

INSTITUTIONAL THEORY OF ECONOMIC REFORMS: BASIC IMPERATIVES

Oleg Sergeevich SUKHAREV

Head of Institutional Analysis of Economic Dynamics Department
Institute of Economy, the Russian Academy of Sciences
Moscow, Russia
o_sukharev@list.ru

Abstract

The ability of institutional economic theory to explain various kinds of economic reforms (changes) on the basis of theoretical ideas about the dysfunction of institutions and systems are investigated. A number of classifications of reforms and dysfunctions is introduced and kinds of institutional efficiency of economic systems are defined. Qualitative regularities of various reforms of the twentieth century in different countries are generalized. A number of criteria of effective institutional reforms, capable to lower the depth and the scale of dysfunctions of the functioning economic subsystems is formed. System approach to the analysis of economic systems reforming with underlining the importance of reform "management" factor which defines productivity of economic development is elaborated. Life cycle of institution and economic system in the process of its reforming is presented and correction of J. Hellmann's model, describing the reforming logic of economy is made.

Key words: *institutions, dysfunction, economic reform, dysfunctions types of institutions and systems, kinds of reforms.*

JEL Classification: *E11 O43 P11 P16*

I. INTRODUCTION

Usually transformation, change, or reorganization of something are understood as a reform. Or we may say, it is "change of the form", that is, the content of the object, its quality, functions, and characteristics. Sometimes it is a way of functioning, the mechanism of action, the main principles of its development and interaction with other objects. Such changes are controllable. They assume an ultimate goal which is measurable from the point of view of expenses for its achievement, time of achievement and quality. They are planned and are usually carried out by the power or controls of the given system and assume legislative changes in overwhelming majority of cases. The last circumstance actually means legitimization of the reforming process and is connected with formation of additional institutions, or replacement of old institutions with the new rules. Formal (laws, decrees, contracts) and informal rules (traditions, customs, codes and models of economic behaviour developed as a result of these or those attitudes formation) are usually meant. Thus, a reform means a basic change in the system or the object functioning, which is subjected to reforming. The success of the actions providing such basic change is defined by the content of these actions, their sequence, compatibility, algorithm, speed, scale of object change, adaptive capacities of an object or agents of the system which is subjected to reforming. The questions of how necessary the reform is in general, whether the basic change of object and system functioning is proved, what expenses are connected with this change and whether they are justified are very important.

Combination of various reforms and simultaneity of their carrying out acts as a separate aspect. For example, if all the subsystems of economic system are subject to basic change or transformation on a certain reason. How possible is it? After all the expenses in economy are connected with the actions, and in this case, there are expenses on transformation plus expenses on adaptation to these changes which can appear to be extremely high and lead to the situation when new rules and forms cannot function with prospective efficiency as the expenses "have eaten" the financial resource for such functioning. The fact that it is impossible to foresee these expenses is especially important. Certainly, investment-designed logic is applicable here, and it is difficult to find some other methodological mode. But this logic is not so perfect, so most likely, simultaneous change of the whole system on all its elements is not expedient and possible within the limits of available resource restrictions. There are two possible trajectories. The first is connected with the choice of reforms scale. If there is an economy crisis, will these actions aggravate crisis? The second one is connected with anti-recessionary

measures to restore functioning of the given system, but not changing it in essence. At what development stage is the reform necessary? At the stage of crisis of the system or its elements, or at a growth stage? If at the stage of crisis, then the reform is an element of crisis management, sometimes even a certain saving tool. If at the stage of growth, though the resources are plentiful, they are diverted for reforming which cannot be carried out without expenses and deviations, so this economic growth can be slowed down. Probably there are separate kinds of reforming and the reform depth which do not slow down the growth. But for each system on each historical interval it will be its own depth and even the content of changes, so such kind can be selected almost at random.

It is possible to recollect John Kenneth Galbreith's utterance, that a reform is a revolution of the rich against the poor. Indeed, the question what occurs at reforming is not idle. After all the basic change of any system is connected with the redistribution of income, rights, authorities, and etc., because redistribution of income in modern society automatically leads to changes in rights and power. Considering, that people in the government are not poor, they can potentially proceed from their own interests conducting certain reforming or, at least, take them into consideration at decision-making. Therefore, the idea of the American economist has a certain reason. From the point of view of the slogan, but not the sense, the reform is, as though, directed on improvement of functioning of a certain system or national economy as a whole. It is necessary to distinguish the following moments here. First, if it is a target basis of any reformist actions, what should be done, when the system's parametres worsen? To continue these actions or not? The logic of management dictates us that if any action worsens the state, it is necessary to stop this action. Here there is an interesting paradox. Cancellation in such situation can have two results: either the system's state will stop worsening with possible further improvement, or the stop of the reform will worsen the state even more as a number of actions will be "unfinished". Secondly, what should be done if the state of the system has improved unexpectedly quickly during reforming on the expected functioning parametres. Whether the reform should be stopped in the specified direction or whether it should be changed. Or whether it should be continued in principal. It seems purpose achievement should mean stopping of actions which have provided such outcome. But there are no guarantees, that stopping of these actions will not result in deviation from the specified parametres, that is, from the achieved purpose.

The question whether a unified theory of reforms is possible is important from the methodological point of view. What should such theoretical construction be? And maybe, it has existed for a long time, and economists could not discern this fact? Very often a plan of crisis management is called a reform. Roosevelt's reforms was the answer to the crisis of 1929-1933 or Reagan's reforms was the answer to stagnation of 1970s. Or, for example, post-war restoration of economy (L.Erhard's reforms), or economic policy improving economic system functioning, updating or modernizing the system. In my opinion, a reform should not be identified with economic policy. Though, if to look into, a reform is the most powerful tool, a generator of economic development and is often a core of economic policy. Conducting a reform as a basic change of the system or object will, for certain, demand special measures of standard macroeconomic policy. The fact is that reform can be local and system. Local reform refers to the questions of functioning of an object or a subsystem, for example, public health, education, military sphere, government of the state, lawmaking, judicial system, pensions, monetary and credit and financial system, and etc. If transformations refer to one or two objects from the listed ones, it is obviously a local reform. If transformations refer to all the listed spheres or change the character of the development and quality of the whole economic system, the way of production, public style, etc., it is obviously a system reform. In case, when there is general system crisis of the economy (cyclic, transitive and mixed), its overcoming can hardly be called a reform, though the measures reduced to basic change of system functioning and its separate parts can be applied to overcome the crisis. The logic of management of large systems and crisis management will be more pertinent in this case. The radical changes connected with the replacement of institutions are practically unpredictable in such situation and can seriously deepen the crisis. Usually not the logic of radical restructuring with the necessity to reach certain long-term objectives should be used in this case, but correction of crisis functioning of economy subsystems.

II. GENERAL «THEORY» OF REFORMS

As a reform is always a certain set and sequence of the actions aimed to solve the problems, realization of these actions subordinates to administrative logic. Therefore, when we speak about the creation of economic theory of reforms, it should, first of all, be management theory. There are no other variants, as "administrative laws" are identical here. But pure economic factors are different and it is hard to calculate and generalize them on various economic systems. The reason is banal: reforms are carried out at various historical periods at different levels of development of productive forces and production relations, at different state of technology, institutions, people's mentality and culture, their level of knowledge and psychological adaptability, to say nothing about various attitude to the governance and public style. Calculation and generalization of all factors in economic sense and defining the general law and tendencies are problematic, but the research of influencing

procedures, identity of actions and changes in the systems of influence is possible. In particular, it is possible to compare the reforms of education, agriculture, public health and pension system. However, even such comparison and revealing common features or laws require accuracy and responsibility at interpretation or especially at transfer of conclusions to other social and economic system which functions in the other socio-historical setting and world environment.

Most likely, the theory of reforms as a uniform theoretical construction is impossible from the point of view of economic theory. However, the general theoretical approach and the description of reforms as absolutely special type of economic policy (not reduced to economic policy of standard type such as fiscal, money-and-credit, and etc.) is possible from the point of view of the management theory and economic policy theories as any scale event aimed at changing the principles and quality of functioning of an object or a subsystem should be coordinated with the general tools of macroeconomic and other kinds of public policy. Actually, the system of reformative actions should provide a set and a combination of such various kinds of policy resulting in desirable change of object or economic system functioning together with other institutional actions.

