for reporting period»².

Tymchenko shows the internal construction, classifies the types of tax debt with appropriate management methods. It is well-proved in the work

¹ See: Tymchenko O.M. Tax debt in Ukraine: causes, consequences and management: [monograph] / O.M. Tymchenko. — K.: KNEU, 2009. — 228 p.

² Ibid. — P. 35.

that chance of appearing of tax debt largely depends on the construction of the tax system. Its foundation must be stable taxes that are characterized by high fiscal efficiency and is difficult to avoid. The level of taxpaying depends on administrating skills, system of responsibility for violation of tax law and effectiveness of tax control. It is important that a debt is investigated in the context of risk theory, as a result suggestions are worked out concerning the improvement of tax management, that are aimed at its minimization and prevention in the future. Having examined advantages and disadvantages of tax amnesty for the state and taxpayers, the author comes to the conclusion:

— the state can get considerably more advantages from realization of tax amnesty, than a payer; in the worst case, everything would remain without changes;

— in theory economic risks for a taxpayer prevail above advantages; even at the best terms of realization of tax amnesty there are losses for a taxpayer;

— the state can realize the advantages as a result of tax amnesty only through minimizing drawbacks that take place for both parties of this process¹. Having considered the possibility of realization of tax amnesty in Ukraine, the author underlines that its efficiency can be assured with the decline of tax pressure in parallel, strengthening the control over the observance of fiscal legislation, which taxpayers must be informed in advance.

The important structural constituent of public finances is local finances that are of scientific interest, especially in connection with the establishing of local self-government system in Ukraine. Theoretical and methodical principles of research of local finances were built up in the works of representatives of Kyiv financial school in the XIX–XX centuries. They are M. Tsytovykh, P. Kovanko, V. Tverdohlebov and others. V. Kravchenko as one of the first researchers who continued the analysis of local finances in financial literature in independent Ukraine was the representative of a new generation of Kyiv financial school. In his work «Finances of Local Authorities of Ukraine: Bases of Theory and Practice»² he uses a term «finances of local authorities» that considers identical to the concept of «local finances» that, in his opinion, determines the subject of the financial activity more clearly³. In modern financial literature this term haven't been widely used.

¹ Tymchenko O.M. Tax debt in Ukraine: causes, consequences and management. — P. 211-212.

² Kravchenko V.I. Finance of local authorities of Ukraine: fundamentals of theory and practice / V.I. Kravchenko. — K.: NDFI, 1997. — 276 p.

³ Ibid. — P. 5.

In his research Kravchenko analyzes the practice of finances formation of local authorities of Ukraine in 1991–1996. As a result of the analysis of new financial phenomena the scientist develops the theory of local authorities finance, reveals the financial autonomy principles of local self-government, their formation and development tendencies in Ukraine, and also outlines the positive foreign experience¹. In the research the author proposes the bases of concept of finances development of local authorities in Ukraine, focuses attention to tasks that appeared in connection with development of local finances and requirements of European Charter about local self-government and other international legal acts.

O. P. Kyrylenko is one of the famous Ukrainian scientists-financiers who researched the theory and practice of local finances functioning². His monographs and textbooks disclose the ways of strengthening of financial base of local self-government. The term «financial independence of local self-government» is defined as possibility and ability of bodies of local self-government to carry out financial policy, form and spend financial resources in order to solve local problems. At the same time the attention is paid to the relative character of financial independence and necessity of its optimization regarding social priorities and regularities of state development. O. Kyrylenko proves that providing financial independence of local self-government in the democratic state allows: to strengthen responsibility of bodies of local self-government and their interest in activation of economic development and improvement of incomes mobilization; to rationalize the expenses of local budgets and bring them into accordance with the necessities of local communities; to accelerate development of democratic institutes and activate participating of citizens in the decision of issues of local level. In general, all of these will promote the improvement of local finances and increase efficiency of local self-government.

It is concluded that the main constituent of financial independence of local self-government bodies is their budgetary independence. Its level depends both on the scope of authority of local self-government and plenitude of its providing with budgetary resources. The concept of «budgetary self-sufficiency» is narrower than the concept of «budgetary independence» and represents ability of local self-government to satisfy

¹ See: Kravchenko V.I. Finance of local authorities of Ukraine: fundamentals of theory and practice. — P. 146–192.

² Local finances: a textbook / Edited by O.P. Kyrylenko. — K.: Znannia, 2006. — 677 p.; Regulation of intergovernmental relations: Ukraine and European experience: [monograph] / [B.H. Bodrov, O.P. Kyrylenko, N.I. Baldych and others]; Edited by B.H. Bodrov. — K.: NADU Publishing House, 2006. — 296 p.; Modernization of local finance of Ukraine in conditions of economic and social transformations: [monograph] / Edited by O.P. Kyrylenko. — Ternopil: Ekonomichna dumka, 2008. — 376 p.

needs in budgetary resources independently by means of their own incomes; however this concept doesn't depict the scope budget powers of the bodies. Budgetary sufficiency is formed as a result of realization of all possibilities of independence providing independence of local authority in the questions of formation, use and regulating of local budgets. The scientist conducts the monitoring of numerous limitations of budgetary independence of local self-government bodies in Ukraine and analyzes the possibilities of realization of budgetary potential of their financial independence. In his works O. Kyrylenko systematizes the experience of financial independence providing of local self-government in foreign countries, develops suggestions in relation to application of it in Ukraine. It is also offered the principles and directions of realization of budgetary potential of financial independence of local self-government.

Nowadays these problems are analyzed by many Ukrainian scientists and practices¹. The monograph «Taxation and Regional Development (theory and practice)» by L. Tarangul² deals with the range of taxation problems at the different regions. It investigates the relationships between the levels of taxation and socio economic development of regions, their tax payment ability and tax potential. Basic directions of improvement of regional tax policy and strengthening of financial firmness and liquidity of local financial economy are grounded. The monograph «Tax Base of Local Self-government»³ by M. Badyda (2010) deals with the problems of local taxation in the Transcarpathian region and Uzhgorod city.

The issues of local finances are considered by V. Zaichykova⁴ in her monograph «Local Finances of Ukraine and European Countries». The author analyzes the essence of state administration and local self-government of the developed and post-socialist countries of Europe, documents of the European Board, examines the institutional and organizational aspects of integration of Ukraine into EU, highlights the organizational and legal principles of local self-government financing in European countries. The scientist determines the system of the financial providing of local self-

¹ See: Vyshnevskia N.V. Fiscal policy: regional aspect: [monograph] / N.V. Vyshnevskia. — Lutsk: RVV «Vezha», 2007. — 244 p.; Vakhovych I.M. Financial policy of sustainable regional development: methodology of formation and mechanisms of implementation: [monograph] / I.M. Vakhovych. — Lutsk: Nadstyria, 2007. — 496 p.; Vakhovych I.M. The financial capacity of the region: diagnostics and mechanisms for ensuring: [monograph] / I.M. Vakhovych, I.M. Kaminska. — Lutsk: Nadstyria, 2009. — 400 p.

² Tarangul L.L. Taxation and regional development (theory and practice): [monograph] / L.L. Tarangul. — Irpin: Academy of STS of Ukraine, 2003. — 286 p.

³ Badyda M.P. Tax base of local governments: [monograph] / M.P. Badyda. — Nizhyn: Aspekt-Polihrif, 2010. — 408 p.

⁴ See: Zaichykova V.V. Local finance of Ukraine and European countries: [monograph] / V.V. Zaichykova. — K.: NDFI, 2007. — 299 p.

government as «a set of legislative regulations of financial institutes, instruments and financial relationships between public authorities, subjects of local self-government and entrepreneurial activity and citizens in the process of granting of public benefits and their resource providing»¹.

The scientist concluded that the system of the financial providing of local self-government in Ukraine is centralized. It is conditioned:

— firstly, by the low level of financial autonomy of local self-government, insignificant revenues from community taxes, a weak profitable base, dependence on transfers from the budget of central government;

— secondly, by the vagueness of basic financial institutions in Constitution and laws of Ukraine and low efficiency of basic instruments of the financial providing of local self-government;

— thirdly, by the lack of development of financial relationships between public authorities, subjects of local self-government and entrepreneurial activity and citizens in the process of social benefits granting»².

