

THEORETICAL ESSENCE OF STATE SUPPORT FOR AGRICULTURE IN THE STATE REGULATION SYSTEM OF AGRARIAN SECTOR

ТЕОРЕТИЧНА СУТНІСТЬ ДЕРЖАВНОЇ ПІДТРИМКИ СІЛЬСЬКОГО ГОСПОДАРСТВА В СИСТЕМІ ДЕРЖАВНОГО РЕГУЛЮВАННЯ АГРАРНОГО СЕКТОРУ



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During the Soviet period, Ukrainian agriculture was oriented on continuous extension of production capacity to fully meet the food requirements of the entire USSR. This purpose was served by the tools intrinsic to the command-administrative system. In the transition to market-oriented economic relations, and given the total restructuring of social and political system, the old functioning mechanisms operating in the agricultural sector, and its organizational and economic structure have changed dramatically, which affected agricultural development trends. Thus, in the 1990s, during the period of economic instability with permanent transformations and crises, estimated agricultural production, reportedly [2], almost halved. After 2000, a certain revival of the agricultural sector was observed. Its inductance vector was affected by various factors, such as institutional and financial support of private agricultural enterprises, introduction of a fixed agricultural tax, etc., as well as lobbying and influence of various business and political structures. This eventually led to the fact that in recent years the agricultural sector of Ukraine's economy became the driving force of its development, despite the extremely low extent of governmental support. Thus, domestic agricultural producers receive 1.5 billion U.S. dollars as state aid; while Belarusian farmers receive 3 billion; Russian farmers receive 9 billion; and European farmers – 50 billion U.S. dollars. [6]. Therefore, no matter how efficient Ukrainian producers were, they are a priori not able to compete with the products which cost 3-4 times cheaper due to state support. And this is one of the reasons why such a large number of Belarusian products appeared on the Ukrainian market, and corn and sunflower oil have been Ukraine's key export commodities for several years, with the accumulated volume of export earnings of more than 7 billion U.S. dollars out of the total 17 billion U.S. dollars earned from export of all agricultural products in 2013.

Currently, in the context of ongoing agricultural sector reform aimed to adapt Ukraine's economic mechanism to the EU economic conditions, government regulation and state support of agriculture have been at the forefront of heated discussions among domestic economic scientists [1-7]. Definitions are refined and developed, which are more appropriate for

the existing situation, while strengthening the government's role in the country's agricultural sector is more profoundly rationalized.

However, in the scientific publications and literature, the dividing line between the concepts of state support and state regulation remains blurred, and in some cases, they are considered synonymous, for example [1; 4; 7].

The most frequently encountered and identified concepts are those like "state regulation", "government funding", "public financial support" and "state aid".

Regarding the instruments of state support to agriculture, experts of the National Institute for Strategic Studies [5] believe that only budgetary financing may be relegated thereto, which includes interest rate subsidies on loans, payment of insurance costs, compensation for the costs of material and technical resources' acquisition and other forms of subsidies.

However, such a narrow interpretation of state support's nature, also shared by P. N. Feshchenko [7], is unjustified. This is due to the fact that state support should be considered as an integral part of agricultural policy. The state's agricultural policy, in turn, is implemented through a fairly wide range of tools aimed at protecting the interests of agricultural producers from monopolies in related agribusiness sectors, as well as at implementing protectionist measures. Thus, in the regulations governing state support to the agricultural sector – support to agricultural market (purchasing and commodity interventions; public pledge transactions; public procurement; antitrust prices in regional markets; foreign trade regulation) and support the social infrastructure in countryside – are also relegated thereto.

Consequently, the concept of state support to agriculture encompasses the utmost variety of methods and forms of government intervention in the agricultural sector of the economy. This often gives the impression of its haphazard nature.

Therefore, a theoretical study is needed to examine the problem associated with defining the nature of state support to agriculture, and classification of its methods, forms and directions.

In order to spot the difference between state regulation and state support, we shall consider fundamental economic problems:

The article examines the questions of economic mechanism of government regulation and state support for the agrarian sector of Ukraine economy in the context of pro-European vector of integration processes. The author's approach to understanding the differences between the government and public support is provided. The necessity of state support for the agricultural sector is justified.

У статті розглядаються питання економічного механізму державного регулювання та державної підтримки аграрної сфери економіки України в контексті проєвропейського вектору інтеграційних процесів. Наводиться авторський підхід до розуміння відмінностей між державним регулюванням і державною підтримкою. Обґрунтовується необхідність державної підтримки агросектору.

economic growth and economic balance (equilibrium). Is the market mechanism able to ensure sustainable economic growth and economic balance without government intervention? Theoretically, the market per se can solve these problems, but only in ideal conditions, which do not exist in practice. Moreover, Ukraine's experience of economic reforms in the 1990's convincingly proved the infirmity of market liberalism. Consequently, at present, it is difficult to find arguments against the need for state involvement in the regulation of economic processes, particularly in the agricultural sector. Fundamental differences exist only in the approaches to the formation of the system for state regulation of the agricultural sector.