Should, for example, structural policy be considered a reform? Indeed, in the long run structural policy usually leads to essential change of economic proportions, but this change occurs in the course of impact of more or less standard tools and lasts over a long period of time. If such change does not deal with the basic institutions, it can hardly be pertinently considered a reform. Structure reform or economy re-structuring is the policy aimed at fundamental controllable change of basic proportions and institutions of economic system development. Then, this policy can be called structural reform. And the reform can be both short-term and long-term. Everything depends on the scale of problems and resources available for their solution. By the way, the resource factor becomes the defining restriction at planning and realization of reforms. A special accent in defining the concept of the reform seems to me obviously important on the institutional component as the replacement of rules makes the basic change, deals with agents' mentality, changes their habits, stereotypes and attitudes of economic behavior, that is, the reason of the morbidity of the reforms in the history of human society development (the reforms of Alexander II in Russia, Stolypin's agrarian reform, Gaidar's reform of 1990s, and etc.). It is necessary to notice, that if one and only reform is carried out in the country, for example, a reform of agriculture, and the country is mainly agrarian, then the local reform covering only one economy sector actually turns into system reform, as this sector is large and it is the main sector in the economy.

Crisis management of large system is expressed in the policy of macroeconomic stabilization which is understood as a system of governmental actions aimed at stable price level (reduction of inflation rate) and full employment (natural level), and besides creation of favorable conditions for economic growth. One of such conditions is decrease in prices growth rates and improvement of population employment. Thus, the state policy of stabilization in its classical understanding is aimed at reduction of cyclic fluctuations of inflation and unemployment rate.

This interpretation of stabilization economic policy appeared to be defective for Russian economy as it used extremely limited tools in the form of monetary and fiscal policies, impacts on aggregate supply or policy of efficiency except for influence on supply, and incomes and prices policy. The main reason was that there was no goal of cyclic control in Russia. When institutional reforms are carried out in the country, inflation slowdown and unemployment counteraction as measures of classical stabilization policy are special cases of wider and complex aggregate of problems. Inflation suppression can be viewed as a certain "health factor", and increase of employment as a social necessity of the economy. These problems do not disappear at institutions change and reforms carrying out. True reform always has a large scale of controllable (projected) institutional changes which have clear objectives. In economy development it is impossible to distract from the fact that agents set and change the goals, frequency of goals change, and low functional quality of institutions provoking the backlog in the development and leading to the necessities of reforms. The other source of reforms is not political activity of the government wishing to show, how much it does for the people. It is arising crises, the way out of which is not visible within the limits of operating institutional structure. This generates the necessity of scale reforms, or, on the contrary, modest or surface ones, depending on the possibilities and desire of planning governmental bodies, their understanding of the situation, and resource possibilities.

Of course, political component in conducting reforms of any level and scale is important. Therefore the idea, that any reform is a revolution of the rich against the poor, has a reason, resulting from fundamental principle of capitalism. In fact, such position means, that at major modifications of capitalism which seem to be observed, it does not change in its fundamental principle when selection of agents of higher levels of management is made according to the size of the purse, and not on the abilities or moral indicators. So then the size of personal monetary income, the volume of property and possessions define the range of changes and reformative actions. In this connection, I would like to underline, that democracy as a form of power and management of society is proclaimed only on paper. In the system where personal income and the volume of property are defined by the market, that is, by stochastic forces of "success", and the market is a set of independent co-operating agents on close objectives and thus to some extent dependent on each other, authority realization is also defined by this interaction and income which causes such interaction and the process of

property concentration and management following from it. That is why there cannot be any equality of rights. Imagine an economic system where all agents have decided to realize their right to be elected. Such system will have collapse of “democratic choice” though formally by means of computers it is quite possible even to organize electoral procedure. However, restrictive institutions of political system operating today will not admit such amount of applicants for key positions of hierarchical control system of the society on each level. Hence, the struggle against the complexity and the level of expenses of electoral system limits the rights of citizens and agents, only declaring their equality, possibilities, and freedom, but in practice such functions are connected with the agents’ income and property. Other things being equal, on the average the most well-to-do agents occupy elective offices. Thus success is identified with money and political career. The similar mechanism of selection has internal basis for regeneration and loss of efficiency. Corruption component is simply programmed in it. Such factors as culture, education, morality act as the components counteracting the process of decline and moral disorientation of the society. They support the mode of formal democracy. Therefore speaking about reform, it is also important to understand, if we speak about the change of public way of life (system). After all according to the definition of the reform concept such change is a basic modification. Or we speak about incremental improving controllable change of separate structures and subsystems of the society within the limits of basic development parameters of modern social system.

In my opinion, a certain general approach to the research of reforms is possible within the limits of combination of the management theory, economic policy theory, institutional changes and cliometrics at drawing up the principles and criteria of reforms success and the success of economic policy. Reform should precisely and clearly be distinguished from non- reform, that is, the reforming period should be ultimate in order to estimate the general result, and intermediate or land-mark results. Otherwise, the analysis will be diluted and estimation of the change of institutional sequences in time will be problematic.

If privatization and nationalization do not lead to basic changes of social relations, they cannot be considered a reform. So, in the developed capitalist system privatization and nationalization will lead in a certain scale only to the change of share of private and public ownership in its general volume, but the basic institutions of the system continue functioning. Therefore in this case privatization and nationalization are the tools of economic policy adjusting the system of mutual relations of given kinds of property and the agents connected with them to intensify development, or to solve other problems of economic policy. If privatization or nationalization change the type of public system, are large-scale radically changing the mechanisms of agency interactions, mode of economic life, and etc., in this case these processes should be considered a reform, and these are purely different reforms. In case of large-scale privatization it is the question of private sector development, at nationalization it is the development of public sector. The former is called the reform of liberal type, the latter is the so-called reform of statism directions, aimed at influence expansion of the state and the public sector.

The content of all reforms carried out in the twentieth century in national economies is so, that they can be grouped according to two big directions regardless of their time period.

The first direction is statist reforms the essence of which was based on the concept of strong state. “A new course” of F.Roosevelt, transformations in Germany between two world wars and especially in the period after 1932, Dodge-Shope’s “opposite course” in Japan after the Second World War, de Gaulle’s policy in France in 1958-1965, overcoming the crisis of 70-80s in Sweden and modern reforms in China can be included in this group.

The second direction is liberal-conservative reforms. One of their overall objectives was reduction of state regulation of economy, social programs, granting more independence to small and medium-size business and provision of economy growth for the account of promotion of entrepreneurial behaviour motives. It is possible to refer the most representative variants of corresponding government policies and transfer mechanisms such as, reforms in Great Britain connected with the way out of the crisis of 1929-1933s, L.Erhard's reforms in post-war Germany, "Reaganomics" and "Thatcherism" in 1980s to this group. Neoliberal reforms of 1990s in the countries of Eastern Europe and the CIS are quite separate and very wide theme for research because they give economic science a real stratum of institutional changes of new type, that is, change of functioning model of all economy. As economic reforms carried out in each Eastern Europe country in 1990s had their initial conditions and other features typical only for them the specificity of these reforms will not be considered here, especially as there is enough literature on these questions.

Further analysis was carried out within the two types of reforms singled out according to the following directions: the basic features of economy crisis state, organizational-legal changes, budgetary-fiscal policy, monetary and credit policy, and political-economic content of transfer mechanism applied.

The main feature of economic crisis is that it is the factor motivating the reform. It can be explained in the following way: while everything is relatively good in the economy, there is no such need, or it is not expressed so. The reforms of separate subsystems and objects can be conducted, but we mean reforming of the system as a whole under crisis conditions and the reform is often considered as an anti-recessionary measure. But in reality it can only strengthen the crisis. Economic reform as realization of planned actions for crisis

overcoming is institutional changes having anti-recessionary orientation and consequently positioned on a certain period of time. It is necessary to point out the general characteristic feature of anti-recessionary policy variants at once. All of them began with political decision-making which were prompted by economic reality, these decisions having not been always made by national political elite. In case when there was a post-war transformation of economic system, foreign economists and politicians, whose recommendations included working out of special plans of financial and economic help, took an active part. But the success of restoration was almost always defined by the accuracy of decisions of national political management, in all cases aimed at rise of domestic industry and increase of general competitiveness of the economy.

The experience of economic reforms accumulated during the XXth century in the USA, France, Germany, Great Britain, Japan, and Sweden, which were conducted in different historical periods of the development of these states, allows singling out the following general features which were absent at reforming of the economy of the post-socialist countries. In the analysis made the reforming problems of the economies of the former states of the Soviet block or the countries of Latin America were not mentioned as for the first group of the countries the analysis can be only partial due to incompleteness of transformations and their specificity caused by the transition from centralized economy to decentralized markets system. And numerous interpretations of the Latin American countries reforming are ambiguous, and none of them has reached the level of social standards which the western countries have. The revealed general laws of social and economic reforming allow formulating some important theses.

