

STATE SOCIAL RESPONSIBILITY IN MARKET DRIVEN ECONOMY

Andrius Guzavičius¹, Lina Žalgirytė², Vidas Tamulis³

¹*Kaunas University of Technology, Lithuania, andrius.guzavičius@ktu.lt*

²*Kaunas University of Technology, Lithuania, vidas.tamulis@gmail.com*

³*Kaunas University of Technology, Lithuania, lina.zalgiryte@ktu.lt*

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Abstract

Today's relationship between financial market and real economy is one of the main topic in scientific debate in the field of many different approaches. It is practically impossible separate economics science from others disciplines, like psychology, human behaviour, philosophy, ethic and etc. There are a lot of scientific research about corporate social responsibility, but just few of them trying to evaluate state (or government) social responsibility regarding social well being, social security, and sustainable development. Financial markets after losing the Gold standard in 1970 exploited to enormous amount, very active monetary policy in USA and hided monetary expansion in EU last few years made the situation even more complicated. Some economist see current situation in financial markets as normal, their argument is that expansive monetary policy (known as money printing) increasing liquidity in financial market and provide efficient recourse allocation in real economy. On the other hand, such intensive policy could lead to misallocation of recourses, high cyclical fluctuations and even possibility for hyperinflation.

Keywords: market driven economy, imperfect competition, decision making institutions, economic interest groups, lobbyism commodities.

JEL Classification: E42, G15, G28.

Introduction

According to traditional economics theory, financial markets acting depending on situation in the real economy. The positive or negative expectations in stock market reacting to change in main economic indicator as GDP, unemployment level, inflation and ect. On the other hand, there are different opinions about correlation between financial markets and real economy: financial markets are primary factors to change expectations and sentiments, and they impact directly to real economic indicators. So may be a common opinion would be, that financial markets are very close related to real economy and vice versus, so called market driven economy. Also it is important to evaluate the role of intermediate institutions in market driven economy.

During the recent years the influence made by intermediate institutions on the country's market driven economy has been in the focus of attention. In the 6-th decade the formation of economic interest groups was analysed (Olson, 1965), in the eighth decade rent seeking theories made their influence (Colander, 1984; Moe, 1980). Rent seeking theory includes the analysis of interest representation effectiveness and resource distribution. In the 9 th decade research included the influence of interest groups on nation growth and recession (Olson, 1982; Elster, 1989; Morris, 1999). Later research embraced the influence of economic interest groups on the regional development of countries as well as on the policy of environmental safety and on the economic growth of developing countries (Gordon, 2001; Horowitz, Marsh, 2002, Bouwen, 2002, Rantala, 2004, Mahoney, 2004, Hansen, 2005).

Aim of the study – to describe and evaluate different models of market driven economy.

Tasks of the study:

- Describe market driven economy;
- Evaluate efficiency of governmental policy implementation in market driven economy;
- Provide understanding about rational behaviour of individual versus collective action.

Research methods – the comparative and structural as well as the qualitative and quantitative analysis of scientific economic literature, graphical modelling and logical analysis.

Market driven economy

It is well known, that equilibrium in market plays major role in economics analyses. Equilibrium act as a force, that directs the allocation of limited recourses in competitive market, means profit maximization for successful companies and bets consumption choices for smart households (figure 1). The vice versus situation appears when inefficient firms fail, non productive employees are.

