

**Irina Medvedieva**

PhD (in Economics), Associate Professor,  
Simon Kuznets Kharkiv National University of Economics, Ukraine  
9 Lenin Ave, Kharkiv, 61166, Ukraine  
Iryna.Medvedieva@hneu.net

**Mariia Agapova**

PhD (in Economics), Associate Professor,  
Simon Kuznets Kharkiv National University of Economics, Ukraine  
9 Lenin Ave, Kharkiv, 61166, Ukraine  
Mariya.Agapova@hneu.net

**CATEGORICAL BASIS OF THE PROCESS OF FINANCIAL DEVELOPMENT**

**Introduction.** The current state of Ukrainian economy being a dynamic system is characterized by the increased necessity of adaptation to crisis conditions, which demands dramatic change of all its elements. The process of overcoming the negative effects of the crisis being a reaction of system situated in the bifurcation point to external fluctuations, on the one hand can lead to losing of stability, and on the other, to become a starting point for further development.

The weakest part of the national economic system is a subsystem of formation, distribution and redistribution of financial resources which ensure its sustainability in general. Therefore, in crisis conditions the issue of managing financial development receives especial urgency.

**Brief literature review.** The problem of development in general and the development of economic systems in particular has a significant history. One of the first researchers who developed classical dialectical system of philosophic categories and made a significant contribution to the theory of development was G. Hegel (1816) [1], offering basic principles of dialectical conception of development. In recent times, one can find a large number of domestic and foreign works that highlight different approaches to managing development both at macro and micro levels. In our view it is worth mentioning works of such scientists as J. Keynes (1936) [**Ошибка! Источник ссылки не найден.**], S. Kuznets (1966) [2], A. Moskalenko (2014) [**Ошибка! Источник ссылки не найден.**], R. Nureev (2001) [5], A. Pylypenko

(2008) [6], A. Pushkar (1997) [7], M. Todaro (1977) [**Ошибка! Источник ссылки не найден.**], J. Schumpeter (1934) [**Ошибка! Источник ссылки не найден.**] and others. The development of theoretical and practical issues of managing financial development was highlighted by such domestic scientists as B. Samorodov (2012) [10], O. Snizhko (2009) [11] and O. Suntsova (2009) [12]. Given the multidimensional nature and constant complication of the process of financial development the problem of further improvement of theoretical principles of defining the essence of this process in transformational environment becomes particularly important.

**The purpose of the article.** The purpose of the article is summarizing of approaches to determining the nature of the category «development» and the concept of «financial development».

**The main material.** The scientific approach to the studying of any problem requires an initial definition used categorical basis. Basing on the interpretation of the category as the most common concept that allows one to associate any knowledge with philosophy and, vice versa, to find the transition from it to any specific field of knowledge, the nature, content and interpretation by various scientists of the category «development» being the general philosophical category was analyzed.

Summarizing of interpretations of category «development» [13 – 16] allowed the authors to conclude that from a philosophical point of view the concept «development» should be understood as the purposeful, naturally determined and irreversible process of quantitative and qualitative changes, which leads to a new qualitative state of the system (its composition or structure). Under the driving force of this process one should understand internal contradictions of the system.

Note that the category «development» is reasonably to be studied in connection with those categories of dialectics as the content and form, cause and consequence, possibility and reality. According to the abovementioned any system can be represented as a unity of content and form. Considering the content of the system as the composition of its elements, the unity of its qualities, internal processes, relations, contradictions and trends of development, and considering the form (internal) as the

way of connection of content elements it is easy to find out that the current stage of development of Ukrainian economy is characterized by the rupture of outer connections and inconsistency of internal connections to its new content which is currently forming; or rather, the speed of changes of the shape does not match the speed of changes of the content. As a result the outdated form does not meet the changed content and begins to hinder further development. Considering the development as a dynamic unity of possibility and reality, authors determined the strategy of the system as a set of directions of motion, which imply adjustment of all sorts of system's connections that will allow converting opportunities into potential reality without losing integrity and thus bring into compliance its content and form.

Given the fact that the economic system is characterized by big amount of connections between the its elements and the high complexity of organization, it is reasonable to clarify the nature of process of development basing on studying the modern approaches to interpretation of concepts of «growth» and «economic development». It should be noted that in the domestic and foreign economic literature there is no single approach to interpretation of these concepts at the moment. Fundamental bases of studying this issue were established in economic theories of economic growth. In modern economic theory following basic models of growth and development are considered: the linear-stages-of-growth model, structural-change theory, external dependence theory, neoclassical model of free market, the theory of endogenous growth, the model of sustainable development [2, **Ошибка! Источник ссылки не найден.**]. These models largely reflect the evolution of views on the analyzed categories.

Considering these concepts in view of the process of formation of market relations, scientists historically distinguish doctrines of unregulated (classical political economy and neoclassical economic theory) and regulated (Keynesian, neoliberal and institutional theories) market economy.