Firstly, there was a clear plan or a program in the basis of any policy, whether it was reparation plans of Dawes and Young in Germany of 1920s, Schacht's plan in the beginning of 30sh, "the economy plan" of May in England, Dodge-Shope's plan in Japan, or "a new course" of Roosevelt, the post-war plan of Marshall on restoration of the economy of Western Europe, or Reagan's plan in 1980s

Secondly, practically all plans and programs began with the revision of relations in currency, financial and banking spheres, creating mechanisms and stimuli to direct the available capitals into national industry and social and economic infrastructure.

Thirdly, special laws creating legal base of the way out of the crisis and making the further steps legitimate were adopted, so all economic operations were legal.

Fourthly, new organizational structures, in particular, administration of national restoration, public work, agriculture regulation, and a number of commissions in Roosevelt epoch were created. Similar organizations arose in other countries which were carrying out the programs of the way out of the economic crises.

Fifthly, crisis programs in each of the country considered national character of conducting entrepreneurial activity and relation to government participation in the economy regulation. The last moment left its mark on the character of social reforms, militarization level of the economy and influence of the groups of special interests on the revival process of the economy. The main feature of practically all economic transformations prior to the beginning of 1990s in different countries was the change of legal bases of the economy, establishments in banking, currency and industrial organizations, but these changes had natural character stipulated by the purposes and problems which the society set before the government.

Sixthly, there was no need to create practically from scratch or (in rare instances) to suppress private property institution on the means of production in the countries subject to reforms.

Seventhly, the governments of the countries which were carrying out transformations in the economy were not engaged in import of institutions operating in other economy or in the loan of regulation methods. Only original approaches promoted increase of national economy and construction of healthy economy ensuring welfare growth over a period of several generations of citizens of the country. The example of post-war Japan does not refute the given statement. Import of American institutions occurred under conditions of occupation and "Japaneezation" of borrowed legal norms and approaches to economy construction began as early as before leaving of the American troops, that is, their bringing to the accord with national and cultural traditions and customs of Japanese.

In other words, as we see, specific historical conditions impose their restrictions on the "theoretical unity" in the description of reforms, though the research algorithm of properties and results, factor basis, and management theory substantially help understand the reformist logic and reveal some general properties inherent in reforms of different types. Institutional theory, especially from the point of view of dysfunctions analysis and states corresponding them, can make an appropriate basis for theoretical description and studying of reforms, including even practical definition of need for them with the account of necessary scale and control over their carrying out as it connects economic generalizations with administrative theories.

Certainly, no country in the world carried out transformation of its economic system, aspiring to go over from the centralized economy to markets economy under conditions of unprecedented information-technological rise and development of financial sector of the economy. These events demand non-orthodox approaches to economic policy from the government. There are two fundamental restrictions here which are necessary to understand and try to overcome.

Firstly, refusal of centralism should not lead to refusal of planning at all. Economic design, which from the point of view of L.Mises, F.Hayek and their followers cannot give effective results under conditions of centralism, as a matter of fact is nothing more than planning, which is carried out by each economic agent separately and the government is not an exception. Disregard of planning means incoordination of actions, loss of economy control and impossibility of carrying out planned transformations as the reform is a flexible algorithm having the property of self-modification under new conditions.

Secondly, the requirement of improvement of social and economic life standards of various society strata should be a categorical imperative of reforms policy. Thus the government must understand that reform and economic policy are different things. Economic policy is continuous and a reform is discrete. Thus, economic policy is a wider category, than the reform as the reform can affect only certain economic spheres. Therefore, a correct strategy of economic policy is first of all necessary to carry out the reform and to achieve positive results.

The history of economic policies in the twentieth century which were carried out during the periods of economic crises of various nature and duration shows that the main achievement of the governmental policy in all countries was guaranteed high employment, stable prices and comprehensible rates of economic growth.

It is possible to assert, that in macroeconomic theory there are three central problems which have become classical. They are: inflations, unemployment and economic growth. By 1990s these problems were included into the list of complex program of support and perfection of life standard for a group of economically developed countries. It was an additional factor urging on to work out corresponding transfer mechanism of economic policy with the help of which the purposes of required institutional changes would be achieved.

Therefore, if to assume, that general theory is possible and now the probability of such general economic theory is low, the theory of economy stabilization, as well as the theory of reforms should be institutional and, accordingly, the economic policy developed on its basis should be first of all aimed at effective system of institutions regulating all possible aspects of managing subjects and the government behaviour. The policy of economic stabilization represents such rules regulation within the limits of available financial assets which would allow increasing real income in the economy, so that to have an opportunity to eliminate inefficient legal regulations or to increase the return from the functioning ones on the next step.

Formulating economic problems in their general view and building ideal constructions and models necessary for theoretical researches, economists often lose sight of specific historic facts of economic reality. Big dichotomy arises at carrying out economic policy owing to, on the one hand, the division of economic analysis, and on the other hand, straightforwardness of the tools used by the government. Really, what possibilities do the state structures in carrying out economic policy possess?

It is possible to increase, to reduce or to keep money supply in circulation at a certain level. Interest rate can also be increased or lowered, government expenditure can be either increased, or reduced, and tax burden can be lowered or increased. The third variant is also possible when any parametres are stabilized, that is, they are fixed and kept at a certain level. But all the same, this third variant is a version of the policy which is created according to the scheme "to increase- to reduce". It is also true for unemployment, inflation and rates of economic growth. The purpose of economic policy is usually inflation slowdown, job growth and high rates of economic growth. This scheme is also big dichotomy of economic policy which turned into two classical transfer mechanisms – expansionist and restrictive, applied at opposite phases of economic cycle for smoothing of economic conditions fluctuations.

Economic policy of the government is the program which defines certain goals and specifies the means for their achievement. There are always definite purposes before a society. The government is the body which is at the head and which leads and co-ordinates the movement to these purposes and it also corrects them in the course of movement. Generalization of the experience of economic reforms in different countries allows to assert, that transfer mechanism of economic policy is created uniformly. First of all, the purposes and problems of economic development are formulated and considered right. Then current state of the economy is described, the problems and unacceptable processes are identified and preliminary estimation of their lag effect is given.

Possessing such data, the degree of deviation from acceptable state is estimated, and the restrictions, the absence of which makes its achievement impossible, are established. At this stage the minimum and maximum results are roughly set. They follow from the named restrictions. These results should be achieved at conducting a certain economic policy. The chain of working out of the transfer mechanism comes to the end with the design of concrete economic mechanisms of its realization.

Various examples of economic policy show different target orientation of organizational-legal, budgetary and credit-and-monetary governmental actions, that mean independence of actions undertaken within the framework of each direction. In other words, change of institutions and change of legal norms are dictated by the same motives, and monetary or fiscal policy by different ones, for example, by the motive of improvement of worsened macroeconomic parametres, the last two directions of economic policy being not perceived from the institutional points of view, though actually they are as such. The reason is that the relationship between macroeconomic bookkeeping created on the dichotomy principle, institutional changes focused long-term, and

institutional effects, which generate these changes with various intensity in each separate country, is poorly studied.

Thus, institutional transfer mechanism of economic policy is the system which should overcome great dichotomy, that is, it should make the policy more functional, operational, and leaving the limits of expansion-restriction. Certainly, to solve dichotomy problem completely is not possible due to objective reasons, but the fact that institutional theory can increase the variety of economic-political influences on economic system is quite reliable because of the proximity degree of this theory to economic practice. Whatever the complexity level of economic theory is –the level of abstraction, the level of theoretical generalization, the level of mathematical formalism, and etc. – the conclusions and recommendations, which can follow, will always be interpreted in terms of great dichotomy.

The transfer mechanism of economic policy, which should be developed using institutional analysis, should influence all the elements of institutional structure so that the aggregated macroeconomic indicators change in the necessary direction, reflecting efficiency increase of all institutional structures, and not the result of economic policy aggravating the available economic disproportions. The guideline existing in economic policy for a long time according to which inflation can be lowered only by higher unemployment, and employment can be increased for the account of inflation acceleration, underlines the existence of great dichotomy.

Governmental policy in this case becomes the generator of new disproportions in the economy which have long-term impact on its development. And, besides, at certain coincidence of circumstances it generally breaks constitutional rights of citizens. However, the fact of infringement remains for the majority of the population concealed. The matter is, that starting the struggle against inflation it is necessary to compare the costs of inflation and the costs of unemployment arising as a result of anti-inflationary policy and the side costs of such policy.