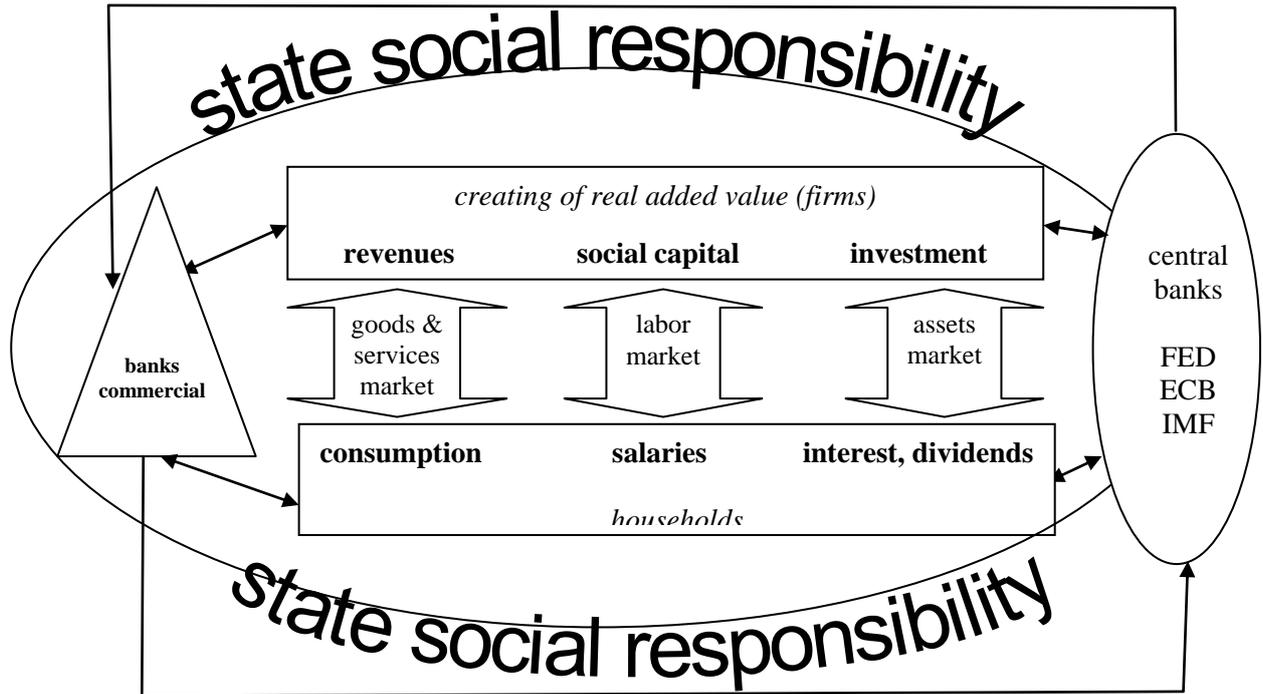


Figure 1. Market driven economy system and state social responsibility

But in the last decade world economy were facing at least two rough periods: dot-com bubble at the start of the century and by year 2007 facing much serious, what starts as the housing bubble in USA and spread to all world as major economic crisis (Hunter, Kaufman, 2005), (Soros, 2008). Now many economics agree, that lasts crisis still remain because of complexity of different actors and instrument, that participate in global economics system, these developments sharply impacted broader economy (figure 2).