On the research field of financial science an important role is taken to corporate finances — a final link of micro- financial level. In Ukrainian financial literature there is an old soviet tradition to name its finances of enterprises or the finances of subjects of economy. In the USSR the finance of real sectors of economy was given a second-rate role. It is explained that the majority of enterprises did not have financiers; in fact it was no need to make decision in regard of fundraising on financial markets, realization of the real and financial investments, and formation of the most appropriate capital structure. Under such circumstances it was no need to estimate investment and financial risks, to carry out financial predictions and serious financial analysis. As A. Danylenko marks, in the conditions of dominating state pattern of ownership the state regulated distribution of national income, that generated the wide range of specific relations at the level of enterprise at the stage of initial distribution, that allows, in fact, to consider the finance of enterprises as a part of general national finance³.

The finance of enterprises in independent Ukraine began to develop mostly under the influence of tendencies that were founded at centralized management system and concerned mainly the organization of financial work at state enterprises. That's why in most national scientific works and modern textbooks in finances of micro-level the issues of formation and distribution of profit, organization of turnover funds, financial providing of

¹ Zaichikova V.V. Local finance of Ukraine and European countries. — P. 142.

² Ibid — P. 143–144.

³ Financial and monetary levers of economic development: [monograph]: in 3 volumes / Edited by A.I. Danylenko. — K.: Fenix, 2008. — Vol. 3: Finances of Enterprises: trends, state and problems of management. — P. 15.

capital assets recreation, taxation and crediting of enterprises have prevailed until now. These topics are examined, for example, in one of the first and popular textbook «Finances of Enterprises»¹ (edited by A. Poddorygin) and in other works of this direction. In modern foreign literature finances of micro- level are presented by a powerful block of issues under the title «corporate finance». The concept of «corporate finances» is defined as the special area of finances that includes the complex of issues in financing and investment activity of companies².

In a number of works of national economists there was an attempt to adapt to Ukrainian realities financial technologies, methods and instruments that are widely used in practice of corporate finances abroad and are being used by national enterprises. Among the most important national works that can be attributed to the area of corporate finances, it is worth distinguishing the books «Bases of Financial Management», 2004 by I. Blank³, «Finances of Foreign Corporations», 2004, by V. Sutormina⁴, «Financial Activity of Subjects of Management», 2004 by O. Tereshchenko⁵. There are other scientists whose works deal with the issues of finances on micro-level. They are: I. Zyatkovskiy, A. Filimenkova, L. Dikan, O. Voronina, O. Yermoshkina, K. Salyga, O. Orlov, V. Baranova, H. Azarenkova, O. Kyrychenko, S. Yerokhina and many others. It is necessary to mention the works of well-known Ukrainian scientist M. Bilyk⁶ who devoted the considerable part of the professional life to research of micro- level of finances.

I. Zyatkovskiy in the monograph «Finance of Subjects of Management in the Conditions of Institutional Transformations» (2006) building on the prior achievements of Ukrainian and foreign financial science, deepens the theoretical base of conceptual principles of finances organization and increase efficiency of subjects of economy in the area of production of material and public welfares. In the author's opinion, to understand internal essence of financial relations it is preferably to consider them through the view point of formation of financial resources by enterprise subjects as a

¹ Finances of Enterprises: textbook / Edited by A.M. Poddieriogin. — 6th edition, revised and expanded. — K.: KNEU, 2006. — 552 p.

² Volkart R. Corporate Finance: Grundlagen von Finanzierung und Investition / Volkart R. — Zurich: Versus, 2003. — S. 36.

³ Blank I.A. Fundamentals of Financial Management / I.A. Blank. — K.: Elha: Nika-Tsentr, 2004. — Vol. 1. — 624 p.; Vol. 2. — 624 p.

⁴ Sutormina V.M. Finance of foreign corporations: textbook / V.M. Sutormina. — K.: KNEU, 2004. — 566 p.

⁵ Tereshchenko O.O. Anti-crisis financial management of the enterprise: [monograph] / O.O. Tereshchenko. — K.: KNEU, 2004. — 268 p.

⁶ Bilyk M.D. Financial management of state enterprises: [monograph] / M.D. Bilyk. — K.: Znannia, 1999. — 312 p. ; Bilyk M.D. Organization and methods of auditing of agricultural enterprises: textbook / M.D. Bilyk. — K.: KNEU, 2004. — 626 p.

result of financial-economic activity and using of monetary funds and reserves created by distribution and redistribution of GDP¹.

Having examined the finances of subjects of all forms of ownership, the scientist shows their natural relationships with public finances, that is based on common principles, namely on relationships of distribution on micro- and macro- levels that provide formation of financial resources². I. Ziatkovskiy clarified and elaborated some financial concepts. For example, having analyzed the approaches to the definition of term «financial resources» by Slavyuk, A. Filimonenko, K. Pavlyuk³, he introduces the authorial definition of «financial resources is the part of monetary resources received from financial and economic activity and formed out of them reserves and revenues of a special purpose by a subject of economy, which he owns, distributes and uses on statutory requirements»⁴.

In this regard the beginning of research of new financial national science direction is noted. Analytical generalizations of theory of households finance⁵ were developed and gave more ground to the basic provisions concerning the defining the economic essence of households finance, its place in the modern financial system at the textbook «Theory of Finances» by V. Fedosov and S. Yuryy. In this textbook authors describe the structure of finances of households, reveal the issues of formation of management system of their financial resources in the conditions of market economy⁶. It is given the definition of «finance of households» as a set of economic relationships, materialized in monetary flows, that households enter in the processes of forming, distribution and use of funds in order to satisfy material and spiritual needs of subjects⁷. Thus, finance of households are considered in the context of theory of human capital. It should be noted that to the issue of investing in human capital is of special interest in the textbook

¹ Ziatkovskiy I.V. Finance of business entities in conditions of institutional reforms: [monograph] / I.V. Ziatkovskiy. — Ternopil: Ekonomichna dumka, 2006. — P. 107.

² Ibid. — P. 108.

³ Slavyuk R.A. Finance of enterprises: textbook / R.A. Slavyuk. — K.: Center of educational literature, 2004. — P. 6-7; Filimonienkov A.S. Finance of enterprises: textbook / A.S. Filimonienkov. — K.: Elha: Nika-Tsentr, 2000. — P. 6; Pavliuk K.V. Financial resources of the state: [monograph] / K.V. Pavliuk — K.: NIOS, 1997. — P. 15, 18

⁴ Ziatkovskiy I.V. Finance of business entities in conditions of institutional reforms. — P. 18.

⁵ Yuriy S.I. Finances of households: theoretical approaches to the interpretation of the essence / S.I. Yuriy, T.O. Kizyma // Finance of Ukraine. — 2008. — № 8. — P. 3-11; Kizyma T.O. Finances of households: modern paradigm and dominants of development / T.O. Kizyma. — K.: Znannia, 2010. — 431 p.

⁶ Theory of Finance: textbook / P.I. Yukhymenko, V.M. Fedosov, L.L. Lazebnyk and others; Edited by V.M. Fedosov, S.I. Yuriy. — K.: Center of educational literature, 2010. — P. 357.

⁷ Ibid. — P. 370.

by V. Fedosov and S. Yuriij¹. This is important from position of both today's level of economic science in general and financial theory in particular.

The economic totality of finances of enterprises, in opinion of authors of three-volume edition under the editorship of A. Danylenko, expresses the wide spectrum of monetary relationships that arise in conditions of formation and use of funds of financial resources². The major constituents of this definition were supported by editorial staff of «Theory of Finances» by V. Fedosov and S. Yuriij. The authors conclude that «economic nature of enterprise finance reveals the essence of monetary relationships between subjects of economy in the process of creation and realization of productive-financial activity³».

