

Inflation processes as determinants of development of the economic activity subjects: economic and legal aspects

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Annotation: Today, inflation takes one of the leading places among the factors that give rise to social and economic destabilization. The purpose of the study is to determine the nature of inflation and its impact on the real sector of the economy, as well as factors that it generates in the process of distributing and redistributing financial resources and justifying measures to offset the negative effects of inflationary impact on the Ukrainian economy. The authors used the following methods of research: systematic approach, theoretical and empirical methods of scientific knowledge. The essence of inflation and its influence on the real sector of economy are investigated. The factors that generate inflation during the distribution and redistribution of financial resources are indicated: political and social factors contributing to anticipating inflationary expectations, which accumulates inflationary potential; the institutional support of economic development is to assume stabilization of inflation through the mechanism of managing the money supply; factors of inflation reflections, capable of generating further unmanaged negative behavior of economic agents, which can be disclosed through the concept of "inflation of the conflict"; inflationary expectations require the implementation of monetary policy of the state.

1 Introduction

An integral part of the economic development of business entities as social and production systems is the presence of inflation, which to some extent causes an increase in the value of investment resources, on the one hand, and, on the other hand, becomes a manifestation of unsustainability and violates the sustainability of the system itself. At certain (controlled) values, inflation can be viewed positively, as it stimulates economic growth, and at values beyond the permissible (defined) limits negatively affects the development of both economic and social processes, creating threats to the existence of the system. The process of forming financial support for the development of business entities is under constant influence of

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inflationary processes, creating certain threats to their continuous functioning. The solution to the problem of managed inflation needs to be considered not only at the macro level, but also in inextricably linked with the activities of enterprises, small and medium-sized businesses, which first experience the effects of inflation and fall under their own initiative reduction, destabilizing the social sphere. Saving business units also requires appropriate regulatory influences on the part of government agencies. The analysis of causal relationships in this context also requires a scientific substantiation of the nature of inflation and factors that determine it, justifying its management at different levels of management of the national economy.

2 Literature references.

The economic literature generalizes theoretical approaches and empirical studies that explain the formation of inflationary processes, including the directions of the classical, monetarist, Keynesian, neo-Keynesian, theory of rational expectations, the new Keynesian and many other schools. In principle, the approaches of all of the above currents can be divided into two directions: the classical (the views of which representatives will further develop within the school of monetarism) and Keynesian.

Thus, the basis of the postulates of the classical school was the quantitative theory of money, which caused the causal link between the increase in money supply and the growth of the general price level [1]. The fundamental idea of Keynesianism was to consider stimulating effective demand, as the main direction of state regulation of the economy. The latter was achieved through increased spending on the state budget and liberal monetary policy. The Keynesians' views on explaining the factors of inflation were presented in a fairly detailed way within the framework of two competing theories: demand inflation and cost inflation, where the effects of exogenous shocks on the domestic price were first raised [2]. M. Malkin and I. Rosmaninsky, formulating the institutional theory of inflation, highlight difficulties and problems in explaining the causes and forecasting inflationary processes. In this case, the inflationary process is seen as the unity of open inflation and accumulated inflationary potential [3]. The accumulation of inflationary potential is seen as a “delayed” mechanism of inflation. D. Belousov considers this phenomenon as a manifestation of the “compensatory” function of inflation [4], defining it as the level of inflation, which, with the rise in cost of primary resources, provides commodity producers with the level of financial resources necessary for simple reproduction.

M. Yu. Malkin, considering this process in the framework of the institutional approach, notes that the accumulation of inflationary potential is a dynamic phenomenon, which is based on complex transformational changes of intra-system character, reflecting institutional and structural imbalances. At the same time, the transition of the inflationary potential to open inflation is usually associated with the accumulation of a critical mass of imbalances, which is accompanied by the crisis of the former regulatory system, its further transformation and adaptation [5]. This correlation is confirmed by the fact that inflation is not a phenomenon that is born solely as a result of economic factors and incorrect monetary policy of the state. Along with the economic factors of inflation, according to D. I. Ramazanov, it is necessary to investigate non-economic factors. Analyzing the non-economic group of factors and suggests distinguishing two major subgroups: political and social. The latter represent a set of institutions of political, legal, social and psychological nature, affecting economic processes, while these norms can have both a formal (legally stipulated) nature and an informal status [6].

