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O. M. Moskalenko, Doctor of Economic Sciences, Professor**O. M. Москаленко**, д. е. н., професор**NEOLIBERAL LOGICS OF AUSTERITY POLICIES IN UKRAINE: THE RELATIONSHIP WITH INNOVATIVE GROWTH****НЕОЛІБЕРАЛЬНА ЛОГІКА ПОЛІТИКИ «ЖОРСТКОЇ ЕКОНОМІЇ» В УКРАЇНІ: ВЗАЄМОЗВ'ЯЗОК З ІННОВАЦІЙНИМ ЗРОСТАННЯМ**

Urgency of the research. In the vast majority of developed economies governments have toughened the fiscal consolidation. It is recognized as a tool for dealing with the debt crisis and implemented as austerity policies.

Target setting. Austerity policies are constructively criticized by opponents for negative impact on the innovative economic growth: "the collapse of the economy into itself", ignoring national conditions.

Actual scientific researches and issues analysis. In Western science, an active discussion was launched on the adequacy of austerity policies. The polemic is being conducted among the Neoclassical supporters of austerity policies (A. Alesina, S. Ardagna, C. Reinhart, S. Rogoff, J.-K. Trichet) and their opponents-representatives of Keynesian views (P. Krugman, W. Streeck, D. Mertens, M. Blyth, S. Kozelman).

Uninvestigated parts of general matters defining. In Ukraine, the government, with no nationwide "critique and debate", has adopted neo-liberal rules of the game on tight fiscal consolidation, without fully taking into account national specifics and the effect of fiscal pressure of fiscal consolidation on discretionary spending. "Soft" social investments, that are future-oriented, turned out to be completely unprotected. Determining the priorities of government spending needs further research.

The research objective. The objective of the article is a theoretical and political-economic analysis of the austerity policies in Ukraine and provision of practical proposals for the formation of institutional conditions that direct such policies to innovative growth.

The statement of basic materials. The concept of expansionist austerity policies during the recession is not fulfilled: confidence is not restored, economic growth is not ensured. Currently, Ukraine remains with a budget for a declining economy, with insufficient resources to respond to major challenges. Reducing spending on innovative growth in a weak economy generates further weakness.

Conclusions. The neoliberal logics of tight fiscal consolidation in Ukraine is not working. Ukraine needs to adopt fiscal rules that will ensure a balanced fiscal policy and promote innovative growth.

Keywords: austerity policies; neoliberal logics; economics of surviving; R&D expenditures; innovative economic growth.

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Актуальність теми дослідження. У більшості розвинених економік урядами запроваджено жорстку фіскальну консолідацію. Вона є інструментом боротьби з борговою кризою та реалізується як політика жорсткої економії.

Постановка проблеми. Політика жорсткої економії піддається критиці опонентами за негативний вплив на економічне зростання: «згортання економіки саму в себе», неврахування національних умов.

Аналіз останніх досліджень і публікацій. У західній науковій думці розгорнулася дискусія стосовно адекватності політики жорсткої економії між прихильниками-неокласиками політики жорсткої економії (А. Алесіна, С. Ардагна, К. Рейнхарт, С. Рогофф, Ж.-К. Трише) та її супротивниками-представниками кейнсіанських поглядів (П. Кругман, В. Штрік, Д. Мертенс, М. Бліт, С. Козельман).

Виділення недосліджених частин загальної проблеми. В Україні уряд без загальнонаціональної «критики і дискусії» прийняв неоліберальні правила гри стосовно жорсткої фінансової консолідації, не врахувавши вплив фіскального тиску на дискреційні видатки. «М'які» суспільні інвестиції, орієнтовані на майбутнє, виявилися зовсім не захищеними. Визначення пріоритетів державних видатків потребує подальшого дослідження.

Постановка завдання. Метою статті є теоретичний і політико-економічний аналіз політики жорсткої економії в Україні та надання практичних пропозицій щодо формування інституціональних умов, які спрямовують таку політику на інноваційне зростання.

Виклад основного матеріалу. Концепція політики експансіоністської жорсткої економії у період спаду не справджується: довіра не відновлюється, економічне зростання не забезпечується. Нині Україна залишається з бюджетом для спадаючої економіки: з недостатніми ресурсами для відповіді на основні виклики. Скорочення видатків на інноваційне зростання у слабкій економіці породжує подальшу слабкість.