But the government cannot do this, as it is not absolutely clear, what time interval should be taken for estimation of costs because it is necessary to estimate the development of economic system left to its own resources if no governmental measures will be undertaken. Quite probably, that after a while excess inflationary pressure will be supported by the production growth and then failure of anti-inflationary policy will be obvious. But by this moment there will be undesirable disproportions in economic structure to correct which additional efforts will be necessary in the future.

Thus, modern theory of transfer mechanism of economic policy considers features of economic systems poorly and neglects institutional planning which contradicts the basic canons of market economy in no way, but, on the contrary, is its integral element of effective functioning (*Homan P., 1932, Sukharev, 2011, 2013*).

In conclusion, we will note the difference of the reform from economic policy which the government is obliged to carry out continuously. If the reform is a special economic policy, it should be carried out during certain periods. So, it is necessary to distinguish standard economic policy and reform as the system of special activities calling forth transition of macroeconomic or other subsystems to qualitatively different functioning level, and, besides, changing the tools of that standard economic policy including the ones under the influence of new achievements of modern economic science which is an additional factor of provocation of special influences and tools, that is, management reforms.

Such treatment is important both in theoretical, and in applied aspect as it allows designating its relation to the reform of experts and the society as a whole. If we understand any transformation as a reform, then economic policy automatically turns to continuous reform, because it changes many parameters of economic system, and economic subjects cease to estimate the necessity of reforming and its results correctly. The need in reform arises thanks to dissatisfaction with the existing status quo, that is, already after it is possible to find out deviation from norm.

There is one more reason when it is necessary to bring the system to conformity with our idea about its correct work. Hence, it is possible to single out two big kinds of reformatory actions: returning the system to normal state and transforming its qualitative characteristics. Both kinds of impact can simultaneously be carried out, but neither the economic science, nor administrative theories yet do not tell us about the degree of coordination of these tools and how the number of tools itself can destabilize the development of economic system or object, having caused its crisis and necessary retaliatory measures in the form of reforms. A purposeful basic change of functioning or system structure or both of them can be considered as a reform. Usual kinds of economic policy accompany this special system of actions.

If we consider economic reform from the viewpoint of the dysfunction theory which was suggested and developed for the specified period of time, it is impossible to reduce the theory of reforms to the dysfunction theory, and to interpret reform from these positions as the system of influences: planned, organized, aimed at counteraction to two processes. They are: deepening of dysfunctionality and decrease of dysfunctions in number and depth. Then the reform of a concrete subsystem or the whole system has concrete frameworks and should be projected. It is possible to apply the investment-designing approach to it, which is worked out quite well and

which I follow even in this book, investigating the problems of privatization, nationalization and economic reform.

The concept of life cycle is characteristic for institutions, as well as for other economic structures. Life cycle allows presenting the evolution model of institutions and other objects, having connected institutional changes problem and economic growth measured by GNP dynamics or system total product (STP) which is examined. Already on the interval CE (see Figure 1) potential of institutional changes providing income gain is exhausted, and the number of dysfunctions becomes critical. During this period the government can take an attempt to realize institutional transformations (modifications) in relation to this system, that is, to plan and carry out institutional changes. Economic policy of institutional reforming can be preventively carried out at stage CE, or at stage EG when recession and reduction process of institutional quality is difficult to prevent. As we see from the Figure, there can be a new institution in point E which will not only prevent increasing dysfunctionality, but will also provide the further economic growth. However, development on descending or ascending trajectory will depend on how effective the reform is, that is, what institutions and in what volume are suggested to the society and economic system, what costs they are introduced with, what investments they will demand and whether they experience quality loss or not, when they will be introduced in the existing institutional structure.

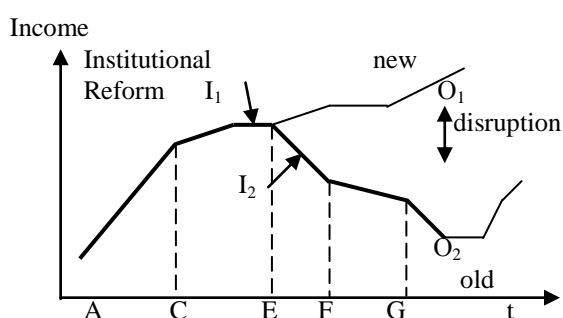


Figure 1. Life Cycle of Institution (Institutional System)

There is a rupture O_1O_2 between old and new institutions which is expressed in competition between them and in different ability to provide productive efficiency of a product (income). From the analysis made it is clear, that chances to return to ascending trajectory in the foreseeable period are small enough if institutional reform will not start in time, if time as a strategic resource of any economic policy is missed. The reason is that, introducing new institutions on section EF, resource is required for the dysfunction of old institutions not to be transferred on the new ones at the moment of their introduction. Then the reform will not be effective by the definition itself. Hence, institutional modification is more successful, when the economic system and all its institutional structures and organizations are more effective. The lower the efficiency and higher the dysfunction depth of economic system institutions, the more chances, that the expected and even extremely necessary institutional adjustments will be rejected at the system level. That is, it will be necessary to increase adaptive efficiency and to develop economic policy aimed not at improvement of work of separate economy subsystems, but at overcoming of system manifestations of dysfunction.

Institutional reform is, probably, the most expedient on sector CE. It is important to distinguish critical efficiency decrease and the requirement for system or institutions change. Most likely such reform will be effective. The reform will have stimulated character (stimulated reforming model) on interval EG, and its productivity will depend on many factors, including crisis development. On interval AC the reforming can be called evolutionary as nothing points to crisis. Economic system develops steadily (it grows), but the growth rate will be slowed down eventually to point C.

1. On the interval of decrease of gross product or growth rate there is a loss of the development purposes and areas of efforts application. The level of monetary provision of various functions, which have been realized at the growth stage, decreases. There are permanent stochastic changes as the system tries to keep its positions. Costs of transaction increase and stability to mutations decreases and the degree of rejection of cardinal new norms and decisions increases. According to our definition there is a system dysfunction.

2. Considering the first point, reforming at stage EG is of stimulated character and it takes the form of crisis management. System management is usually aimed at levelling its inefficiency, inhibition of dysfunctionality growth (Sukharev O.S., 2005), the nature of which is the increased number of dysfunctions: employment reduction and striving to support basic financial and economic indicators within the legislation framework to prevent social collapse of the system. There is one peculiarity. If, for example, the firm can become bankrupt as a result of a collapse, it disappears from the competitive field. But national economy is a

large social system and it does not have such possibility. In this connection the collapse means only stabilization of low level of development, low borders of financial development range in the framework of which it is possible to increase the efficiency growth rate, but shift of borders is a problem of higher level for the given country and system reforms. In other cases such system problem depending on the initial resource and technological potential cannot have any solution.

Correct choice of reforming moment and creation of effective institutional environment of this process will allow liquidating the potential rupture O_1O_2 arising due to errors in industrial policy and realization of obviously inefficient models of economy re-structuring. The probability of occurrence of the latter is very high on interval EG.

3. Effective reforming is possible on interval CE - slowdown of growth of the system total product, when its preparation is carried out at the final stage of period AC. Delivery of economic system to trajectory O_1 with prevention of possible events on interval EG with more cost-based restoration trajectory - O_2 acts is its problem. Institutions, agents and the system as a whole on interval EO_2 , which legally are not yet bankrupts, require special events for restoration of the lost positions. Basically, it is possible for the account of “breakthrough” investments and institutional modifications if to keep the given system, institutions and agents efficient and not to change their social well-being to the worst is for the benefit of the government.