The focus of research by O. Tereshchenko is the questions of effective financial management at enterprise in crisis conditions⁴. His monograph is dedicated to the theoretic and methodic providing of crisis finance management of enterprises. He determines the basic constituents of theoretical paradigm and financial and economic mechanism of crisis financial management. By applying of econometric methods of processing of economic information the discriminant models of diagnostics of financial crisis are worked out and approved at an enterprise. It is offered the approach to the construction of financial controlling at enterprise and conception of risks management that includes monitoring and internal audit. O. Tereshchenko develops methodical recommendations for crisis events plan, evaluation of crisis management efficiency, and also determines the place of sanation audit as the means of reduction of informative asymmetry and verification of crisis plan. The author grounds the basic dominants of state policy of sponsorship of domestic enterprises that are in a crisis, and offers the ways of its harmonization with the standards of European Union.

The monograph justifies a new scientific approach of neoinstitutionalism which is based on the system of making decision in the field of state sponsorship of enterprises, the main constituent of which is criteria of state assistance and complex controlling of state sponsorship and independent estimation of its expediency. The questions of effective financial management at enterprise will become of special interest of other Ukrainian scientists-financiers⁵.

¹Theory of Finance. — P. 365.

²Financial and monetary levers of economic development: in 3 volumes / Edited by A.I. Danylenko. — K.: Fenix, 2008. — Vol. 3: Finance of enterprises: trends, state and management problems. — P. 19.

³Theory of Finance. — P. 321.

⁴Tereshchenko O.O. Anti-crisis financial management of the enterprise. — 268 p.

⁵Dikan L.V. Financial results of enterprises: theoretical generalization and applied analysis: [monograph] / L.V. Dikan, O.O. Voronina. — Kh.: SPDFO, 2008. — 92 p.; Yermoshkina O.V. Management of financial flows of enterprises: theory, practice, prospects: [monograph] / O.V. Yermoshkina. — Donetsk: National Mining University, 2009. — 479 p.

The financial management in the works of the Ukrainian scientists is interpreted as independent research and practice direction that was formed on the bases of three sciences — neoclassical theory of finance, bookkeeping and general theory of management. Modern Ukrainian financial science considers financial management as the system of knowledge of optimization of financial model of firm that means in its narrow meaning, its accounting balance. The Ukrainian scientists determine conceptual base of financial management and give the structural essence filling of this category¹. In the process of study of accounting-analytical and financial aspects of enterprise activity (firms) such new concepts, as 'goodwill' and 'leverage' are defined. Considerable scientific attention is paid to the issues of financial analytic of enterprise (firms), in particular, authorial methodology of evaluation of property and financial potential of firm is offered. Key base of this methodology is priority of quality analysis over formal.

In the opinion of the Ukrainian scientists the formalized calculations of any indicators should be preceded by the detailed research of economic essence of initial information base². The papers by V. Plys, I. Prujmak and G. Azarenkova³ address the financial range of problems of crisis management of firm and providing of financial firmness of business subjects in a market economy in Ukraine.

Thus, while highlighting and analyzing range of corporate finance issues it's necessary to state some progress in it. At the same time it should be noted a quantitative growth did not give a corresponding quality development in the increasing of a new scientific knowledge. In general, the analysis of scientific thought in the field of finances of micro-level testifies the availability of different approaches in representatives of old school of the so-called traditional finances of enterprises and supporters of «corporate finances» in its western meaning. The divergences are shown up in the issues of research, methods and conceptual positions. The representatives of «traditional finances of enterprises» staying on the old ideological-dogmatic

¹ Financial management in transitive economy: the issues of theory and methodology: [monograph] / Edited by V.H. Baranova. — Odessa: Polihraf, 2008. — 236 p.

² See: Orlov O.O. Planning of business profits in market economy: [— 155 p.; Salyha K.S. Management of financial results of the company: [monograph] / K.S. Salyha, Y.Y. Tkachenko. — Zaporizhzhia: KPU, 2008. — 176 p.; Dikan L.V. Financial results of the enterprises: theoretical generalization and applied analysis. — 92 p.; Yermoshkina O.V. Management of financial flows of industrial enterprises: theory, practice and prospects. — 479 p.; Andrienko V.M. Effective mechanisms for financial management utilities: [monograph] / V.M. Andrienko, S.M. Michkivskiy, N.M. Lysak, V.V. Palamarchuk. — Donetsk: Yugo-Vostok, Ltd., 2008. — 128 p.

³ Plysa B.Y. Strategy of ensuring the financial stability of business entities in Ukraine's economy: [monograph] / V.Y. Plysa, I.I. Pryimak. — Lviv: ATB, 2009. — 144 p.; Azarenkova H.M. Management of financial flows of economic agents: [monograph] / H.M. Azarenkova. — K.: UBC NBU, 2009. — 335 p..

positions, limited to old burden of knowledge, actually tried to save hard framework of post-soviet range of problems, while new scientific ideas are concentrated mainly on the questions of composition of the financial system and financial mechanism, distribution of profit between enterprises and state, formulating of enterprise finances functions, description of financial relations, essence of monetary funds and financial resources. It is important to stress that development broadens scientific horizons but some people continue to live in the past.

The distinguishing feature of foreign financial idea is that in scientific literature there are almost no discussions on the questions of essence and functions of corporate finances. Researchers concentrate attention on narrow, separate segments of corporate finances and get certain scientific results in a form new methods, instruments and technologies of making of financial decisions. National researchers are inclined sometimes to investigate large problems, getting the generalized results with the doubtful level of scientific and practical value. While the representatives of national finances argue about the essence of finances, functions, main constituents and characteristic features of financial relationships, foreign financial science has worked out advanced technologies of management financial flows and high-efficiency methods of financial activity. Corporate finances both in a theory and in practice have reached considerable development. A theory in the field of corporate finances is orientated on logically-deductive (the separate is studied on the basis of successive study of internal conformities of general) and empiric-inductive (general is done with the use of mathematical and statistical methods of processing of separate segments of the information received on empiric way, on the basis of experience and practice) justification of factors, methods and instruments that determine financial decisions. Using quantitative methods of research is a characteristic feature at a theory and practice of corporate finances.

According to the accepted world practice any research in corporate finances must contain a justification in a form of economic and mathematic expositions (models, clusters, cross-correlation analysis, algorithms) that are based on processing of empiric information. The analysis of national scientific work in the financial field shows that most scientific works have mainly descriptive character and are based on the simplified analysis of certain statistical information. The attempts of some economists-financiers to use econometric methods for proving scientific positions are often exposed to criticism from representatives of «traditional finances of enterprises». They argue that such research belong not to the area of finances, but, for example, to «Mathematical methods, models and information technologies in an economy».

The theoretical base of development of modern corporate finances is considered to be the works of the best representatives of world financial idea who were awarded with Nobel Prize in economics for different years. In particular, questions of technology of making of investment decisions, bringing in capital and evaluation of business are largely based on theorem of evaluation of company and cost of capital by F. Modigliani (Nobel Prize in Economics, 1985) and financial markets analysis by J. Tobin (Nobel Prize in Economics in 1981). Effective financial communication of enterprise with «shareholders» and «stockholders» is impossible without conclusions of G. Akerlof, M. Spence and J. Stiglitz, that follows from their analysis of markets on condition of informative asymmetry (Nobel Prize in Economics, 2001). The modern instruments of evaluation of financial and investment risks of enterprises in the conditions of vagueness must take into account conceptual positions of theory of financing and market of capitals by H. Markovitz, W. Sharpe and M. Miller (Nobel Prize in Economics, 1990).

The effective functioning of financial controlling in company is impossible without case-insensitive features of behavior of individuals in the process of making economic decisions, that is systematized by D. Kahneman and V. Smith (Nobel Prize in Economics, 2002) as a theory of behavioral finances (Behavioral Finance), and also motivations of economic agents that follow from the theoretical analysis of stimulation in the conditions of informative asymmetry, which is conducted by W. Vickrey and J. Mirrlees (Nobel Prize in Economics, 1996). Rational financial decisions in the area of corporate finances are impossible, if the influence of transaction expenses are ignored was grounded by Koase (Nobel Prize in Economics in 1991). A quality financial analysis must contain the use of econometric methods of processing of financial information, as it was proved in the works on econometrics and finances by T. Haavelmo (Nobel Prize in Economics, 1989).