A.V. Stepanov notes the need to reconcile social conflicts and economic interests in order to stabilize inflation. Among social factors, taking into account the psychological nature of inflation, inflation expectations are recognized as the most important psychological factor in inflation. At the same time, inflationary expectations are associated with the accumulation of

inflationary potential, while the most sustainable expectations during periods of high inflation are dangerous by the development of inertial inflation processes and the formation of an inflationary spiral [7].

As a special psychological factor, it is necessary to allocate inflation expectations - assumptions about the level of future inflation, which are formed by economic entities. This results in a sharp increase in demand and slowing down the supply side, which are considered by the factors of demand and supply inflation, as a consequence of the corresponding expectations of consumers and borrowers or producers and creditors. This is also confirmed by A. Ulyukayev, pointing out that “inflation is a very psychologically motivated phenomenon, without disclosure of information, without dialogue with society, you cannot manage inflation expectations” [8]. According to K. Nagatani, the professor of the University of British Columbia (Canada), inflation is a natural result of the struggle between creditors and debtors. Permanent debtor in the modern world is the public sector and private business, and the creditor is all other entities. The institutional structure of a modern market economy in the developed countries, as it were specially designed to facilitate debtors use of the redistributive function of inflation. Most of the various agents are linked to each other through financial markets, and the bulk of financial assets is fixed in cash [9]. According to V. Popov, “the intensity of inflation is determined by the relationship of the real and financial sectors of the economy, as well as the parameters of the money supply established by the NBU” [9, p. 70]. That is, the level and rate of inflation determine the structural parameters. The authors of the world-famous “Economics” determine the causes of inflation on the basis of the equilibrium theory of “aggregate demand aggregate supply” [11, 170, 171].

At the same time, further research and detailed disclosure require methodological issues to determine the nature of inflation in changing the conditions of management and the impact of its factors on different levels of the national economy. This will allow for the formation of adequate solutions to minimize the threats that create unchecked influence of inflation on the external and internal environment of the respective levels, to develop methodological support for a thorough study of inflation processes in the economic and social spheres of the economy.

3 Results and discussion

The effect of inflation violates social reproduction, which prevents the formation of productive forces at the necessary level and the introduction of innovative technologies. Imbalances in these processes impede the creation and receipt of value added, which in turn reduces the national economy, reducing the consumption and export activities of business entities. In this regard, it seems that the study of the nature of inflation and its impact, as well as factors that generate it during the distribution and redistribution of financial resources is necessary: firstly, to assess the source and qualitative structure of the effects of inflation, namely, the part of conjunctural, partial, fundamental, as well as the allocation of leading factors of the inflation process by the levels of the economy, which require different in time, periodicity, degree of depth of measures for the formation of anti-inflationary policy; secondly, in order to calculate and justifiably choose the lower target of inflation, which has a stimulating effect and does not lead to unwanted losses in economic growth, since the latter is possible under conditions of a credit restraint that has a significant impact on the financial system and is negatively reflected on the budget process, monetary aggregates, activity of business entities. The confirmation of the redistributive function of inflation is the presence of inflationary surges that destabilize the economic interests of different levels and industries. In this context, institutional maintenance of economic development is considered to stabilize inflation through the mechanism of managing the money supply; thirdly, understanding the certain expectations, the inertia of the influence of the existing level of inflation, and its synergy is important to determine the fate of the factors of inflation reflection, capable of generating further unmanaged negative behavior