If we introduce the parametre of “institutional potential” of economic system reforming from the positions of change of this parametre (P_i) which is dynamic and depends on price level, technologies development, labour potential, knowledge and fixed capital in economy, it is possible to designate evolution areas of economic system and the types of reforming – evolutionary, effective, stimulated (see Figure 1), as it is shown in Table 1. (Sukharev O.S., 2012, 2005)

Table 1 Types of Reforms Depending on the Change of Institutional Potential of Economic System

Evolution Area (Figure)	Potential of Institutional Changes of the System		
	Absolute Value	Change Character	Dysfunction Degree and the Type of Reform
AC	$P_i > 0$	$\frac{dP_i}{dt} > 0$	Growing system with minimum, but increasing number of dysfunctions - EVOLUTIONARY REFORM , that is, built in the general tendency of growth and improving its parametres in the incremental mode
CE	$P_i > 0$	$\frac{dP_i}{dt} < 0, \frac{dP_i}{dt} = 0$	Slowdown of the growth rates with the loss of possibilities to overcome the dysfunctions or unstable transitive condition - EFFECTIVE REFORM (or PREVENTIVE REFORM) which is carried out according to the plan, step-by-step –with an overall aim to prevent recession
EG	$P_i < 0$	$\frac{dP_i}{dt} > 0$	Sharp increase of problems for the system - recession (crisis) and FORCED REFORM , aimed at damping of the recession and its overcoming (crisis condition). The most uncertain one according to time and costs, capable both to overcome the recession and to deepen it

Gt	Pi < 0	$\frac{dPi}{dt} < 0$	A point of no return, when the number of dysfunctions becomes critical, leading the system to macrodysfunction - SYSTEM CRISIS POLICY coming to the type of FORCED REFORM
----	--------	----------------------	---

At reforms planning it is necessary to pay attention to the assessment of institutional potential (an alternative way of its measurement is on the adaptive efficiency components, enumerated above), but it is important to consider, that reform speed and its depth are interconnected parametres. For each system they are specific, and they define reforms efficiency and its ability to reduce or increase dysfunctionality greatly.

III. 2. DYSFUNCTION OF THE SYSTEMS AND INSTITUTIONS: ECONOMIC REFORMS

It is important to consider economic reforms from the viewpoint of the dysfunction theory. And here J. Hellmann’s model is of interest (Hellman J. S., 1998). It analyzes the process of “market” transformations (actually social and economic) which occurred for the account of political confrontations of the groups motivated differently and pursuing various interests. The main assumption of the model is the thesis about changes systemacy which should be accompanied by considerable expenses in the short-term and medium-term period. Only when there is a critical mass of such changes, there will be effectiveness increase of the system and the reform will be successful. But it is possible after certain period of time. In Figure 2 J. Hellmann’s curve occupies up position. Really, after passing the point of reforms scale R *, national income will gradually start increasing. At first it decreases for a certain period from size W0, however, it will be possible to reach size W1=W0 only at the scale of reforms R1. Certainly, it is so only if makes sense to prolong the curve as the fact that the revival during economy transformation will not be eliminated by further transformations measured by scale R0R1. It is this process that was interpreted by J. Hellmann. The question in what correlation further growth of scale is with the efficiency of the reform results is very difficult. But it is obvious, that there is no simple connection at all, as everything depends on the content and even the sequence of reforms, to say nothing about the basic institutions and socio-cultural situation of transformation realization and preparedness of resource base (Hellman J. S., 1998, pp.205-208).

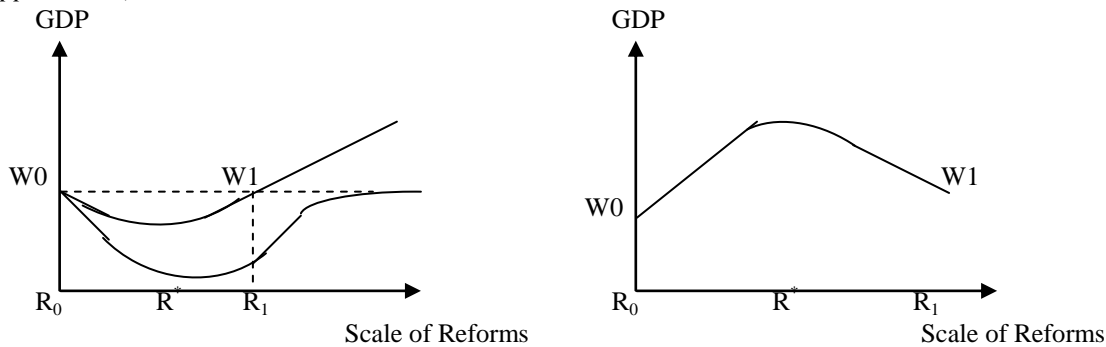


Figure 2. Economic Growth and Crisis Depending on the Scale of Institutional Reforms

Certainly, there is great probability that initial reduction of national income will create such institutional forms corresponding stage EG, that further growth of reforms scale even to R* will not result in return to level of initial well-being W0 even at scale R1. That is because the bottom curve will come nearer to level W0 asymptotically, but at much more considerable size of scale which may not be achievable in real economy. Hence, the economic system can run into permanent poverty at reforms level R1, never coming to level of initial well-being W0.

With growth of reforms scale and depth the system dysfunction can grow, that will correspond to “reform” crisis, on Hellman’s curve W0W1, but at restoration of positions R*R1 the dysfunction can intensify. Only with the economy growth it will decrease a little (see Figure 3). Thereby, dysfunctionality does not coincide with the scale of reforms. To be more precise, there is dependence, but it is not rectilinear. Only coming to the trajectory of growth system dysfunction will decrease a little. Curve Df corresponds to curve W0W1. And curve Df1 corresponds to the curve which will not provide steady growth of economy during the reforms. As we

see, system dysfunction grows constantly and its level is a little stabilized that means impossibility to overcome the straight line W_0B . Thus, growth and recession of institutions state are connected with a certain tardiness, and this tardiness is specific for each economic system. However, the reform can strengthen institutional dysfunction permanently with the growth of its scale that will not mean absence of the interval of economy growth, but this growth will not lead the economy to new development points exceeding initial level W_0B with new reforms and/or increase of their scale. There is a very important and necessary remark which is an internal methodological obstacle for creation of a certain uniform and universal economic theory of reforms. The theory of management can and should be a reform, but economic theory has certain difficulties as there are not two reforms alike. More than that, interaction mechanism of various types of reforms is not clear. Besides, is not clear what should be considered the beginning, continuation and reform curtailment, or change of its kind, its tools, content, and vector. After all the change of vector can mean change of the reform as such.

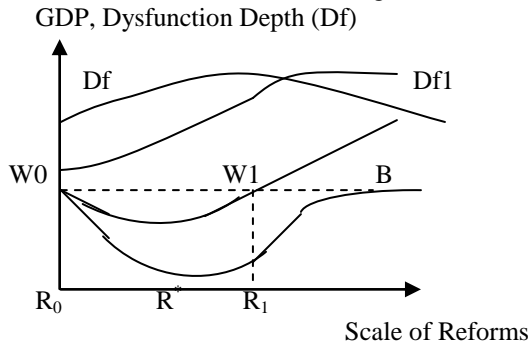


Figure 3. System Dysfunctions and Reforms Scale of (General Case)

If we proceed from the fact, that the reform must improve the system state at introduction of corresponding events, dysfunction depth, in idea, should decrease. It will be equivalent to the situation reflected in Figure 4 (on the left).

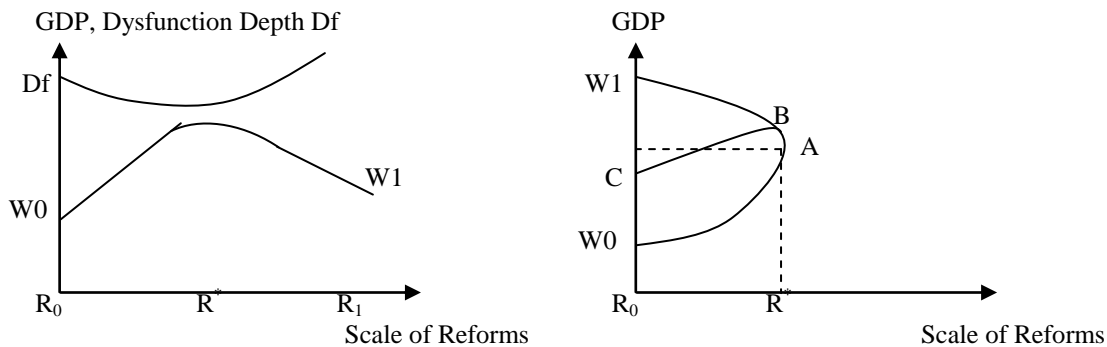


Figure 4. Economic Reform (Scale) and System Dysfunction (on the left), Trajectories of System Movement after Reforms Peak (Largest Scale R^*) (on the right)

With the reform scale the dysfunction depth decreases, but after a certain value of scale R^* dysfunction increases. On the right (Figure 4) a variant of GNP change depending on the reforms scale aimed at improvement of system development is shown. With the growth of the reforms scale gross national product increases. Then at decrease of the reforms scale, when the peak is reached in point R^* (the largest possible scale of the reforms for the given system) two variants are possible. The first is further growth of gross national product ABW_1 , and the second is gross national product decrease (“a loop of reform”) on line W_0ABC (proceeding from necessary requirements and possible resources on reforming). “The reformative loop” is a situation, which can develop only during basic changes of the system. It is connected with the fact that while the system is being reformed and the scale of reforms increases, the system develops the rules of adaptation to its permanent changes (probably, rather ineffective). So curtailing of any changes generates agents frustration, infringement of the developed adaptation mode that results in GNP decrease. This loop has a “narcotic” effect of adaptation to permanent scale changes. Usually and as a rule, both adaptation and changes themselves are not of high quality.