Висновки. Неоліберальна логіка жорсткої фіскальної консолідації в Україні не працює. В Україні необхідно прийняти фіскальні правила для збалансування фіскальної політики та сприяння інноваційному зростанню.

Ключові слова: політика жорсткої економії; неоліберальна логіка; економіка виживання; витрати на дослідження і розробки; інноваційне економічне зростання.

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Urgency of the research. The global economy is characterized by sluggish economic growth, strong volatility and fragility of the international financial market. The economies of many countries are built up as debt ones. Under these conditions, there is a practical need for every country to find and use effective instruments to overcome the debt crisis in public finances and to restore economic growth in the national economy. Hence, in the vast majority of developed economies, tight fiscal consolidation was proposed, which seeks to curb external debt by reducing government spending rather than raising taxes. Therefore, at present, fiscal policies in many European countries and the US are implemented as the “austerity policies”. According to neo-liberal logics, it implies reduction of budget spending in order to contain the growth of the state and debt guaranteed by the government (external and internal), balancing the state budget and, most importantly, restoring confidence in the institutions of power of the population, investors and other stakeholders, and, accordingly, recovery/revitalization of economic growth.

Target setting. The neoliberal by nature austerity policies become a “response” to the debt crisis in Europe and the US and acquire their specific form in each individual country. In practice, the austerity policies manifest themselves as economically sound procedures for reducing and limiting the so-called “soft investments” of the state budget, including into the social sphere. However, such a tight financial consolidation is subjected to constructive criticism by opponents, scientists and practitioners, for the negative impact on innovative economic growth, “the collapse of the economy into itself”, and ignoring the national economic conditions of the countries.

The austerity policies have begun to be implemented in Ukraine since March 2014, when the government started a colossal reduction in spending on economic activity, including fundamental and applied research and development in the economic sectors, and such socially important areas as environmental protection, housing and utility services, healthcare, spiritual and physical development, education, social protection and social security. This method was considered by government officials as a “payment” of the population for a promising innovative growth. The internal nature of public financial management, which emerged in Ukraine in the ideological coordinates of the neo-liberal concept of governance, is a complex and controversial issue with regard to its adequacy and compliance with the examples of developed countries and the national specifics of the economy.

Actual scientific researches and issues analysis. In Western science, an active discussion was launched on the adequacy of austerity policies. The polemic is being conducted between supporters of austerity policies (A. Alesina, S. Ardagna, C. Reinhart, S. Rogoff, J.-K. Trichet) [1; 11] who build their arguments in neo-classical neo-liberal positions and its opponents-representatives of the Keynesian methods of economic management (P. Krugman, W. Streeck, D. Mertens, M. Blyth, S. Kozelman) [10; 12; 4; 9].

The adherents are mostly convinced that fiscal adjustment methods based on cutting expenditures and not raising taxes are more likely to reduce the state budget shortfall and sovereign public debt relative to GDP than those that are based on tax increases. Additionally, spending adjustments, rather than taxes, are less likely to create a recession (Alesina & Ardagna, 2009) [1]. In addition, when external debt reaches 60 per cent of GDP, annual growth is reduced by about two per cent; for higher levels, the growth rate roughly falls by half (Reinhart & Rogoff, 2010) [11].

Opponents of austerity policies point out their erroneous nature and deny their positive contribution to growth, since such policies are not a part of any consistent policy aimed at fiscal and monetary stability or macroeconomic recovery. The weakness of austerity policies lies in the fact that they cannot withstand such a subject of the economy as financial institutions and markets that socialize their risks of speculation. Scientists argue that enormous public debt in the EU and the US was not caused by excessive growth in public spending, but also as a direct result of rescue, recapitalization and the addition of liquidity to a shattered banking system. Due to these actions, private debt was renamed into public debt (Blyth 2013; Kozelman, 2014) [4; 9].

Uninvestigated parts of general matters defining. In Ukraine, the government has adopted neo-liberal rules of the game for tight fiscal consolidation, without absolutely taking into account national specific social and economic conditions and the fact that fiscal pressure from fiscal consolidation has a greater impact on discretionary spending than on compulsory ones. Although public investment is only

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a part of discretionary fiscal spending, scientists (Streeck & Mertens 2011: 25-27) [13, P. 25–27] come to the conclusion that they are not at all protected from the limitations created by fiscal stress in the public policy. This is also true for “soft investments” carried out by the government. These investments are future-oriented, as they are the source of economic progress, support the development of human capital and innovation in industry, and thus enhance economic prosperity and promote social equality. Therefore, it is practically important to take into account the effect of fiscal stress on “soft investments” to determine the priorities of government spending. This area of research needs further substantiation and practical implementation.