of business entities, which can be disclosed through the concept of "inflation of the conflict" that occurs in the consequence of the struggle for the existing national benefits. This is reflected in the complex effects of inflationary processes, both on the state sector of the economy and on the private sector, while the creeping interest rate causes the emergence of a conflict between creditors and borrowers; fourthly, forecasting and estimating the possible effects of inflation, which causes imbalance in demand and supply, prices for raw materials and finished goods, payables and receivables of economic entities, on the one hand, as well as income and expenditure components of budgets at all levels of the national the economy, on the other, and the country's export-import balance; fifthly, in order to control the openness of inflation and to prevent it from conducting anti-inflationary policy, it is necessary to substantiate and form the provision of compliance, which will allow comparing the risks and costs of appropriate measures that arise in the process of economic activity of business entities. Since digitalization has changed the reproduction process in the branches of the economy, it is necessary to implement it while monitoring at all stages of creating value added.

Recently, in the conditions of a permanent financial crisis and unstable external environment, there is a qualitative change in the nature of the impact of inflation on economic processes, including the economic development. In connection with this, it seems expedient to consider inflation in terms of functional, process, synergistic approach, which should be used in accordance with the state of the economy of the country, the rate of its decline or development, general characteristics of the activity of economic entities, the system of state regulation in general, and prices, in particular. This creates some obstacles to ensure sustainability of the formation of necessary assets, creation of reserves and complicates the attraction of the population as the main investor of the country's economy. At the same time, it is impossible to completely exclude state interference in pricing processes, in particular, in order to prevent monopolies and create conditions for the development of competition. In no country with a developed market economy, there is no full freedom in terms of pricing, in most of these countries, as a general tactic, certain rules (principles, methods and norms) are used for pricing, which are formalized in the form of legislative acts, and are aimed at regulating the methodology and procedure of formation prices on commodity markets of the country. In addition, the state assumes the role of price setting for certain goods and services that are crucial for the development of the national economy and controls them. Thus, the sphere of regulated and controlled by the state pricing ranges from 10% to 40% [12, p. 206].

According to the Decree of the Cabinet of Ministers of Ukraine On the implementation of the pilot project on the temporary limitation of the implementation of the Cabinet of Ministers of Ukraine Decree of December 25, 1996, No. 1548 and the Resolution of the Cabinet of Ministers of Ukraine of October 17, 2007 No. 1222 dated September 22, 2016 No. 656, a pilot project has been launched whose task is to determine the degree of influence of the state on the real dynamics of food prices [13]. If the results of the project reveal that state regulation of prices only worsens this dynamics and raises the cost of products, the restriction will be abolished.

Implementation of state regulation of inflation requires the establishment of a mutual equilibrium with market laws and the necessary level of social security of the population [14]. Since inflation is one of the main indicators that characterizes macroeconomic instability. It characterizes adverse changes in prices, which indicate the occurrence of certain changes in commodity-money relations and the distribution of aggregate income. Therefore, it is expedient to use the Consumer Price Index (Lespereis index) to identify the tendency of retail prices to grow (Fig. 1), which reflect the effect of inflation both directly on food products and the indirect effect of changes in prices for raw materials, energy and other components of the cost of production.

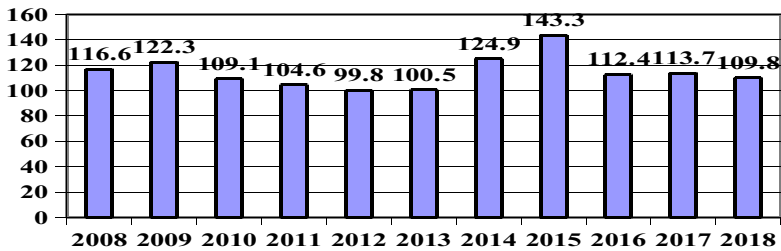


Fig. 1. Consumer price index in Ukraine in 2008 - 2018 [15].