Thus, J. Hellmann’s curve clearly demonstrates the errors of many reformers who build the reforms logic according to this curve. The essence of these errors is that at the first stage of reforms there should be

worsening of standard of well-being, and at the next stages the new created rules, the systems, the markets should provide efficiency and growth of national income level. The following moments are erroneous here. It follows from the curve located lower than that of Hellman (see Figure 2 on the left). (*Hellman J. S., 1998*)

Firstly, if initial worsening is very considerable, it destabilizes economic system and causes deviation effects in the development of institutions, including fixing inefficient states. Or institutions as though insensibly lose their qualitative characteristics, that is, they become dysfunctional.

Secondly, national income reduction demands additional events of economic policy as economic agents cannot stand worsening for a long time and their reactions become an obstacle for further reformatory actions the necessity of which will be explained by good forecasts and expectations. But actually individuals will not observe this improvement. Thus, social-psychological frustration becomes a reality that will increase failure probability of such strategy of economy reforming. Besides, economic policy the aim of which is not to admit further reduction of national income, can deepen the crisis, or pave the way for its occurrence in the future. Then both Hellmann's curve, and the curve below will resemble a sinusoid and it is not the fact that in the foreseeable interval its amplitude will allow getting the value of national income equal W_1 .

Thirdly, at lower level of incomes there is a psychological rejection of the reforms as in the absence of any actions from the government public at large lived if not better, but at least not worse and felt themselves so.

Loss of life satisfaction and increase of uncertainty causes demotivation, especially, when people observe reduction of their own well-being and sharp well-being increase of a narrow circle of persons who make equal efforts for getting this additional income, or do not make such efforts at all. Similar effects strongly rationalize the actions of economic agents and as it was demonstrated in the third chapter, rational behaviour is similar to "a dilemma of a prisoner" and not always leads to the maximum social result and satisfaction. On the contrary, such behaviour model often operates towards destruction of social and economic system. The argument of national income decrease is a very important factor destroying J.Hellmann's model. If, besides, the government adopts a restrictive policy, then new institutions and organizations lose monetary provision necessary for effective performance of functions, moving to the bottom border of the range, losing functions and, thereby, increasing dysfunction. At different result there is inflation, interest rate increases, and the level of national income goes down all the same. So, again we have the same effect: reduction of monetary provision of the economy, finance disbalance which cause in response the same policy of containment. Bank system loses capitals necessary for credits and cannot create them as it has no pivot in the real sector of economy.

As it was already pointed out, various institutions are characterized by various efficiency. At the given economic policy institutional structure generally provides the greatest possible augmentation of national income. At crisis institutional structure can have damping influence, or, on the contrary, it can promote crisis deepening. It will be defined by the dysfunction depth of the system and its basic institutions, and by those administrative actions which the government will undertake when it sees crisis development. The most important thing that should be noticed, is the fact that reforms speed and their depth are connected parametres, and their connection exists with any introduced criterion of reforms efficiency. By the way, there should not be unique criterion for system reform. It is possible only for reforming of some separate system, for example, education or public health services. Many economists do not consider the problem whether it is possible to reform various subsystems of the society simultaneously, that is, to carry out education reform, the reform of public health services, industry, agriculture, army, court, justice, managerial control and a number of others. What resource is necessary to act simultaneously in the specified directions and subsystems and what time is necessary at least to approach to the planned purposes. The problem of system reforms is that not only the result is not clear, but that adaptation of agents occupied in various spheres of economic activities becomes mutually dependent and conditional.

It is also necessary to understand, that operative and "reactive" actions of the government, including stereotypic tools of macroeconomic regulation can be considered a reform in no way. As well as, it is impossible to consider the reform as something permanent and non- stopping. Reform is a planned and organized system of successive actions aimed at basic change of the system and providing new development possibilities for this system in the long-term period, unlike the usual actions of the government policy reacting to concrete current changes. Hence, any reform has its beginning and end, covers a certain period of time, demands a resource for this time, including financial one without which it cannot be realized, but it can be started. In this case it will be a failure. Institutions and organization forms, functioning modes of the system can be created which will initially have deep dysfunction that should be reflected in long development prospects of the system. If we separate the current policy of the government and the kinds of reforms, there is a problem of their coordination and institutional planning. Each introduced institution either within the framework of the reform or outside the reform is characterized by its life cycle. It is a period of time when it is the most efficient and a period when it is less efficient and highly dysfunctional or it stops functioning de-facto or de-jure, that is, it changes (is replaced) or it is called off or revised. This circumstance should be considered at reforms planning, and it is necessary to take into consideration the same principles for planning which are designated here for privatization and nationalization. It would be especially desirable to underline, that privatization and nationalization can change the work of basic institutions referring to the right of ownership, central institution of modern capitalism.

However, privatization and nationalization which do not change the mode of public reproduction and control system and which do not transform the role of basic institution of «private property right» cannot be considered the tools of basic change of the system, that is, they cannot be considered reforms. In this case they are only the tools of economic policy changing only the property structure and proportion between property kinds. And such change cannot influence general economic efficiency. In this case, the given tools will appear institutionally neutral in relation to the basic parametre of economic development. One more important point to mention and which matters for theoretical views formation about the reforms and for perfection of reforms management, is not only the reform speed, but also an antagonistic assumption in relation to the assumption of J. Hellman.

As we see from a curve, worsening of the key parametres of the reformed economic system is possible and it is connected with adaptation costs. The logic of the explanation of large speed is just connected with the necessity to pass from this worsening to the trajectory of steady development as quickly as possible. However, the explanation is not true from the academic viewpoint as it does not assume (unreasonably and unproved), that speed together with worsening operates as destabilizing factor destroying the adaptive capabilities of the agents. The agents expect worsening (pessimistic reaction), nobody expects improvement as they should revise adaptive reactions and change themselves. These are psychological difficulties. Besides, there is a number of institutional effects – “lock-outs”, dysfunctions, hyperselection which totally increase inertia of the system and if it is negative, there is no proved and exact evidence, that it will quickly change to exactly the opposite. Hellmann’s error is in the fact that the effects of system inertia, psychological shifts of agents and institutions reactions were not considered. Besides, to plan the reform, being guided by worsening of social parametres is an incorrect approach to the system planning and management. Whatever type the reform is, its planning has a number of strict requirements connected with counteraction algorithm of the system dysfunctionality. The actions are focused on the improvement of basic system parametres, or if the system is in crisis, they are aimed at counteraction to crisis growth, that is, overcoming of worsening inertia. Only then the system comes to the trajectory of development. At such planning it is very important to answer the following question: is it necessary to inhibit the reduction of some system if it is reduced, is in crisis, but this reduction is caused by evolutionary development of conjugate or new systems, that is, by technological shifts and structure change of activity kinds? It is the problem of economic science, that management factor is considered exogenously, and it is categorically incorrect. It is this factor embodied in reforming, that can change the character of “objective” evolution which ostensibly has been outlined by certain regularities existing only in theory. Reforming assumes first of all definition of the purpose, scale, depth, content (including institutional), time, costs and necessary finance for the reforms. The main thing is to single out the concept of the reform, that is, its general thesis, main direction and the problem. Then all the rest is planned. However, to undertake some actions, it is necessary to understand, at least roughly, what types of reforms are possible.

IV. TYPOLOGY OF ECONOMIC REFORMS

Let's introduce some indications of reforms classification, namely: concept, typical variant or reform model, object, procedural-instrumental content, level of financial (resource) provision, financing mechanism, factors of resistance to transformations which, by the way, define the general transformational costs and transactional costs greatly and, at last, consequences of reforming (there can be several consequences). Then it is possible to designate the following types of reforms according to the specified indications-criteria (see Table 6).