The best-known world research of a theory and practice in corporate finances, are the works «Principles of Corporate Finance» by American economists Richard A. Brealey, Stewart C. Myers, «Theory and Practice of Corporate Finance» by Allen Aswath Damodaran, «Fundamentals of Corporate Finance» by Stephen A. Ross, Randolph Westerfield, Bradford D. Jordan¹ etc.

An overview of world financial theory and practice allows to state that the key tendencies of research in corporate finances are investment policy of

¹ Volkart R. Corporate Finance: Grundlagen von Finanzierung und Investition. — 990 S. ; Brealey Richard A. Corporate Finance / Brealey Richard A., Myers Stewart C., Allen Franklin. — 8th Edition. — Boston : McGraw-Hill, 2005. — 754 p.

companies, policy of financing and support of liquidity, financial controlling and evaluation of risks, cost-oriented management, financial communication, financial aspects of mergers & acquisitions. It is marked that in research of most home scientists in the field of micro-level finances the above stated fundamental bases of corporate finances are ignored in general or illuminated superficially enough. National theory in corporate finance still continues description of place and role of financial resources, organization of current capital or traditional financial planning, classification of financial relationships. The significant scientific achievements of world level at such approach are not expected. It is necessary to admit that episodic attempts to introduce a modern terminology and range of problems of corporate finances in a national theory have shown the resistance of representatives of traditional finances of enterprises that put considerably back the development of the financial idea.

Processes of market transformation of base economic relationships in Ukrainian society are related to appearance of private property, extension of the area of functioning of business subjects and private enterprise, stipulated the necessity of abolition of government insurance monopoly and development of insurance sector of economy on market principles. In Ukraine an insurance market was formed in two last decades. For historically insignificant period the sphere of insurance of the country changed radically that needed an adequate theoretical comprehension. In national financial science there are new tasks, related to the necessity of study, generalization and scientific interpretation of those processes that took place in Ukraine on the way to the market model of management. This way is complicated by a few main problems that had to be taken into account.

The first problem is that main scientific finance insurance schools in former Soviet Union were concentrated in Russia, mainly in Moscow and Leningrad. Ukraine did not have its national scientific school and noticeable names in area of theory of insurance. The traditions of insurance business found by a prominent Ukrainian scientist, academician K. Voblyy, who lectured in Kyiv commercial institute (now it is Kyiv National Economic University named after Vadym Hetman) and in 1915 in Russia wrote the first scientific best seller «Basis of Economy of Insurance»¹ which is actual up to these days, but were lost in soviet time. During many years in Ukraine the department of state insurance of Ternopil financial and economic institute was the only profile department that trained specialists of higher education in state insurance area in the USSR. In late 80th of past century this direction

¹ Voblyi K.G. Fundamentals of saving insurance / K.G. Voblyi. — Ternopil: Ekonomichna dumka, 2001. — 238 p. — (Reprint edition 1915)

was developed and the department of finance of Kyiv national economic university began to train the specialists of the same profile. Thus, there was a shortage of scientists in insurance field in Ukraine at that time.

The second problem in the area was related to the fact that national theory of insurance could be based only on theoretical postulates of Soviet insurance system which differed substantially from the achievements of world financial ideas. These postulates were the result of generalization of insurance activity in the conditions of government monopoly. The only insurance institution that carried out insurance operations into the country was chief administration of state insurance of Ministry of finance — State insurance of the USSR. The high degree of centralization of insurance business affected scientific presentations in relation to a place and role of insurance in society. The general theory of finances, using the Marx's chart of distribution of public product through forming of separate funds of special purpose (including «reserve, or insurance fund for ensuring against accidents, nature calamities etc.», and also «funds for disabled»), considers state insurance as one of links of the centralized (national) finances exceptionally on a macro-level.

Such approaches to insurance corresponded little to the real market processes that took place in the economy of Ukraine and made the theory of insurance good on paper. One of the first Ukrainian publications in insurance was «Basis of Insurance»¹ (1995) by O. Zaruba. In fact it was a brief translation into the Ukrainian language of well-known textbook «Insurance Business»² edited by L. Reytman, published in Moscow in 1992. In the textbook the questions of specific organization of insurance business in Ukraine were not considered and the tasks of increasing of knowledge in insurance science were not solved. But owing to this author the first educational edition in insurance appeared in the Ukrainian language.

The third problem concerns the needs to study foreign experience of insurance business management and organization of training process of specialists for national insurance market that developed quickly. At that time Ukrainian scientists need knowledge of foreign languages, foreign literature, and also time for comprehension of new information, going away from out-of-date ideas as quickly as possible. Practices, not having the opportunity to use new fundamental theoretical achievements, considered the theory as out-of-date and scholastic. Sporadic and unsystematic efforts of scientists to overcome a break between a theory and practice transformed the national

¹ Zaruba O.D. Fundamentals of insurance: textbook / O.D. Zaruba. — K.: Ukr.-fin. Institute of Management and Business, 1995. — 180 p.

² Insurance business: textbook / Edited by L.I. Reitman. — M.: Bank and exchange research and consultation center, 1992. — 524 p.

theory of insurance into symbiosis of soviet socialistic theoretical ideas and adopted ideas of Western-European insurance experience that were not combined together and made this area even more inconsistent. It was necessity «to separate wheat from a chaff» as quickly as possible and to form national insurance business on new theoretical and methodic modern principles.

An important event which happened in 1998 was the publication of the first national fundamental textbook «Insurance»¹ of both educational and scientific character. It was prepared by the scientists of department of finances of enterprises and insurance business of Kyiv National Economic University named after V. Hetman (involving leading experts). This textbook gained recognition among experts, three editions were published (1998, 2002 and 2006) and the textbook has become the major textbook in insurance business for higher educational establishments in Ukraine for many years. In this work the following problems from the view point of theory and practice of insurance business in the conditions of market economy in Ukraine are considered: the essence, principles and detailed classification of insurance, nature of insurance risks, the methods of their evaluation, methods of defining of insurance tariffs, other subjects of insurance market, government control of their activity; bases of the personal insurance, property, responsibility insurance; financial bases of insurance operations—specificity of incomes, expenses and profit of insurers, forming and location of insurance reserves, factors of providing and methods of evaluation of financial stability of insurance companies.

Apart from the textbook «Insurance» the first textbook «Insurance Services» by S. Osadsa and T. Artyuh (2007)² was published in Ukraine. The work was dedicated to the analysis of insurance services, the peculiarities of their creation and promotion toward a consumer, the specificity of relations of parties of the insurance contract at all stages, terms and rules of realization of basic types of insurance in Ukraine and beyond its borders, and also the textbook «Account and Audit in Insurance companies» by O. Hamankova³ (in which essence and bases of organization of accounting and tax accounting of insurance activity and features of audit of insurance companies in Ukraine are considered). The issues of financial bases of insurance organizations in Ukraine, circulation of monetary resources of insurers; features of forming of asset of insurers, insurance reserves, financial result;

¹ Insurance: textbook / Edited by S.S. Osadets. — K.: KNEU, 1998. — 528 p.

² Insurance services: textbook / S.S. Osadets, T.M. Artiukh, O.O. Hamankova and others / Edited by S.S. Osadets, T.M. Artiukh. — K.: KNEU, 2007. — 464 p.

³ Hamankova O.O. Accounting and audit of insurance organizations: textbook [for independent study course] / O.O. Hamankova. — K.: KNEU, 2004. — 183 p.

income tax for insurance business; assuring of financial reliability of insurance organizations are analyzed in «Finance of Insurance companies»¹.