An objective system analysis of the economic and legal positions of inflation processes requires the study of its impact on production and reproduction processes in the country's economy, which will help establish certain trends and will allow formulating conclusions and formulating a set of measures to prevent its negative impacts on the necessary development processes that for the most part, are carried out at enterprises through their financial support. As, according to V.I. Osciposhchev, "financial security is regulated on the basis of the appropriate system of functioning, which can be carried out in three forms: self-financing, lending, external financing [16, p. 59], one of the important components of the activity of enterprises is the formation of financial support from the relevant sources, the value of which is also determined by adjusting the interest rate on bank loans. Therefore, the ability to self-finance the current financial needs is the advantage of enterprises that operate with profits, which makes it possible to reduce the value of attracted capital in the context of the deployment of inflationary processes in the economy.

An illustration of the influence of the above-mentioned factors that determine inflation in the realities of the current state of the country's economy is the increase in the share of unprofitable industrial enterprises of Ukraine for the period 2010-2017 (Fig. 2).

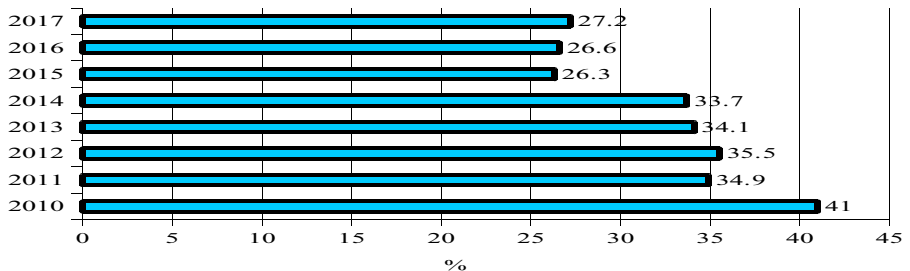


Fig. 2. The share of unprofitable business entities for the period 2010-2017 years, % [15].

The urgency of implementing the processes of development of the branches of the economy on an innovative basis requires the implementation of strategic and long-term directions of innovation duality. The legal, economic and organizational foundations for the formation and implementation of innovation activities in Ukraine are defined by the Law of Ukraine "On Priority Areas of Innovation Activity in Ukraine" dated September 8, 2011. Its main objective is the creation of a legal framework to provide an innovative model for economic development through the concentration of state resources on priority directions of scientific and technical renewal of production, increase of competitiveness of domestic products in the domestic and foreign markets [17]. The financial support of innovation development means "the totality of economic relations arising from the search, attraction and effective use of financial resources, as well as organizational and managerial principles,

methods and forms of influence of these resources on the innovative development of the national economy.” In the structure of financial security methods, special importance is attached to financial regulation, which occurs mainly through taxation [18, p. 48].

Thus, it can be noted that the level of profitability of economic entities during the survey period sharply decreases (from 4.0% in 2010 to -4.1% in 2014), which significantly limits them in the planning of investment projects and job creation. One of the main reasons for lowering financial indicators of enterprises is the reduction of production and sales (services). This is due to the fact that enterprises try to implement already manufactured products in warehouses without increasing the rate of production (provision of services), which, in turn, contributes to the increase of inflation and negatively affects the development of the economy of the country.

4 Conclusion.

The crisis caused by the influence of inflation has led to a reduction of the real sector of the economy due to the narrowing of the consumption market. This requires the development of mechanisms to prevent the rampant effects of inflation through the implementation of anti-inflationary regulation in Ukraine: to develop comprehensive state programs for economic development, based on the study of inflation expectations that will contribute to increasing the volumes and rates of GDP; to pursue a consistent antitrust policy to maintain competitive prices in the domestic market, taking into account existing inflation potential; to stimulate credit and investment activity of banks, ignoring the inflationary conflict of interests; limit the coverage of a cash deficit due to a bank loan; to improve the state regulation of the tax system by providing the formal status of investment-attractive branches of the economy through tax incentives; to create favorable conditions for the termination of import of inflation.

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