Table 2. Typology of Economic Reforms

Classification Indication	Characteristic
1. Reform Concept	<ul style="list-style-type: none"> - statist (on strengthening of the state and management functions) - liberal-conservative (on stimulation of free choice of agents and markets) -anti-recessionary, as a special kind of reform (can include the first and the second concept or a certain combination of the measures referred to one and another)
2. Reform Class (Reformation Mode)	<ul style="list-style-type: none"> - shock and incremental (on speed) - system and local (on scale and depth) - inertial and conversion (keeping the majority of the parametres changing through inertia and essentially reforming the system’s elements and its parametres accordingly)
3. Reform Kind	<ul style="list-style-type: none"> - evolutionary - effective

	<ul style="list-style-type: none"> - forced
4. Typical Variant (Model)	<ul style="list-style-type: none"> - <i>Macromodel</i>: change of structure of basic economic institutions and proportions between the ways of production and management in economy; - <i>micromodel</i>: change of industrial-technological and organizational structure of the sector, corporation, and enterprise; - <i>mesomodel</i>: change of market structures, inter-industry proportions and regional economy structure; - <i>operational model</i>: change of subsystems of economic infrastructure (taxes, calculations and payments schemes, organization of control, contracts terms, and etc.).
5. Object	<ul style="list-style-type: none"> - state economy - region economy - branch (sector), a kind of activity of the economy - separate enterprise or transnational corporation
6. Procedural-Instrumental Content of Reformation	<ul style="list-style-type: none"> - privatization (nationalization) - diversification - differentiation - concentration - specialization - demonopolization - decentralization (centralization) - integration (vertical, horizontal) - disintegration - re-combining - re-structuring -reindustrialization - re-constitution (change of constitutional ordinances or separate legal acts) - bankruptcy - discrimination - merges - regulation (de-regulation) -profit maximizing, rent-oriented or socially significant agents' behaviour - advertising, public relations - contracting schemes -standard techniques of money and credit and fiscal-budgetary policies (kinds, models of macroeconomic policy, macroeconomic effects) -institutional tools of influence (institutional effects use) at various levels of social and economic system
7. The Mechanism of Reform Financing	<ul style="list-style-type: none"> - realization of investment projects (federal and regional programs) - realization of complex target investment programs referring to creation of new technologies, products, organizations and control systems -special programs of reformation (for example, defensive sector) - debt capital from private sector in the country and abroad
8. Level of Financial Provision	<ul style="list-style-type: none"> - A share of expenses in GDP or PBII, required for organizational changes, correlated with the indicator of real income produced by new or modified structure - correlation of speed of reforming, volume of expended means and quality of new structure
9. Level of Financial Provision of the Reform (on the coefficient of expenses scale - of K_M) This indicator can be connected with value of changing transformational and transactional	<ul style="list-style-type: none"> - low ($K_M < 1$) - sufficient ($K_M = 1$) - necessary ($1 < K_M < 2$) - high ($K_M > 2$)

costs during reform (at institutions change)	
10. Factors of Resistance to the Reform	<ul style="list-style-type: none"> - external and internal - economic (organizational, administrative, political) and non-economic (culture, mentality, traditions, psychology, etc.) - general, regional, sectoral
11. Consequences of Reformation Policy of Economic System (for industry, region, and the country)	<ul style="list-style-type: none"> - Structural - market - political - social and economic - financial - scientific-technological - industrial - organizational - legal - military-technical - international (geostrategic) - demographic - national-cultural

As it is seen from the Table, reforming is based on real needs and expected consequences, and considers financial possibilities of its realization. There can be fast reforming in the conceptual plan. It is a “shock” variant at which the reaction of economic agents and subsystems to the influence is important and, as Russian and world experience shows, usually ends with a defeat. That means that the primary goals are unresolved, and the economic structure formed becomes an obstacle for further modifications. The other variant is incremental reforming, in greater degrees corresponding to the logic of positive basic changes of economic structure which objectively cannot be transient. Reforms on the degree of coverage can be system and local. All sectors of economy, political structures and culture are included in system transformations without exceptions. Local reform is limited to determination of new correlations within the limits of a sector, branch, region, large enterprise or a market to increase functioning efficiency. Inertial reform differs from conversion reform in the following way. Inertial reform assumes a certain impulse in the change of system parameters and sets change vector. Then parameters change according to the established logic as though by inertia. Conversion reform assumes a constant impact force to form and influence the change of certain parameters. In other words, one reform can be called impulse (inertial reform), the other can be called permanent coercive (conversion reform). The choice of the reform type is connected with the forces of friction and resistance. If they are great, the reform is usually of conversion type. If they are insignificant, it is enough to stimulate a certain managing impulse, to set a motion vector, so then constant influence is not necessary and according to the criterion of expenses economy it can be weakened or eliminated. The system will move independently by inertia on the established vector of changes.

The reform model can be macro-, micro- and mezo- economic and operational reform. On the object of the reform, it covers the entire state (economy) or a separate region or some regions, separate sector (branch), or separate enterprise (corporation).

In the Table the procedure-instrumental content of reforms is shown and the types are defined by this criterion. Change of each procedure can lead to a new economic structure. So, influence methods on separate procedure are necessary tools of reforming policy. From the theoretical viewpoint, it is important to define what cumulative effect from the simultaneous use of a set of procedures and tools will be achieved. This result is not always positive. Besides, contribution of each set in functioning of the economy, region, separate branch, and, at last, the direction necessary to transform the established procedures and kinds of their combinations should also be defined. It is necessary to notice, that half from the named procedures are institutionally established. They have borders of transformation set by law. By the way, it is important to notice that in each country the constitution defines the possibilities concerning the changes of type of ownership and property volume in the economic system. In particular, the Russian constitution proclaims equality of property kinds (private, state, municipal, co-operative, and etc.). But technically this equality means nothing, after all each kind of property provides its own incomes level, and it is defined by absolutely different factors, which are not connected with the constitution and the fact that legal equality of property kinds is proclaimed.

The reform occurs within time interval as well as any economic process. Therefore, there are certain results of the process by the moment and the analysis of the received results is necessary to choose further trajectory, to estimate the state of the reformed object or objects, to find out the potential of further transformations, to coordinate possibilities with the purposes, and, maybe, to correct the purposes. Then it is necessary to group all planned actions within the framework of investment program of object reforming as it is

possible to realize a certain policy of reforms only in a mode of investment program. It seems to me that this remark is the basic one. The reform is, in essence, an investment of the basic change of the system or object.

To define the operations procedure on reforming it is necessary to follow such an algorithm which follows from the logic of the presented Table setting the types and characteristic of the reforms.

1. To carry out preliminary analysis of economic subsystem or object functioning, to reveal problems, to define possibilities to increase efficiency and expediency of working out of reforming events which are separate from current economic policy, but co-ordinated with the possibility to change these current measures as well.

2. To define the time period of necessary researches, to specify characteristics of object and subject of the research and to set goals and objectives.

3. To give structural analysis of the economy (region, national economies) and to define tendencies of social and economic development.

4. To define the market structure and to assess immediate prospects of development.

5. To carry out research of functioning features of social and economic institutions, to single out those institutional structures which define development characteristics of the given system and the conjugate systems to the greatest degree.

6. To develop selection criteria of reforming, that is, to define vectors of radical break of functioning system. To prove and to show reliably the need for this basic change. To assess variants of system work without basic change and with the account of cardinal changes (supposing their scale, time and consequences, including the resistance factors). To generate reforming variants (scenarios) to reveal the sequence of the solutions of the available problems and to define the basic tendencies of development in the course of their solving.

7. To examine possible influence of the reforming events on other structures and markets.

8. To use a design method of reform events, working out logic of investment programs of development, including four components: investment-financial, organizational, technical-technological and social (conflicts, personnel, wages).

9. To draw up methodical recommendations on governmental support of decisions within the limits of the reform with substantiation of the stages (reforms plan), allocation of necessary financing with the account of force-majeure probability of the events in the system during the reforming.

10. If it is available, to study world experience of reforming similar systems, without any transfer of specific decisions to other social and economic environment, to other historical circumstances and other operating factors and structures. However, this experience is useful in the part of purposes, assessment in the area of efforts application, designing necessary functions and finding weak points of reforming and reform results under different conditions, so that it is possible to correct the measures and decisions in a specific situation on the considered system.

11. Proceeding from realization of the previous points to confirm the final plan of reforms, to carry out political discussion (if necessary), to prepare information basis and agents' psychological reactions to prospective actions (thereby lowering the resistance factors). Ideally the reform which is directed not only downward, that is, realized by government, but has the opposite vector, upward movement, that is, reflects the needs of wide group of economic agents, will be the most successful. In this case the success is more probable.

12. It is required to analyze estimation of resources distribution between the purposes of the reform and the events within the limits of the reforms, to estimate resources sufficiency and possibility to stop the reform in case of chreod scenario of development of the situation in the economy or at the reforming object.