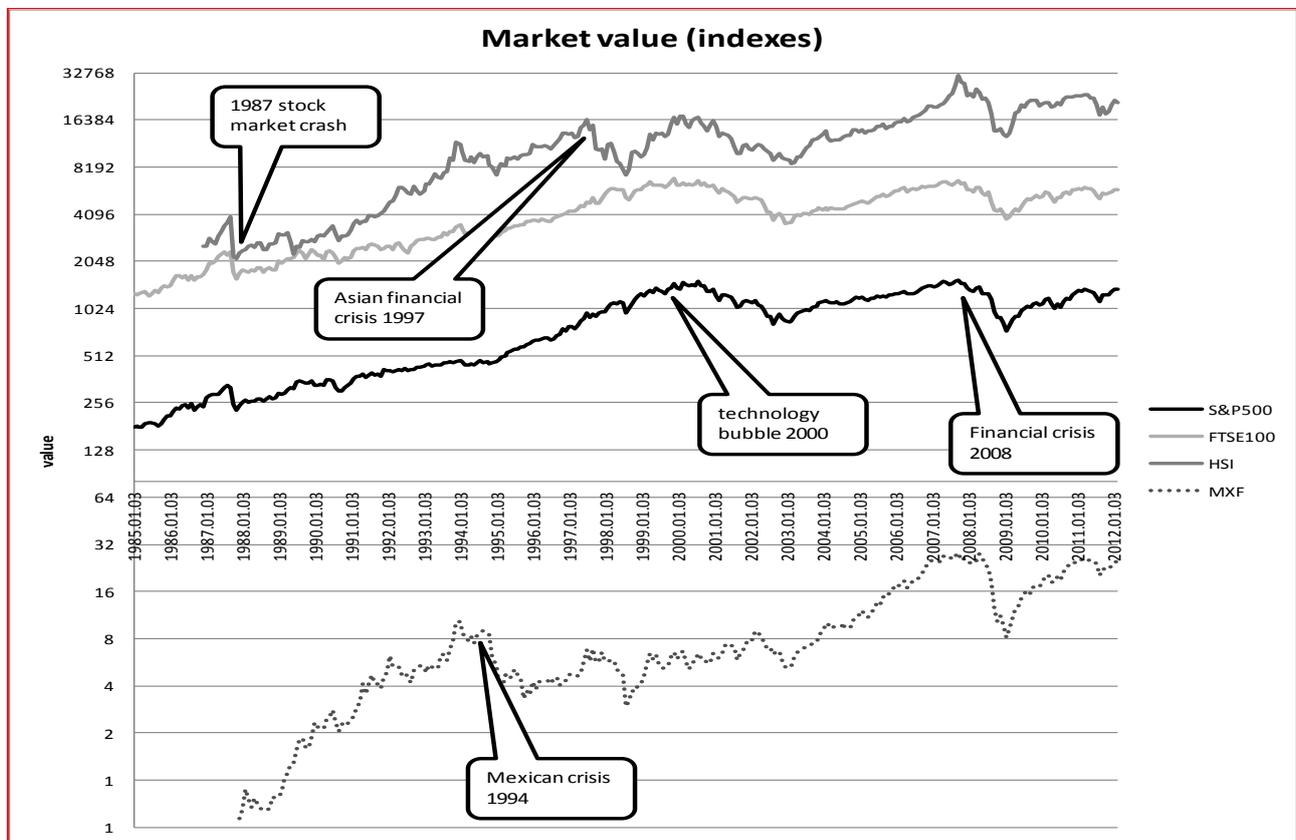


Figure 2. Fluctuations in market driven economy

The complexity and difficulty of regulation in market driven economy increasing many new financial instruments, leverage and new risk management rules. The governmental regulatory bodies very oft have limited information about the situation in market. This information is mostly provided by interest groups, so it is very important to evaluate the relationship between economic subject and decision making institutions. An economic subject can influence business environment and decision making institutions very insignificantly, however, the unity of economic subjects, i. e. intermediate institutions can increase their power and their influence on strategic decisions making subject. Intermediate institutions are treated as a mediating chain between policy and economy.

Intermediate institutions in market driven economy

Evaluation of the efficiency of the action undertaken by the economic interest groups is of great importance for development of the uniform opinion, that in turn calls for objective evaluation of the profits received due to and costs spent by the economic entities for participation in the shared action. Papers of some economists provide analysis of both the economic interests groups and impact they make for the entities that make and implement strategic decisions. On the other hand, the lack of the analysis of the efficiency of the action undertaken by the economic interest groups with respect to the microeconomics, when evaluating the profits received from the shared action and the costs related to that with respect to the economic entity, as well as a shortage of the original patterns to demonstrate efficiency of the shared action undertaken by the economic interest groups are obvious.

Process of emergence of the economic interest groups to join the legal entities is more complicated comparing to that of emergence of the economic interest groups to join the physical entities owing to the variety and difference of the interests by the first groups' members. Action undertaken by the economic interest group to join the legal entities appeared to be more versatile compared to that undertaken by the economic interest group to join the physical entities (figure 3).