Among other scientific works there is a monograph «Insurance : Theoretical Principles and Strategy of Development» by V. Furman² dedicated to the research of theoretical, organizational and methodological principles of insurance and insurance market, features and prospects of its development in Ukraine as strategic sector of national economy, and a monograph «Market of Insurance Services of Ukraine : Theory, Methodology, Practice»³ edited by O. Hamankova that addresses to the issues of the market of insurance services as a separate economic phenomenon, constituents of insurance market; the major theoretic and methodological aspects concerning determination of insurance as an objective financial category and its forms at the certain stage of insurance industry development in Ukraine; economic nature of tax services, their classification, essence of insurance services market, following the specific of activity of insurance companies as financial mediators; the features of market mechanisms at the market of insurance services of Ukraine, reasons and consequences of structural disproportions.

Considering the theoretical and practical problems of functioning of insurance in Ukraine, it is necessary to distinguish a well-known national scientist V. Bazylevych whose scientific interests are largely connected with insurance business. His Doctoral thesis «Insurance Market of Ukraine : Nature and Features of Functioning» was the first fundamental scientific work in insurance. He is the author of a monograph «Insurance Market of Ukraine»⁴ which became an important event in the development of national insurance and is still relevant. The work addresses to the theoretical and practical issues of formation and functioning of insurance market of Ukraine in transitional economy; economic nature of needs in insurance, the mechanism of realization of economic interests of insurant and insurer, system of economic categories that characterizes totality of insurance space of market economy. Subjects and objects of insurance market, its segmentation, the stages and feature of functioning are thoroughly investigated. The formatting of insurance market is considered as a strategic factor of capital formation, classification of investment risks is given, the

¹ Hamankova O.O. Finances of insurance organizations: textbook / O.O. Hamankova. — K.: KNEU, 2007. — 328 p.

² Furman V.M. Insurance: theoretical foundations and development strategy: [monograph] / V.M. Furman. — K.: KNEU, 2005. — 295 p.

³ Hamankova O.O. Insurance industry of Ukraine: theory, methodology and practice: [monograph] / O.O. Hamankova. — K.: KNEU, 2009. — 283 p.

⁴ Bazylevych V.D. Insurance Market of Ukraine: [monograph] / V.D. Bazylevych. — K.: Znannia KOO, 1998. — 374 p.

economic aspects of determination of investment attractiveness of insurance enterprise are exposed.

This monograph is the first among the further scientific works by V. Bazylevych in insurance area that became a considerable contribution to the theory and practice of national insurance. In this context it is necessary to mark the team work of scientists under the editorship of V. Bazylevych, a fundamentally new textbook «Insurance»¹ which is relevant nowadays to train highly skilled specialists for the financial market of Ukraine.

Apart from the scientists of two Kyiv universities a considerable contribution to development of insurance direction of financial science was done by the scientists of other higher educational establishments of Ukraine in Sumy, Ternopil, Kharkiv, Tcherkasy.

An associate professor of Ternopil National Economic University Y. Shumelda edited a textbook «Insurance»² for the students of higher educational establishments and its two editions (2002, 2006) were published. It deals with the theory of insurance, organization of insurance market, realization of insurance operations, economy and finances of insurance companies. An associate professor of this university M. Klapkiv (unfortunately, he died early) is an author of a monograph «Insurance of Financial Risks»³, which is dedicated to the state and prospects of formatting of insurance security of entrepreneurial activity from financial risks. From positions of modern theory of risks the features of financial risks and possibility of complex management; essence of insurance of credits and its influence on transformation of modern credit and insurance sphere; ways of development of guaranty and tax relations are analyzed in the monograph.

The team of scientists of Kharkiv universities (under the editorship of professor N. Vnukova) published a textbook «Insurance : Theory and Practice»⁴ and there were published two more editions (the manual deals with authorial views on content, character and bases of insurance in Ukraine and abroad, classification of insurance, insurance risks and methods of their evaluation, insurance market and its governmental control, place and role of insurance organizations at the market of financial services, basic insurance services in the personal, property insurance and insurance of responsibility). Also, in Kharkiv the monograph «Insurance Market: Regularities of

¹ Insurance: textbook / Edited by V.D. Bazylevych. — K: Znannia, 2008. — 1019 p.

² Shumelda Y.P. Insurance: textbook [for students of economic specialties] / Y.P. Shumelda. — 2nd edition, revised and extended. — Ternopil: Dzhura, 2006. — 296 p.

³ Klapkiv M.S. Insurance of financial risks: [monograph] / M.S. Klapkiv. — Ternopil: Ekonomichna dumka: Kart-Blansh, 2002. — 570 p.

⁴ Insurance: theory and practice: textbook / N.M. Vnukova, V.I. Uspalenko, L.V. Vremenko and others; Edited by N.M. Vnukova. — Kh.: Burun Knyha, 2004. — 376 p.

Formatting and Development in the Conditions of Globalization»¹ by L. Nechyporuk was issued. The author considers the theoretical and methodological bases of forming and development of insurance market in the conditions of globalization analyzes inversion of transformation changes of insurance market, systemizes the deformations of formation of insurance market in the context of state financial safety in the conditions of neoliberal model of economic development.

Also, a monograph «Insurance Market of Ukraine in the Context of Steady Development»² by O. Kozmenko (Academy of banking of the National bank of Ukraine, Sumy), addresses to organizational principles, legislative providing, basic directions of insurance market development in Ukraine, including insurance of ecological area.

Tkachenko's monograph «Providing of Financial Firmness of Insurance Companies: Theory, Methodology and Practice»³ was edited in Cherkasy (University of banking of the National bank of Ukraine, Cherkasy). Theoretical, methodological and practical principles of assuring of financial firmness of insurance companies that provide services in the risk types of insurance are investigated in it. Also, among the notable research in the field of insurance are works by A. Mazaraki⁴, V. Baranova⁵, V. Babenko⁶ and many others.

The abandonment from administrative and planned economy and development of market relationships was accompanied by formation and establishing of financial market at the beginning of 90th of XX century in Ukraine. At that time there was a shortage of scientific works dedicated to the problems of financial market that began to shape that had adversely affected its efficiency. Only since the early 90th scientific research of the financial market began to develop.

The pioneer of these new processes was Kyiv national economic university named after Vadym Hetman. As the financial market in the country was only on the initial stage, research was based mainly on the study of foreign theory and practice. The first defense of a thesis in the theoretical and practical aspects of market equities⁷ took place in 1993 in Ukraine, and

¹ Nechyporuk L.V. Insurance market: patterns of formation and development in the context of globalization: [monograph] / L.V. Nechyporuk. — Kh.: Pravo, 2010. — 280 p.

² Kozmenko O.V. Insurance market of Ukraine in the context of sustainable development: [monograph] / O.V. Kozmenko. — Sumy: DVNZ «UABC NBU», 2008. — 350 p.

³ Tkachenko N.V. Ensuring financial stability of insurance companies: theory, methodology and practice: [monograph] / N.V. Tkachenko. — Cherkasy, Cherkasy TsNTEI, 2009. — 570 p.

⁴ The insurance market of Ukraine: state and prospects of development: [monograph] / Edited by A.A. Mazaraki. — K.: KNTEU, 2007. — 314 p.

⁵ Baranova V.H. Financial mechanism of insurance system functioning: [monograph] / V.H. Baranova. — Odessa: ODEU, 2009. — 380 p.

⁶ Babenko V.H. Mechanism of insurance of financial risks: [monograph] / V.H. Babenko. — Moscow: TDATU, 2009. — 287 p.

⁷ Dehtiareva N.V. Securities market: theory and practice: dissertation of candidate of economic sciences: 08.00.10 / N.V. Dehtiareva. — K., 1993. — 186 p.

thesis defense in the issues of creation and activity of investment funds at the financial market¹ in 1996.