The research objective. The objective of the article is to provide a theoretical and political-economic analysis of the austerity policies in Ukraine and to provide practical proposals for the formation of initial institutional conditions that give such policies a positive potential and direct those to innovative growth.

The statement of basic materials. The austerity policies, in the opinion of their ideologists, should determine the logics, conditions and principles of management of the sovereign external debt of countries, administration of the state budget revenues, and the implementation of tax expenditures.

The problem of practical implementation of the concept of expansionary austerity policies lies in the fact that during the recession the conclusions received by their adherents are not fulfilled: trust is not restored, economic growth is not ensured. Starting in mid-2011, this type of policies gradually begins to lose support [4; 9; 10]. There is such a causal relation: low growth leads to high debt or vice versa – the probability of an increase in indebtedness to economic growth, say, from 85 to 95 per cent of GDP is rather small, and this fact does not justify a debt panic that was of so strong influence on politics. The general conclusion that is based not on the neo-Keynesian approach to public finance management: basically, the problem of low growth leads to high indebtedness, and not vice versa.

At the current moment, the Ukrainian economy has the following results of austerity policies. In Ukraine, gross external debt in 2007 amounted to 56 % of GDP, in 2009 – 88 %, in 2012 – 77 % of GDP, in 2014 – 96 % of GDP, respectively, the interest rate on foreign government bonds in US dollars was 6.75 % (volume of issue 700 million USD), in 2012 the issue of bonds was approved for the amount of 2.6 billion USD with the coupon of 9.25 %, in 2015, foreign government bonds (hereinafter referred to as the FGB) with a coupon of 7.75 % were issued and distributed, and under the guaranty of the US government with a coupon of 1.847 % to the amount of 1 billion USD with maturity in 2020 [2, C. 13]. Ukraine’s gross external debt at the end of 2015 amounted to 118.7 billion USD having reduced from the beginning of the year by 7.6 billion USD. In relation to GDP, the volume of debt increased over the year from 93.9 % to 131.3 %. External liabilities of the private sector decreased by 15.2 billion USD but public sector debt increased by 7.6 billion USD due to borrowing from international financial institutions [14]. At the same time, the rate of decline of Ukraine’s GDP (compared with the previous year) in 2014 was 6.8 %, in 2015 – 15.2 %. In 2016, official statistics showed an increase of 2.3 %. Taking into account the deflator of GDP in dollar terms, there are the following rates of GDP falling (as compared to the previous year): by the results of 2014 – by 28.1 %, 2015 – by 31.3 %, and growth in 2016 – by 2.9 % [5]. According to the above mentioned data, the austerity policies that have been actively launched in Ukraine since March 2014 do not contribute to reducing the debt burden on the state budget and do not ensure growth recovery.

The stagnation in the Ukrainian economy is due to a combination of different factors. Growth of public debt indicates a lack of free financial resources. At the same time, the growth of public debt does not lead to an economic decline, but, on the contrary, the lack of economic growth causes a forced increase in public debt, including the recapitalization of the banking system. For example, the nationalization of CB Privatbank, the largest commercial bank of Ukraine, in December 2016 cost 148 billion UAH to the state, for which each Ukrainian would indirectly pay (including pensioners and infants) 3,473 UAH. This is an example of the socialization of losses of financial intermediaries as subjects of the global financial market.

If we look at the nominal figures for implementing the expenditures of the state budget of Ukraine according to the functional classification in 2016, we shall see that expenditures have increased by 18.7 % compared to 2015, including defence – by 14.1 %, public order, security and judiciary – by

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31.2 %, health care – by 8.9 %, education – 15.4 %, spiritual and physical development (fall) – 25.1 %, social protection and social security – by 46,5 %, total all expenditures (except those outlined) – 684.9 billion UAH [7]. However, according to the data of the Ministry of Finance, in 2014, inflation was 124.9 %, and in 2015 it was 124.6 % [5], respectively, with simple calculations, everything indicates that from the above items of the state budget expenditures only the one “Social protection and social security” grew in real terms – by 3.2 %, except defence expenditures. According to the famous formula by Fisher, we will have in real terms in 2016 compared to 2015: expenditures fell by 9.2 %, including health care expenditures fell by 34.4 %, education – by 27.9 %, spiritual and physical development – by 68.4 %, etc. That is, the methodology of economic calculations of the government does not take into account the real economic situation, taking into account inflation.