Classical and neoclassical theories state self-regulating nature of the economic balance. The representatives of classical political economy (the main ones – A. Smith (1776), D. Ricardo (1817), J. Say (1803), J. Mill (1843)) did not take into account the

correlation between economic and social factors and believed that economic growth is based on increasing national wealth generated by the labor productivity in material production. Their followers (A. Marshall (1879), J. Clark (1899), V. Pareto (1897)) did not link economic growth with macro level factors and determine the free competition as its automatic regulator [17, 18].

The founder of Keynesian direction M. Keynes (1936) [**Ошибка! Источник ссылки не найден.**] believed that economic growth should be based on the distribution of capital investments in various sectors of the economy, i.e. growth of investment will increase national income («multiplier of investments»).

English economist E. Domar (1960) [**Ошибка! Источник ссылки не найден.**] and American scientist R. Harrod (1973) [**Ошибка! Источник ссылки не найден.**], formed the so-called neo-Keynesian theory of economic growth, according to which progressive taxation, adapting interest rates, rates of required reserves of bank capital etc. were determined as the instruments of achieving dynamic balance of economy.

The detailed review of models of market economy evolvement were presented by N. Nureev (2001) [5], who noted that Keynesian approach to growth was based on its consideration as the quantitative but not the qualitative phenomena. Neoclassical theory were based on the fact that development is a process of simultaneous growth and significant changes that contribute to the transformation of one quality to another. The researches of representatives of institutional theory shown that development includes not only economic parameters but changes of the system of economic institutions, social and political relations. The further development of these theories was found in concepts of the scientists of extreme-left directions, who attempted to combine quantitative and qualitative analysis, giving attention to the effective use of own and attracted foreign financial recourses.

Currently newest models of sustainable development launched in early 90<sup>th</sup> of XX century and the theory of endogenous growth become more popular. They respectively imply the development through the harmonization of «human-nature» relations (sustainable development model) or orient self-development of integrated national and state economic systems on using internal resources and mechanisms of

economic growth (theory of endogenous growth) [2].

Famous American Professor S. Kuznets (1966) [2] noted that one should distinguish extensive and intensive types of economic growth as those which reflect the availability of its quantitative and qualitative factors. O. Yastrems'ka (2004) also stresses on the significance of ambiguity of these growth types distinguishing such definitions as functioning, growth and development. Thus, the growth (by extensive type) the scientist determines as renewing of social and economic system on the broader, quantitative basis while the development is an intensive growth. In addition according to the study [20] the growth is divided into positive and negative, and the development – into progressive and regressive.

A. Pushkar (1997) implies under the term «managed development» a system of processes leading to quantitative and qualitative changes [7].

The concept of growth and development are distinguished in works of R. Ackoff (1981), who considered the growth as increasing of size or quantity and the development as achieving potential to improve, but not the real improvement of quality or level of existence. According to R. Ackoff (1981), the growth can take place together with development or without it, the limits for growth do not limit development [**Ошибка! Источник ссылки не найден.**]. It is reasonable to agree with his opinion that the development of system is limited by its internal potential.

J. Schumpeter (1934) while distinguishing between the analyzed categories understands by the development only those changes of economic turnover, which the economy generated by itself i.e. only accidental changes of left on its own devices national economy but not driven by external triggers [**Ошибка! Источник ссылки не найден.**]. By the growth he understands increasing population and wealth.

B. Zabrodskyy (2000) and M. Kyzym (2000) determine the development of systems as transition to a new, more qualitative state by accumulating quantify potential, changes and complexity of the structure and composition, resulting in increased resistance to damaging effects of the environment and the effectiveness of functioning [22]. M. Todaro (1977) understands by the development changes that increase the level of system's organization [**Ошибка! Источник ссылки не**

**найден.]**

Recently the idea of nonlinearity of the development process becomes more popular. It is facilitated by the formation of interdisciplinary approaches to solving economic problems, synergetic paradigm, considering self-organization, chaos, instability, sustainable development etc. Thus, from the standpoint of nonequilibrium thermodynamics the development is treated as a sequence of conversion of structures' hierarchy with increasing complexity. The transition to a new level of development comes from disorder to order through instability. The potential for emergence of unstable states and establishing of new, more ordered structure after the instability is created by interaction with the environment. Thus, the process of development is characterized by stability of the system and the measure of its organization [24]. From this point of view O. Osaulenko (2000) in his work [25] offers a definition of sustainable social and economic development of system as the balanced (balanced) change of its parameters according to the specific purpose, which would exclude the possibility of emergence of heavily unbalanced processes in its separate components and the system as a whole. The Russian scientist G. Arkhanhelsky (2005) grounding his findings on chaos theory proves that excluded contradictions are the route to the new level of quality of system [26].

Given the purpose of the study should return to work [24]. In our opinion, such conclusion of the authors is significant: the multiplicity of solutions in nonlinear systems can be considered as the consistent appearance of autonomy in relationships with environment [27]. The same conclusion was received by the group of authors of the study [28]: the process of transformation of external into internal takes place during the stabilizing selection, i.e. the development depended on external factors becomes autonomous.

The priority on search of internal factors of development is also emphasized in the work [24], in which the author points out that any given factor is the source of a certain development itself and the situation implies potential which should be determined in order to obtain appropriate possibilities it offers.