In 90th main attention of scientists (publications and dissertations) was attracted by the problems of organization of functioning and regulation of financial market on the whole and its constituents, ration and promissory financial instruments. They were investigated in well-known works by O. Mozgovyi («Formation of the System of Regulation of Fund Market of Ukraine : Methodology and Organization», «Foreign fund market»² and others), M. Burmaka («Regulation of Fund Market in the Conditions of internationalization (optimization of the international and national regulative systems)»³), V. Sutormina («Legal Frameworks of Functioning of Financial market in Ukraine»⁴), Y. Lysenkova and V. Lyashko (A Bill of Exchange in Economic Turnover»⁵), V. Myhalskyi and S. Shklyaruk («Securities. Portfolio Investments»⁶), specialists of the Ukrainian exchange stock⁷ etc.

In 2000th with the development of financial market scientists began to study the issues of the instruments of financial market. It concerns both traditional equity and debt securities (taking into account the accumulated experience at the home financial market) and derivatives the research of which wasn't carried out at that time. Unlike the works written in 90th, new research of equity and debt securities deal with prognostication of costs of securities, evaluation, modelling and management the risks of securities (L. Dolinsky⁸, N.Shapran⁹).

¹ Leonov D.A. Investment funds in the financial market of Ukraine: dissertation of candidate of economic sciences: 08.04.02 / D.A. Leonov. — K., 1996. — 249 p

² Mozhovyi O.M. Formation of regulation system of stock market of Ukraine: methodology and organization: dissertation of doctor of economic sciences: 08.04.01 / O.M. Mozhovyi. — K., 1999. — 399 p.; Mozhovyi O.M. Professionals of stock market: textbook. — K.: Fenix, 1997. — 38 p.; Mozhovyi O.M. Stock market transactions: textbook. — K.: UANNP: Fenix, 1997. — 34 p.; Mozhovyi O.M. Foreign stock market. — K.: Fenix, 1998. — 128 p

³ Burmaka M.O. Regulation of stock market in terms of internationalization (optimization of international and national regulatory systems): dissertation of candidate of economic sciences: 08.08.01 / M.O. Burmaka. — K., 1998. — 232 p.

⁴ Sutormina V.N. Legal basis for the financial market functioning in Ukraine / V.N. Sutormina. — K.: NAU, 1999. — 148 p.

⁵ Lysenkov Y.M. Bill in economic circulation / Y.M. Lysenko, V.P. Liashko. — K.: Press-center Agency, 1994. — 256 p.

⁶ Mikhalskiy V.V. Securities. Portfolio investments / V.V. Mikhalskiy, S.G. Shklyaruk: textbook. — K.: Ukraine, 1999. — 185 p.

⁷ The concept of functioning and development of capital markets in Ukraine / V.V. Oskol and others; Ukrainian Stock Exchange. — K.: [6. v.], 1993. — 37 p.

⁸ Dolinskyi L.B. Modeling and management of risk of bill obligations: dissertation of candidate of economic sciences: 08.03.02 / L.B. Dolinsky. — K., 2002. — 213 p.; Dolinskyi L.B. Financial calculations and analysis of securities: textbook / L.B. Dolinsky. — K.: Master class, 2005. — 191 p.

⁹ Shapran N.S. Prediction of market value of shares: dissertation of candidate of economic sciences: 08.04.01 / N.S. Shapran. — K., 2006. — 269 p

The research of derivative financial instruments is directed to determination of features of their analysis and account (a monograph «Financial Derivates: Analytical and Accounting Aspects¹» by L. Prumostka), functioning of international urgent markets (a monograph «International Futures-trading Markets: Theoretical and Methodological Aspects²» by O. Sokhatska). Some works deal with the specific types of derivatives (a textbook «Derivates provided with gold»³ by V. Mykhalskyi); economic and mathematic modelling of processes of pricing («Economic and Mathematic Modelling of Process of Pricing at the Market of Options» by M. Silchenko⁴); the prospects of development of derivatives market in Ukraine («Market of Derivative Financial Instruments and Prospect of Development in Ukraine» by V. Gordon⁵), «Market of Derivatives: Foreign Experience and Prospects of Development in Ukraine» by V. Hoffe⁶).

There are the monographs which address to the role of financial market in an economy, evolution of its development (a monograph «Role of Financial Market in Economic Development of Real Sector of National Economy» by V. Mykhalskyi⁷), features of financial market of transitional economy (the monographs «Formation and Development of Financial Market in the Conditions of Transformation Economy» by V. Smagin⁸), («Securities: History and Contemporaneity. Historical and Economic Sketch» by O. Mozgovyi, A. Holovko, O. Naumenko, Y. Rohovynskyi⁹).

S. Arheereyev, O. Kolesnyk, V. Korneev, Y. Zinchenko investigate the activity of financial mediators and professional participants of financial market. In particular, Korneev in his monograph «Financial Mediators as the

¹ Prymostka L.O. Financial derivatives: analytical and accounting aspects [monograph] / L.O. Prymostka. — K.: KNEU, 2001. — 263 p.

² Sokhatska O.M. International futures markets: theoretical and methodological aspects / O.M. Sokhatska; Edited by A.A. Chukhno. — Ternopil: Kart-Blansh, 2002. — 454 p.

³ Myhalskyi V.V. Derivatives, backed by gold: textbook / V.V. Mychalskyi. — K.: Elga: Nika Center, 2002. — 224 p.

⁴ Sitchenko M.V. Economic-mathematic modeling of pricing process in the options market: dissertation of candidate of economic sciences: 08.03.02 / M.V. Silchenko. — K., 2002. — 225 p.

⁵ Gordon V.B. Market of financial instruments derivatives and prospects of its development in Ukraine: dissertation of candidate of economic sciences: 08.04.01 / V.B. Gordon. — K., 2005. — 195 p.

⁶ Goffe V.V. Market of derivatives: international experience and prospects of its development in Ukraine : dissertation of candidate of economic sciences: 08.04.01 / V.V. Goffe. — K., 2005. — 243 p.

⁷ Mychalskyi V.V. The role of financial market in economic development of the real sector of national economy: [monograph] / V.V. Michalskyi. — K.: Nika-Center, 2007. — 295 p.

⁸ Smalin V.L. The formation and development of the financial market in terms of transformation of the economy: [monograph]. — Kyiv: Kyiv National Economic University, 2008. — 227 p.

⁹ Mozhovyi A. Securities: history and modernity. Historical and economic essay / Mozhovyi A., A. Golovko, O. Naumenko, Rovinsky Yu. [monograph]. — Odessa: Izd CP OMD, 2003. — 192 p.

Institutes of Development»¹ analyses the peculiarities of granting and consumption of services in a national financial sector, kinds and forms of financial mediation, determines ways and prospects of further development of financial services market of Ukraine. The processes of institutionalization of fund market and transactional expenses are investigated in a monograph «Transaction Expense of Fund Market Institutionalization»² by S. Arheereyev and Y. Zinchenko. The prospects of development of institutions of the common investing regarding world experience and Ukrainian realities are outlined by O. Kolesnyk in the work «Institutes of the Common Investing: world experience and Ukrainian prospects»³.

In this period new textbooks that deal with the peculiarities of activity of financial mediators, are published. They are: «Financial Mediation»⁴, «Exchange Activity»⁵, «Credit Unions in Ukraine»⁶, «Finances of Common Investing»⁷, «Professional Activity at the Market of Equities: conduct of registers of proprietors of nominal securities»⁸ and others. The works by M. Kurkov⁹, V. Hlushchevskyy¹⁰, V. Korneev¹¹, O. Pidhomnyi¹² deal with issues of making investing decision at the financial market, management investment flows and processes.

¹ Korneev V.V. Financial intermediaries as development institutions / Korneev V.V. — K: Osnova, 2007. — 186 p.

² Arheereyev S.I. Transaction costs of institutionalization of the stock market: [monograph] / S.I. Arheereyev, Y. Zinchenko. — Kh: Kharkiv. nat. University named by V.N. Karazin, 2005. — 247 p.

³ Kolesnik O.S. Collective investments: international experience and Ukrainian prospects [monograph] / O.S. Kolesnik — K: Foreign Trade, 2010. — 142 p.