The austerity economics is transforming into *an economics of surviving* in Ukraine, in particular, the survival of science, which is confirmed by the analysis of expenditures on research and development in % of GDP in Ukraine in 2007-2015, which is presented in Table 1. To compare the dynamics of changes in expenditures on research and development, the year 1997 is presented.

We will conduct a data analysis for Ukraine based on the statistical regression method. Based on the data in Table 1, a statistical analysis was carried out, the results of which are given in Tab. 2 and Tab. 3.

For Ukraine, the final version of the correlation-regression model has the form: $Y = 40.1013 + 92.0411X_1$. Determination coefficient $R^2 = 0.8171$ shows that by 81.71 % calculated model parameters, and the model itself, explain the dependence of GDP (y) on the expenditures on research and development (x_1). The plus sign in factor b_1 shows the importance of effect of the factor b_1 on y and that this effect is positive. That is, according to the model, in case of increased expenditures on research and development, Ukraine's GDP will grow. The reliability according to Fisher's significance (Significance F) is considerably less than 0.05 and, similarly, the P-value is significantly less than 0.05 for the coefficient x_1 , which means that the coefficient can be considered not zero. The degree of accuracy of the description by the model of the process $R^2 = 0.8171$ indicates a sufficiently high accuracy of the approximation, that is, the model describes the process accurately enough.

The GDP regression equation for Ukraine is constructed, which shows the difference between the normative and forecasted value of GDP, that is, the error of the model presented in Fig. 1. Fig. 2 shows the forecast of Ukraine's GDP on the model equation for 2017–2021.

Table 1

Gross Expenditures on R&D, and Government Spending on Education in Ukraine, 2007–2016

Year	GDP actual, billion USD	Expenditures on research and development		Expenditures on research and development in USD per capita ¹	Researchers in R&D (per million people), thousands	GDP, assess by the model, billion US dollars	Government spending on education	
		in % of GDP	billion USD ¹				in % of GDP	billion USD
1997	50,15	1,19	0,95282	18,945	No data	No data	No data	No data
2006	107,75	0,98	1,05595	22,636	1,478.716	139,54	6,21	6,69
2007	142,72	0,853	1,21740	26,250	1,459.323	160,87	6,149	8,76
2008	179,99	0,846	1,52271	33,002	1,432.328	201,214	6,43	11,57
2009	117,23	0,856	1,00348	21,848	1,349.711	132,602	7,314	8,57
2010	136,419	0,831	1,13364	24,784	1,332.198	149,802	6,6	9,00
2011	163,16	0,738	1,20412	26,247	1,261.86	146,074	6,162	10,05
2012	175,781	0,752	1,32187	29,116	1,234.662	174,68	6,715	11,80
2013	181,334	0,762	1,38176	30,453	1,165.182	182,59	6,65	12,06
2014	131,805	0,659	0,86860	20,313	1,026.046	114,78	5,864	7,73
2015	90,615	0,62	0,561813	13,138	No data	74,24	4,5	4,08
2016	93,275	0,483	0,45129	10,617	No data	59,63	4,1	3,82

Note. Created by the author on the basis of [2; 5; 7; 12; 14].