In our view, one should agree with the authors [1; 2; 6] in considering the state regulation system as a concept that includes various ways of affecting the development of agricultural production. In a narrower sense, state regulation is a complex of various measures for facilitating the development of any processes or phenomena.

For example, state regulation of prices can be implemented [6], by fixing prices, establishing the maximum levels of prices, trade margins or profitability, as well as through the use of guaranteed prices of products purchased for public needs, introducing antitrust measures, etc.

State support is an integral part of state regulation and is a set of checks and balances (primarily concessional or non-reciprocal) affecting the most economically limited companies and industries. In the theory substantiating state support to agriculture – the most important argument in favor of agriculture is the non-monopolized nature of agricultural production contrasted with the strengthening monopoly in the processing industry. Consequently, agriculture is in a position of inequality compared to other industries. This situation is objectivized by the nature of market mechanism, with prices in the monopolized processing sector growing faster than in non-monopolized agricultural sector. As a result, agriculture is in the monopoly's price grip, and the industry is losing revenue through the price disparity mechanism.

State support for the agricultural sector and, above all, Ukraine's agricultural production is conditioned by prevailing nonequivalent relations both within the agricultural sector, and within the framework of the economic complex and has the following objectives: 1) sustainable development of agricultural production along with balanced and efficient development of agricultural production providing for the maximum satisfaction of the society's needs in own food products; 2) ensuring food security and independence from expansion by food-exporting countries, and hence stabilization of the country's food market; 3) Harmonious reciprocal development of urban and rural areas, building efficient economic relations between major economic sectors.

It should be noted that out of the four strategic objectives declared by the Law of Ukraine 'On the Basic Principles of Agricultural Policy for the Period up to 2015' – ensuring food security of the country; transformation of the agricultural sector into a highly efficient and competitive player in the domestic and foreign markets; preservation of Ukrainian peasant population as a carrier of national identity, culture and spirituality; integrated rural development and solving social problems in rural localities – one can say about some implementation progress only in relation to the first two due to lack of systematic state support measures, in particular caused by terminological red tape, etc.

The need for state support to the agricultural sector is also rooted in the basic features of its core domain – agricultural production, which needs to be supported in the first place, above all others.

Naturally, agriculture as an economic sector is subject to the basic laws of economics. However, one should take into account its specific features resulting from seasonality, and the structure of manufacturing technologies.

Given that agriculture operates within the agribusiness, government support as an important state regulation tool is implemented for the benefit of all agricultural producers. Ukraine's agro-industrial complex is an integral part of the national economy. Via inter-industry linkages, agriculture consumes products from 80 branches of the national economy. In the meantime, it supplies a variety of raw materials and products to more than 70 other industries. According to expert estimations [3] every agricultural worker employs 7 people in other sectors of the economy. Agricultural sector in many aspects defines the standard of living and welfare, the amount and structure of nutrition, the average daily income, consumption of goods and services, and social living conditions in the country.

Agriculture is not merely an economic sector, but also the habitat for a large part of the population (31%), with own specific way of life, the peasant civilization, that shapes the spiritual and cultural origins of the nation. It helps to preserve

historically cultivated agricultural landscapes, cultural diversity, and the country's economic well-being. It also forms the moral pillars of the people, its national psychology, and historical memory.

These national and economic functions of the sector are often not amenable to monetary evaluation, but crucial for socio-demographic development, as well as exploration and development of the country's territory. Indeed, they must be taken into account in determining the scope and direction of the state support to rural economy.

Summing up the above, let us try to make a distinction between the concept of "state support" and "state regulation". State regulation of the agricultural sector should be seen as a concept rather capacious in its scope, because it primarily views the process of creating the final product, as well as the processes of generation, distribution and redistribution of income derived thereof.

State regulation involves elements of agricultural economic mechanisms, such as pricing (key mechanism of income generation that defines the equivalence of cross-sectoral exchange and cross-sectoral ratios), taxation, government funding and other financial instruments regulating reproduction. Besides, state regulation in addition to the economic impact also includes non-economic measures, such as legal and administrative.

In turn, state support does not affect the fundamentals of the emerging economic mechanism, i.e. the principles of generation, distribution and redistribution of income; it only contributes to better adaptation of businesses to the existing reproduction conditions, including the existing non-equivalence of cross-sectoral exchange. In this regard, it is not by chance that many authors equate state support to budgetary support implemented through the use of budgetary financing mechanisms – subsidies, grants, allowances and compensations.

From our point of view, the essence of this category is better revealed in the following definition: state support to agriculture is a set of forms and methods of state economic intervention aimed to ensure economic growth of the agricultural sector and the formation of an equivalent cross-sectoral exchange in the AIC.

Thus, state support to agriculture, as defined above by the authors, shall provide a possibility to solve the problems caused by market failures, as well as inefficiency of the state regulation system supervising the processes of creation, distribution, redistribution and consumption of the final product, taking into account the interests of agricultural producers; and it can be stipulated in the Agrarian Code, which, as declared, is being developed by the government of Ukraine as one of the most essential tools for reforming the state regulation of the agricultural sector in line with European standards.

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