13. To estimate possibilities to achieve the established purposes and to increase functioning efficiency of the reformed object, various social and economic structures and institutions. To make the plans of institutions change conjugate with the reform, to introduce corresponding measures of economic policy which should be compatible and do not brake the advancement according to the reforms purpose. Not only assessment of reforms efficiency, but the object quality after its cardinal change, its ability to function and increase efficiency depend on the quality and adequacy of the purpose

14. To monitor the effectiveness of the intermediate stages of reforming, to have the plan of introduction of new institutions, including the plan considering sudden decrease of reform efficiency. It is necessary to have the possibility to regulate the scale, reform speed and depth, to have conditions of replacement of one event for others (as well as to have the list of such possible replacement), or refusal of events at reforming continuation or at reform curling. It is very important to provide modification algorithm of the purpose, or change of the purpose of reforming in general, and setting several purposes.

15. It is required to estimate the general effectiveness and efficiency of the reform in a short and long run. It is optimal when the reforms are short-term, that is, they take time before essential change of technological possibilities in economy, its manufacturability as the change of manufacturability of the economy can't but affect the course of reform of its productivity and efficiency interpretation of government measures.

The reform under conditions of economy growth and its crisis should assume in general realization of the specified 15 points. However, according to its content, scale, speed, purposes and other parametres the

reform at growth and at crisis cannot be identical. Moreover, it is impossible to find two absolutely identical reforms in the history of economy. In this connection, only principles of reform management can be identical, and theoretical generalization of reforms experience assumes classification of reforms and the uniform instrument which is convenient for the analysis and planning of any reform. In my opinion, positions of the dysfunction theory of institutions and economic systems suggested here can give such theoretical device (*Commons J.R., 1934, Sukharev O.S., 2005*).

Table 3. Economic Reform Typification on “Systemacy” Criterion.

Type of Reform	Social System Type	Markets and Welfare	Institutions/Trajectories of Changes	Changes of Technologies	Expenses of Reform/Efficiency
Intrasystem	Does not change	Change in the scale of the markets owing to the change of technologies and separate institutions	Change within the stability of basic institutions. The trajectory usually is preserved.	Restructuring, re-industrialization	Average
Intersystem	Changes, for example, from capitalism to socialism, or from socialism by capitalism	Basic change of the markets, production, and welfare structures	Basic institutions change, the development trajectory does not depend on former institutions or depends not so strongly	The structure of productive forces changes - industrialization or de-industrialization	Very high. Strong resistance factors
Exogenous (Out-of-system)	Does not change. Changes outside lead to transformation, sometimes to radical one of the given system (usually evolutionary character)	Change of consumption structure for the account exogenous factors (import)	The institutions which are responsible for orientation of system functioning outside – on export change, and, besides, reception of institution and, technologies from the outside	Neo and re-industrialization, rupture of vicious circle of poverty, and overcoming institutional backwardness	Low or rather low. Are connected with transference of institutions, borrowing or adsorption of technologies, but can be high in certain cases.

Classification of reforms according to the criterion of “systemacy” is demonstrated in Table 3 presented above. The reform can be intrasystem, intersystem and exogenous. Intrasystem reform, as a rule, does not affect change of the device type of this system with reference to the country and it does not concern the type of the social system (capitalism, socialism or other forms of social organization). Usually there is a change of scale, sometimes it is a change of markets forms because of the changes in technologies and institutions responsible for creation, exchange and distribution of blessings. Basic institutions remain, that is, from positions of the society core and economy nothing changes, but the trajectory of development can change. The costs of such reform are averages or are close to high, and productive forces change their quality due to long re-structuring of economy and/or re-industrialization, new industrialization. Intersystem reform is always radical. It destroys the system, providing the transition from one system to another. The probability of revolutionary character of such reform is great, as a rule (The example is socialist revolution which is a transition from backward, feudal capitalism to poorly developed socialism. There are no other examples in the world history yet. Or bourgeois reformation-revolution when there is a retreat from underdeveloped socialism to capitalism, usually backward and peripheral. The main symptom becomes deindustrialization and property development by foreign owners of the capital in the country. It is characteristic for post-socialist Eastern Europe in 1990s). (*Sappington D., Stiglitz J., 1987*)

The development trajectory poorly depends on previous institutions. Devaluation of previous experience and institutions and rewriting the history with necessary falsifications are observed. The costs are very high, factors of resistance are the strongest. They are obviously or not obviously expressed. The structure of the markets, production, consumption and property changes. Fundamental change of institutional development trajectory is observed. At last, exogenous reform is a reform initiated by the reasons which are not absolutely connected with the functioning of the system. Or they are initiated by the system, but refer to its functioning connected with the results outside the system: foreign trade activities and system reforming abroad. This kind of

reform (as a variety) actually means export of reform for one country and import for another. The social system type remains invariable. Consumption and investments structure and institutions responsible for the work of the system with other systems change. The internal aspects of the system do not change, though any reform finally leads to the changes inside the system. Any division here will be rather conditional. As for other types of reforms, the costs are not so large, but for the state lagging behind in development, they can appear considerable, especially if the question concerns the rupture of a vicious circle of poverty or a circle of structural degradation of economic system.

There are two types of reform in essence. In one type the social system - basic institutions and development trajectory radically changes. In other case the type of social system does not change, basic institutions preserve their meaning. By the way, capitalism applies and finances the second type of reforms, which are basically aimed at correction inside and outside systems to carry out adjustment to basic institutions, but not to change them. The institution of the private property right and institution making the property right prior to other rights, and the rules forming the mode of accumulation and capitalist appropriation of created income refer to such institutions and privatization process (*Sappington D., Stiglitz J., 1987*).

V. CONCLUSION

In this paper I also made an attempt to solve a number of problems, which are, in my opinion, important for economic theory and management of reforms. I believe that the general theory of reforms can be interdisciplinary, that is, economic and administrative theory (including sociology and management psychology). The dysfunction theory of economic system and institutions developed by me long time ago makes a certain basis for such theory of reforms. Nevertheless, I support the view that there is no uniform theory of reforms and there should not be. There are theoretical instruments which allow analyzing reforms, generalizing the experience, defining administrative decisions and building necessary algorithms of management since a reform is, first of all, system management, its operated basic change in a given period of time with the available considered factors and tools of management (which operate the influence on the system and its institutions). A classification of reforms is necessary within the limits of this theoretical framework (it is presented in paper). It is necessary to have speed and scale estimation, substantiation of the reform necessity, formulation of its meaning and sequence. Change of rules at reforming is the major element, so institutional theory and its instrument will make the important theoretical block of reforms knowledge.

It is interesting to note, that privatization and nationalization changing the property structure in the economy and agents' motives actually create economy functioning mode not consistent with the conditions of R. Coase's theorem where the property rights are defined. A reform generates a certain disorganization of rules, including the basic ones. Of course, the process of privatization and nationalization can be presented as a certain property purchase and sale contract, but transactional costs of this contracting and its transformational costs can be rather large, so both processes will affect the value of production.

Economic reforms are various in context (including the historical one), meaning, the ways of carrying out, the scale and depth. Uniform principles of planning, organization, control and coordination of actions at reforming are possible. I have designated these very principles and criteria in this work. They are not indisputable, but they will serve as a starting point for correction and results augmentation in this direction.

VI. BIBLIOGRAPHY

1. Commons J.R. (1934) *Institutional Economics. Its Place in Political Economy.* – New York: The Macmillan Company –921 p.
2. Hellman J. S. (1998) *Winners Take All: The Politics of Partial Reforms in Postcommunist Transition* // *World Politics*, №50 – p.203-234.
3. Homan P. (1932) *Appraisal of Institutional Economics* – *American Economic Review*, v. XXII, №16 March, p.12-13.
4. Sappington D., Stiglitz J. (1987) *Privatization, information and incentives*// *Journal of Political Analysis and Management*, vol. 6, №4.- pp. 567-582.
5. Sukharev O.S. (2013) *Theory of Economic Change. Problems and Decisions.* -Moscow: KRASAND – 368 p.
6. Sukharev O.S. (2011) *Elementary model of Institutional Change and Economic Welfare*// *Montenegrin Journal of Economics-* vol 7, №2. – P. 55-64.
7. Sukharev O.S. (2012) *The Neoinstitutional Contracts Theory: New Perspectives* // *Montenegrin Journal of Economics*– vol. 8, №1 – P. 85-111.
8. Sukharev O.S. (2005) *Institutional Theory of Economic Growth: Problem of Macrodisfunction and Monetary Range*//www.boeckler.de/pdf/v_2005_10_28_sukharev.pdf