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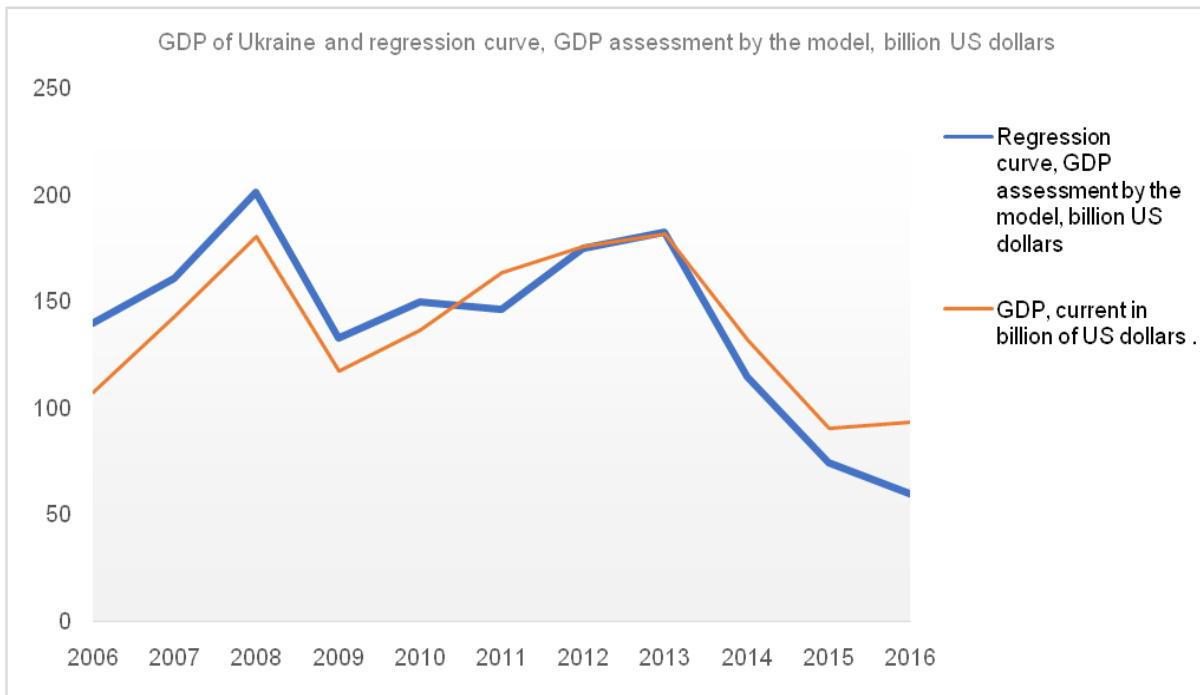


Fig. 1. Ukraine’s GDP assessment by the model, billion US dollars

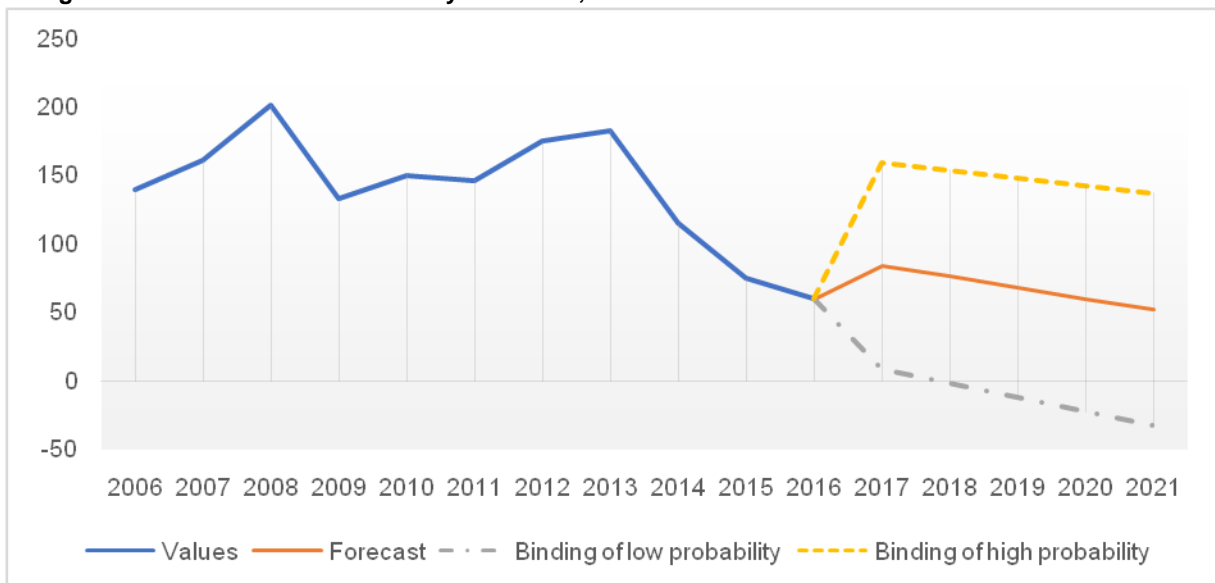


Fig. 2. Forecast of Ukraine’s GDP on the model equation, 2017-2021

We believe that the liberal logics of government actions should be oriented not only to curtail social programs or thoughtless massive reductions, but, above all, to eliminate ways of abusing the implementation of state and social programs.