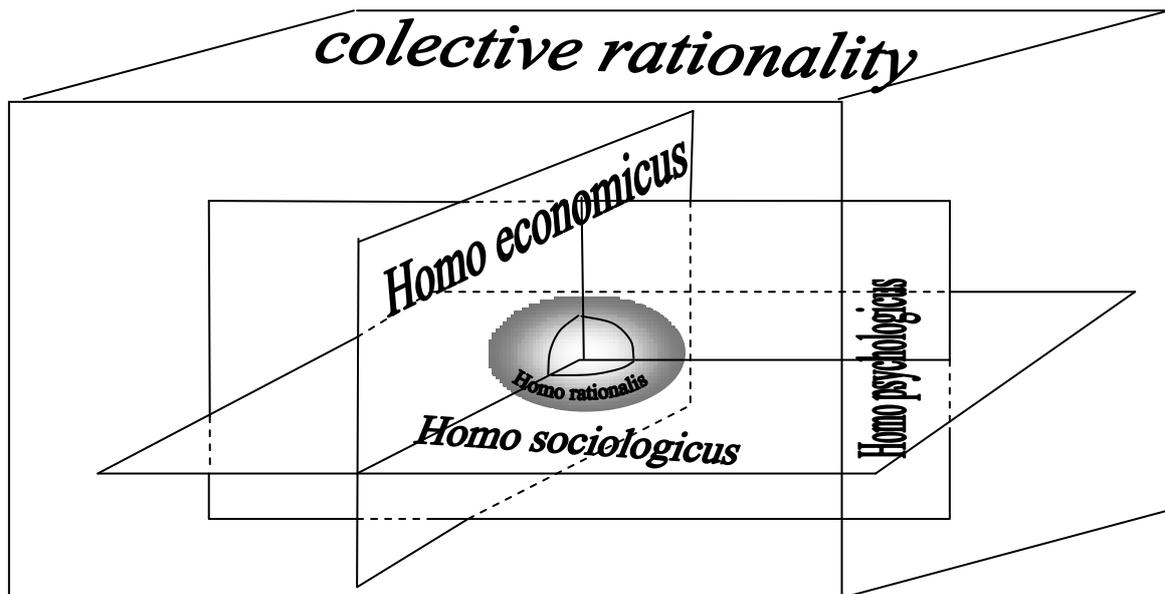


Figure 3. Individual and collective rationality

Analysis of the theoretical concepts on the efficiency of the action undertaken by the economic interest groups completed revealed inequality and in some cases even contrariety of the evaluations of the action undertaken by the economic interest groups. According to some researchers the economic interest groups contribute to the boost of the prosperity of the society while other researchers consider that the monopolistic structures tend to emerge due to the economic interest groups. Majority of the researchers consider that the economic interest groups make contribution to the prosperity boost of the society in a way of providing the entities to make the strategic decisions with the special economic information.

At the market driven economy an economic entity (a business company) can choose the organizational structure it wants to belong to. Power of the economic interest groups is indeed great at the national level,

their operation meet the needs of the economic entities, therefore there is no need for emergence of the alternative organizational structures (figure 4).