⁴ Zymovets V. Financial intermediation, teach. guidances. / V. Zymovets, S.P. Zubyk. — Kyiv: Kyiv National Economic University, 2004. — 288 p.

⁵ Exchange activity: teach. guidances. / Ed. V. Kramarenko, B.I. Kholoda. — K: Training Center. literature, 2003. — 264 p.; Rarovska V. Exchange activity: teach. guidances. / Rarovska V.V., Ostankova O.A., Akopov S.E. — K: Training Center. Literature, 2009. — 144 p.

⁶ Dadashev B.A. Credit unions in Ukraine teach. guidances. / B.A. Dadashev, O.I. Grishchenko. — K: Training Center. Literature, 2010. — 110 p.

⁷ Kovalenko M.A. Finance Joint Investment: teach. guidances. / M.A. Kovalenko, L.M. Radvanska. — Kherson: Oldi-Plus, 2002. — 248 p.

⁸ Professional activities in the securities market, keeping registers of registered securities: Teach method. guidances. / Compilation. V. Basytyi. — 2nd ed., revised. and add. — K: ADS CMD Center, 2006. — 376 p.; Frolova T.O. Keeping the register of holders of securities teach. guidances. / T.O. Frolov, T. V.Rymar. — Kyiv: Kyiv National Economic University, 2008. — 408 p.

⁹ Kurkov M.S. Means of financial modeling and decision support in the stock market: Dis. ... Candidate. Econ. Sciences: 08.03.02 / Kurkov M.S. — K., 2001. — 214 p.

¹⁰ Hlushchevskyy V.V. Integrated Methods of decisions on the allocation of funds in the stock market of Ukraine: Dis. ... Candidate. Econ. Sciences: 08.03.02 / Hlushchevskyy V.V. — Zaporizhzhya, 2002. — 171 p.

¹¹ Korniyev V.V. Management of credit and investment capital flows, dis. ... Dr. Sc. Sciences: 08.04.01 / Korniyev V.V. — K., 2004.

¹² Pidhomnyi O.M. Management of investment process in financial markets: teach. guidances. / O. M. Pidhomnyi. — K: Condor, 2007. — 184 p.

Today educational literature in the market of financial services is widely presented by textbooks and manuals of such authors as V. Unynets-Khodakivska, O. Vykhor, O. Lyatambor¹, L. Горбач, H. Voznyuk², A. Zahorodniy³, M. Kovalenko⁴, S. Maslova, O. Opalov⁵ and others.

The publication of a monograph «Market of Financial Services: Paradigm of Euro integration»⁶ under the editorship of V. Fedosov became a logical continuation of comprehension of world financial idea and practice. It describes bases, principles, mechanisms and directions of market regulation of financial services in European Union. The characteristic feature of the research is the complex approach to the market of financial services as integral and difficult social phenomenon. Authors prove that European paradigm does not deny the national features of development; it sets general frames for realization within the limits of EU of freedom of commodities and services movement, labor force and capitals.

It is concluded that «market of financial services is one of foundations of functioning of the developed market economy. A financial market is an objective economic category, the constituent of categorical apparatus of financial science, and a market of financial services is its important conceptual definition (by a concept), and the constituent of its conceptual apparatus»⁷. The authors specify on such features of market of financial services : firstly, the market of financial services is immanent to the market economy, it is an integral part of its financial infrastructure, inevitable and important constituent of commodity and monetary economy; secondly, the market of financial services cannot be introduced (or designed into the developed form) by a legislative act; its creation, becoming and development need certain social and economic conditions; thirdly, creation in Ukraine of real multinational segment with the numerous structural elements, strong and various infrastructure of financial services market, that due to the internal mechanisms of self-development, self-organization, and self-regulation has already had potential regulation possibilities of influence on the process of

¹ Unynets-Khodakivska V.P. Financial Services Market: Theory and Practice: textbook. / Unynets-Khodakivska V.P., Vykhor O.I., Lyatambor O.A. — K.: Condor, 2009. — 483 p

² Gorbach L.M. Financial Services Market: teach. guidances. / L.M. Gorbach, O.B. Kaun. — K.: Condor, 2009. — 436 p

³ Zagorodniy A.G. Financial Services Market: terminology: textbook. / A.G. Zagorodniy, G.L. Voznyuk. — Lviv: Bit Beskid, 2008. — 544 p.

⁴ Financial Services Market: teach. guidances. / M.A. Kovalenko and others. — Kherson: Oldi-Plus, 2007. — 572 p

⁵ Maslova S.O. Financial services market: textbook / S.O. Maslova, O.A. Opalov. — K.: Condor, 2006. — 191 p.

⁶ Financial services market: European integration paradigm: [monograph] / D.A. Leonov, S.V. Liovichkin, S.H. Khoruzhyi; Edited by V.M. Fedosov. — K.: UIRFR, 2008. — 848 p.

⁷ Ibid. — P. 19

the extended recreation and economic development, is the matter of the future.

There is an irrevocable fact that financial markets promote the relation of national economy with world economy. Presently, both developed countries and developing countries are actively involved into the processes of financial integration. The latter often formally keep the high level of control over the movement of capitals. Through the macroeconomic point of view it matters not formal state control over capital operations, but actual degree of capital mobility, its ability to overflow from an industry into an industry, from a country into a country, especially in crisis periods. The research of a team of scientists (S. Yuriy, O. Desyatnyuk, Z. Lutsyshyn, O. Rogach) under the editorship of S. Yuriy and Y. Savelyev¹ outlines these issues.

A financial market is an important and effective instrument of transformation of savings into investments. The authoring team under the editorship of N. Vnukova, consider the general approaches to development of financial service markets, possibility of introduction of financial cluster initiatives of trans border collaboration, influence of financial crisis on activity of financial institutions, application of financial control over insurers and other participants of market, principles of realization of asset evaluation at the capital market². The researchers demonstrate different approaches of various financial services functioning, in particular on capital, insurance and bank markets, distinguishing innovative mechanisms and carrying out a cluster analysis. The authors actively use price multipliers in the conditions of functioning of equities market of Ukraine and different methods of one factor dispersible and cluster analysis.

The multi-authored monograph «Firmness of Financial Markets of Ukraine and Mechanisms of its providing»³ (2010) deals with financial markets functioning and crisis phenomena. The authors focus attention to the principles of firmness of banks and credit unions, insurance companies and insurance system, state pension system and non-state pension fund, capital market. Scientists justify the mechanisms of providing of firmness of the banking system of Ukraine, overcoming of the crisis phenomena at the home market of mortgage crediting, providing financial firmness of insurance

¹ See: Economic Problems of the XXI century: International and Ukrainian Dimensions / Edited by S.I. Yuriy, Ye.V. Savelyev. — K.: Znannia, 2007. — P. 349-498.

² Managing the development of financial services: [monograph] / Edited by N.M. Vnukov. — Kh., 2009. — 195 p.

³ The stability of financial markets in Ukraine and mechanisms of its ensuring: [monograph] / O.I. Baranovskiy, V.H. Baranovska, Ye.O. Bubyk and others: Edited by O.I. Baranovskiy. — K., 2010. — 492 p.

companies and insurance system, ways of increase of firmness of the pension system in Ukraine, events of restoration of firmness of capital market.

Korneev in his monograph «Financial Mediators as Institutes of Development»¹ determines two fundamental factors of institutional financial market development. The first one is predominance of institutional participants of market over individual ones that prove maturity of corporate variants of financial flows management and professional use of resources. The second factor is evolutionary distribution of the organized forms of setting and realization of financial relationships that means their legitimacy and transparency of participants' intentions and contractors during realization of agreements. The scientist introduces the concept of «financial logistics» as a professional management of circulation of financial flows from the suppliers of capital to its consumers and backwards, analyzes the features of providing and consumption of services in a financial sector, different forms and tools of financial mediation.