At the moment, Ukraine remains with a *budget for a declining economy. Reducing spending on “soft investment”, which serves as a source of innovative growth in a weak economy, generates further weakness.* In developed economies there is no hint of inflationary pressure, and in Ukraine, it is a determinant factor that influences the levelling of the results of fiscal management.

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Table 2

The results of the regression analysis between the GDP of Ukraine and expenditures on R&D

<i>Regression statistics</i>					
Multiple R	0.903953204				
R-square	0.817131395				
The normalized R-square	0.796812661				
Standard error	15.19031897				
Observations	11				

<i>Dispersion analysis</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>F-value</i>
Regression	1	9279.595408	9279.595408	40.21566499	0.000134204
Remainder	9	2076.712114	230.7457905		
Total	10	11356.30752			

	<i>Coefficients</i>	<i>Standard error</i>	<i>t-statistics</i>	<i>P-value</i>	<i>Lower 95 %</i>	<i>Upper 95 %</i>
Y-intersection	40.21566499	0.000134204	40.21566499	0.000134204	40.21566499	0.000134204
Variable X 1	92.04114528	14.5139087	6.341582215	0.000134204	59.20840276	124.8738878

Reducing government spending in real terms, adjusted to the level of inflation, which is not compensated by the growth of private sector expenditures (which, in turn, is achieved by decreasing the central bank discount rate¹, and accordingly, the expansion of lending by commercial banks), leads to the “collapse” of the economy, “collapse” of it into itself.

What if we look at the austerity policies from the other point of view? I believe that the key idea of austerity policies, if viewed from a positive rational point, is the restoration of market principles of functioning of the economy based on the trust institute. If we consider austerity as a policy of more optimal use of resources for growth and development, which is based on “innovation as the key driver of long-term productive growth” [8, P. 29], then it acquires qualitatively different, positive content. IMF Fiscal Monitoring (2016) provides the following key recommendations for improving government spending policies: increasing the potential for revenues mobilization to achieve sustainable development, gradual expanding of the tax base (broad, stable, flexible tax base is of great importance to the governments of the countries); improvement of revenues management, which is important for increasing revenues potential (in many countries, weak revenues management remains a fundamental obstacle to effective and equitable taxation.) During the recession, the IMF recommends increasing expenditures on research and development and improving their effectiveness [8, P. 29–30].

Conclusions. The neoliberal logics of tight fiscal consolidation in Ukraine is not working. “Temporary tightening of belts” is turning into an even greater economic downturn. At the heart of this kind of *austerity policies* lies the restoration of market principles of economic development based on the institution of trust in the market and the state, of investors, households, and businesses. Under these conditions, *fiscal optimization* is seen as an opportunity for greater productivity of the economy and increased spending on the key principles of modern development – the cost of research and

¹At the moment, the discount rate of the National Bank of Ukraine is at the level of 14 % as of 26.01.2017. In 2015, the discount rate was one of the largest in the world and was at the level of 30 % from 04.03.2015 to 28.08.2015.

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development. Taking into account that the main reasons for the growth of public debt during 2008-2016 were: devaluation of the hryvnia – 42.4 % of GDP; expenses on support of the banking system – 14 % of GDP (including the nationalization of CB Privatbank – 6.12 % of GDP), the recapitalization of NJSC Naftogaz Ukraine – 13.7 % of GDP; the primary deficit of the state budget – 11.0 % of GDP (part of these reasons was offset by a surplus of nominal GDP growth above the rate of loans – 24.6 % of GDP), then the reduction of expenditures for social needs in real terms is not justified [3].

Obviously, public debt in the recession was a consequence of the recapitalization of the destroyed banking system, ineffective economic policies towards state corporations, inadequate monetary and exchange rate policies of the National Bank of Ukraine, which led to the devaluation of the national currency and, in this regard, an increase in external debt servicing for national economy. The so-called “socialization of private losses” took place. In addition, cutting government spending (“soft” public investment, for example, on research and development) is a bad signal for private investors – the flow of private investment into Ukraine’s economy is tremendously diminishing. At the same time, inflationary pressures and devaluation pressure on “soft” government investments occur, the volume of which decreases in real terms, even if their nominal value increases.

Thus, in the medium and long term periods, Ukraine needs to adopt fiscal rules that would allow it to independently provide balanced fiscal policies taking into account the national specifics aimed at innovation growth, rather than applying thoughtlessly examples of austerity policies of developed countries that are moving in their own ways with their levels of government spending.

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