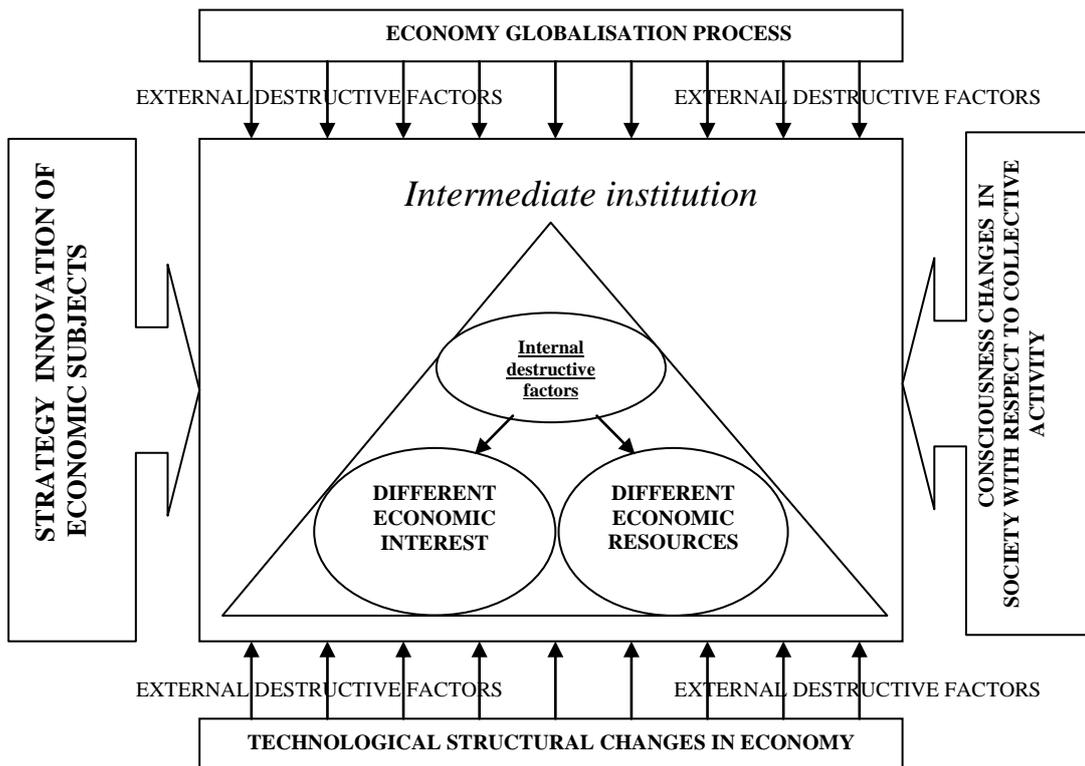


Figure 4. Intermediate institutions in market driven economy

Quite different situation occurs at the international level. Besides the major traditional economic interest groups at the international level the alternative organizational structures operate. The major reasons to determine the emergence of the alternative organizational structures at the international level are: Innovation of the strategies employed by the economic entities; Direct participation of the business companies in the operation of the economic interest groups; Decreasing of the probability of implementation at the international level of the economic decisions made by the national legislative and legislation executive authorities.

The economic entities seeking the “prompt” return of investment tend to employ a short-term strategy to maximize the profit and are not interested to join the long-term operation of the economic interest group. The impact made by the economic interest groups for the legislation as well as for the shaping of the economic policy can hardly be proved empirically. On the other hand, the profit received by the economic entities from the prompt return of the investment is evident. Frequently the membership in the alternative organizational structures is short-term, an economic entity participates in the group operation as long as the concrete goal has been achieved, and thereafter the entity quits the union.

The economic interest groups at the international and supranational levels join different associations. An economic entity (a business company) delegates its interests not directly, but through associations. The companies are directly represented by the alternative organizational structures, therefore the problem of interest delegating through mediators is not encountered in this case anymore.

Conclusions

1. Market driven economy is a complicated system, there are acting a lot of players: individuals, groups, institutions and etc. Today's level of globalisation allows magnificent possibilities not just watch market driven economy, but even active participate in the process of creation. With the help of high internet density in all corners of Earth all actors from single individual to corporate government structure may participate actively in market driven economy system.
2. Real time accessible financial market allows to watch what is happening in all corners of the world without watching the news. This active participation leads to very high fluctuation level for

all system. In the market driven economy participating one new player - computers programs, that allows to trade some assets till 1000 times per second. Such hi-frequency data trading robots may leads to interesting and very difficult to forecast market action, for example, flash crash in United states of America in 2010.

3. To control market driven economy it is necessary to understand, how all system works. The one of the main role in this system playing collective behaviour and collective action. This is the field of mezo-economics. Development of action undertaken by groups resulted in debates held by the researchers of different countries about purposefulness of the action in question with respect to the group itself and to the society at large. According to the academic debates one of the major problems encountered in this field seem to be evaluation of the efficiency of the action undertaken by the groups.
4. Analysis of the theories developed by foreign researchers that investigate the intermediate institutions from different angles completed that peculiarities of emergence of and action undertaken by the intermediate institutions are considered mostly from the political angle by the theories of pluralism and conflicts. Moreover, the research of the action undertaken by the intermediate institutions' has been carried out from the sociological and politological angles.
5. Decreasing of the probability of implementation at both the international and supranational levels of the economic decisions made by the national legislative and legislative executive authorities the interests of the economic entity are represented not by the classic economic interest groups, but by the alternative organizational structures. Growing globalization weakens the power of the national legislative and legislative executive authorities to implement the economic decisions at the international and supranational levels.

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