The issues of development management of financial services market are considered in a multi-authored monograph edited by N. Vnukova². The prospects of development and limitations of activity of such important institutions like financial mediators, are investigated by team of scientists under the editorship of V. K. Vlasenko³. The second edition of the three-volume monograph «Mechanism of Monetary and Capital Markets and their Influence on Development of Economy of Ukraine»⁴ (2008) edited by A. Danylenko deals with the issues of influence on economic development of financial market and its separate segments. The authors investigate the newest mechanisms of transformation of savings into investments, modern financial instruments, their features, and also essence, nature and role of monetary and capital markets⁵.

T. Kosova in his works observes financial architectonics, in particular, financial institutions in finances management system of subjects and an

¹ Kornieiev V.V. Financial intermediaries as development institutions / V.V. Kornieiev. — K.: Osnova, 2007. — 192 p.

² Managing the development of financial services markets. — 195 p.

³ Vlasenko V.K. Financial intermediation: problems and prospects of development: [monograph] / East European University of Economics and Management / V.K. Vlasenko, I.P. Shulga, O.M. Herasymenko, L.O. Shpak, T.I. Osadcha, T.I. Osadchyi. — Cherkasy: Chabanenko Yu.A. Publishing House, 2009. — 450 p.

⁴ Financial and monetary levers of economic development. — T. 2: The mechanism of money and stock markets and their impact on the economy of Ukraine. — 442 p.

⁵ Financial and monetary levers of economic development. — T. 2: The mechanism of money and stock markets and their impact on the economy of Ukraine. — P. 53, 56.

investment process¹. The author adapts economic essence of investing to the principles of basic institutional conceptions (transaction costs, ownership, contracts, public choice rights) and works out management tools of investment process aimed at decreasing of costs (information, negotiations, measuring and specification of patterns of ownership etc.) The researcher develops the institutional model of financing of investment process in Ukraine.

The scientist summarizes foreign experience of participating in the investment process of insurance, leasing companies, mutual and pension funds. She outlines that insufficient capital market development restrains the investment processes of institutions of parbank activity in Ukraine. The set of financial tools of capital market remains limited, and a market of derivative financial instruments is underdeveloped. The creation of conditions for implementation of transactions in securities at the organized market is the important factor that influences on the development of market of securities. Trading on it promotes the investment attractiveness of an issuer providing liquidity and transparency. These ideas are further developed by V. Zahorskyi who justifies the financial instruments of capital market in Ukraine².

Recently a number of educational literature in financial market has been published. The authors of textbooks are V. Vasyleva³, S. Esh⁴, O. Ivanytska⁵, M. Kolisnyk, O. Maslak, YE. Romaniv⁶, S. Maslova, O. Opalov⁷, O. Smolyanska⁸, V. Sheludko⁹ and others.

Further financial market development, in particular its nonbanking segment, causes the necessity of training of specialists for financial market.

¹ Kosova T.D. Formation of institutional investors in Ukraine: problems of theory and practice: [monograph] / T.D. Kosova. — Donetsk: IEP of NAN of Ukraine, 2004. — 296 p.; Kosova T.D. Financial institutions in the management of the investment process: [monograph] / T.D. Kosova. — Donetsk: Nord-Press, 2008. — 338 p.

² Zagorskyi V.S. Development of the securities market and managing its risks: [monograph] / V.S. Zagorskyi. — Kh.: INTEK, 2008. — 192 p.

³ Vasyleva V.V. Financial market: textbook / V.V. Vasyleva. — K.: Center of educational literature, 2008. — 368 p.

⁴ Ash S.M. Financial market: textbook / S.M. Ash. — K.: Center of educational literature, 2009. — 528 p.

⁵ Ivanytska O.M. Financial market: textbook / O.M. Ivanytska. — K.: UADU Publishing house, 1999. — 96 p.

⁶ Kolisnyk M.K. Financial market: textbook / M.K. Kolisnyk, O.O. Maslak, Ye.M. Romaniv. — Lviv: Lviv Politechnica, 2004. — 191 p.

⁷ Maslova S.O. Financial market: textbook / C.O. Maslova, O.A. Opalov. — 3rd edition, revised. — K.: Karavela, 2004. — 344 p.

⁸ Smolyanska O.Yu. Financial market: textbook / O.Yu. Smolyanska. — K.: Center of educational literature, 2005. — 384 p.

⁹ Sheludko V.M. Financial market: textbook / V.M. Sheludko. — 2nd edition, stereotype. — K.: Znannia, 2008. — 535 p.

The new master's degree program «Financial market» was created at Kyiv National Economic University named after Vadym Hetman in 2008. The master's program covers the questions of formation and realization of strategy and tactics of financing on macro- and micro- levels; management of emission and investment activity of economic subjects; organizing and control in the process of mobilizing, distributing and using of financial resources; financial planning and prognostication on macro- and micro-levels; regulation of relationships between the subjects of financial market. New courses are introduced such as «The state at the financial market», «Infrastructure of financial market», «Corporation at the financial market», «Management of financial assets» and other.

Despite the considerable attention of scientists to financial market the perspective research areas in the financial market are:

— the problems of market of derivative financial instruments, functioning of subjects of its infrastructure development;

— evaluation of possibilities of application of theoretical conceptions and approaches that are used on efficient financial markets in home practice;

— making decision regarding the purchase-sale securities, management of financial assets in the modern Ukrainian market;

— influence of innovative technologies, processes and products on the financial market and economy in the whole;

— improvement of regulation of relationships at the financial market and cooperation of its participants.

The introduction of this edition deals with the periods of development of the Ukrainian financial though that is characterized by its rise, renaissance, world recognition, and decline. Nowadays there is an active process of revival of the Ukrainian financial idea, and 20 independent years is a very short period of time to solve the challenge. The search for the «Ukrainian financial and economic doctrine of development» is continued. What is a financial model of Ukrainian society? What society we build in general? It is possible to answer these questions, only restoring identity of Ukrainian financial school with its «outstanding features» and «traditions» and connecting the treasury of ideas of our predecessors with scientific achievements of world financial idea to build the fundamental economic and financial doctrine of development of Ukraine on this basis. It must become a solid foundation for the program of radical reforms and restructuring of economy and finances. In addition it is important to stress that it can be achieved only providing consideration of national culture and history, features of ethnos and mentality. The conditions of «transplantation of

financial institutions» within the framework of financial institutional paradigm are to be considered¹.

Most modern financiers understand that the western programs of reforms cannot be transferred to Ukraine in the unmodified kind, although a necessity and possibility of application of western conceptions regarding Ukraine is largely idealized. If liberals talk about the strong state and «healthy finances» — a macroeconomic and macro financial level, they mean the state that watches after the observance of playing rules at the market but does not interfere in economic and financial processes. And vice versa, the supporters of government control mean the strong state quite differently: in their opinion, a government must actively regulate economic and financial processes in accordance with national interests.

In the meantime it should be understood that post-socialist model in Ukraine is not pro-western, slavophil, liberal and liberal. Unfortunately it is a hybrid that reflects tension, vagueness regarding the future model of society. The main problem of hybrid order is that it has a tendency to instability, and that's why there is a chance that democratic and market or authoritarian and nonmarket system could be set in a medium or long term prospect. There is still no answer to the question which one out of two forms of order will prevail. However, modern financial idea should play an enormous role in it.

The authors hope that their research will help the modern scientific society to comprehend the rich world of ideas of the Ukrainian economists of XIX–XX centuries (though to achieve only this goal, undoubtedly, deserves the efforts). The study of history of ideas can also help to understand the modern world. It should be noted that the major Ukrainian scientists tried to modify foreign theories in the way to solve critical problems in Ukrainian financial policy. Many modern Ukrainian financiers follow these traditions. Therefore the problems of modifying of international theories to the specific conditions of the Ukrainian economy and finances are open for discussion.

¹ Kleiner H.B. Institutional factors of long-term economic growth / H.B. Kleiner // *Economic science of modern Russia*. — 2000. — № 1. — P. 5-20; Oleinik A. The more Things Change, the More They Stay the Same: Institutional Transfers Seen Through the Lens of Reforms in Russia / A. Oleinik // *Journal of Economic Issues*. — 2006. — Vol. XL. — No. 4. — P. 919-940