An important provision which is not paid enough attention to in solving problems

of managing development in transition environment is the lack of coherent interaction between the elements of the controlled system. This issue, in our view, is fundamental, because namely the support of the dynamic's rate of components of the system allows it to maintain its integrity. The authors of the work [29] E. N. Knyazeva (2002) and S. P. Kurdyumov (2002) choosing as a basis the theory of blow-up regimes believed that onto the moment of maximal development there emerges an incoordination between development pace of different substructures of a complex system which results to its disintegration, disturbance of the overall growth pace needed for maintenance of its integrity and sustainable development. In order to maintain its integrity the system should exist in an oscillatory regime which allows to slow down processes and establish the overall pace of development within a complex structure. Their conclusion is that the development of parts should be consistent with the development of an overall system [29].

Thus, the performed analysis of literature sources concerning interpretation of the essence of the concept «development», allows making a conclusion that development of any system is transition to more qualitative state through complication of its structure which is characterized by the absence of contradictions between form and content.

Turning to the definition of a nature of financial development, we note that the studied phenomenon (process) should be considered through the prism of a particular science, namely financial. In other words, if the concept «development» was highlighted through the philosophical view, which is vaster than the subject of a separate science, then the financial development is reasonably to determine as a concept that specifies the category through identification of specific features.

The result of analysis of current views on the essence of studied concept performed by authors [8, 11, 12, 30, 31] revealed the difference in the vision of key features of the concept «financial development» by domestic and European scientists.

Note that Ukrainian scientists associate financial development with the development of financial system only both at the macro and micro level of economy. Foreign scientists in their turn while studying financial development base on the

predominant role of financial intermediation being the instruments of access to capital markets and financial services.

According to the authors, such differences in interpretation of studied concept is based on the weakness of institutional aspects of the formation of capital markets in Ukraine, prevalence of fiscal leverage in the distribution functions of finance, which together prevents proper functioning of financial market, while the main focus of financial integration of the European Union is an association of banking and capital markets for economic development.

**Conclusion.** Thus, summarizing of theoretical studies of many Ukrainian and foreign scientists allowed to define the essence of the concept «financial development» as a transition to a new quality of financial system through complication of its institutional structure that allow improving the efficiency of formation, distribution and redistribution of financial resources through introduction of capital market instruments and financial services. Shifts of emphasis from administrative and fiscal component of distribution function of finance towards mechanisms of market regulation will facilitate harmonization of modern requirements for the content of financial relations with the form of their implementation. In view of request of the Ukrainian society in decentralization of the government and the insufficient level of financial support of this process, the future direction of the research is to form the concept of financial development of local government entities.

### **References:**

1. Hegel, G. (1997). *Science of logic*. St. Petersburg: Science.
2. Keynes, J. (1936) *The General Theory of Employment, Interest and Money*. London: Macmillan Cambridge University Press.
3. Kuznets, S. (1966) *Modern Economic Growth: Rate, Structure and Spread* New Heaven: Yale University Press.
4. Moskalenko, A. (2014). Advanced development and conceptual basis of economic policy of the modern state. *Economic Annals-XXI*, 1-2(2), 4-7.
5. Nureev, R. (2001). *The economy of development: models of formation of market economy*. Moscow: INFRA-M.
6. Pylypenko, A. (2008). *Strategic integration of enterprises: mechanisms of*



*managing and modeling the development*. Kharkiv: INZHEK.

7. Pushkar, A. (1997). *The concept of modeling of managed development of productive and economic systems*. Donetsk : IEI.

8. Todaro, M. & Smith, S. (1977) *Economic Development*. New York: Pearson Education.

9. Schumpeter, J. (1934) *The Theory of Economic Development*. Cambridge, Mass: Harvard University Press.

10. Samorodov, B. (2012). *Methodology of managing the financial development in bank*. Kiev: UB NBU.

11. Snizhko, O. (2009). *Financial development of transitional economies structural and finctional analysis*. Kiev: Taras Shevchenko National University of Kiev.

12. Suntsova, O. (2009). *Financial aspects of social and economic development of state and regions*. Kiev: UkrINTEI.

13. Spyrkyn, A. (2002). *Philisophy*. Moscow: Hardaryky.

14. New philosophy encyclopedia (2010). Retrieved from: <http://iph.ras.ru/enc.htm>.

15. Hurevych, P. (2014). *Basics of philosophy*. Moscow: KNORUS.

16. Shynkaruka, V. (2002). *Philosophical dictionary*. Kiev: Abrys.

17. Yadharov, J. (2004). *The history of economic studies*. Moscow: INFRA-M.

18. Lysovytskyy, V. (2002). *The history of economic studies*. Kharkiv: R.I.F.

19. Domar, E. D. (1960) *Essays in the Theory of Economic Growth*. Oxford: Oxford University Press.

20. Harrod, R. (1973) *Economic Dynamics*. London, New York: Macmillan, St. Martin's Press.

21. Yastrem'ska, O. (2004). *Investment activity of industrial enterprises: methodological and methodical basis*. Kharkiv: KNEU.

22. Ackoff, R. (1987) *Creating the Corporate Future: plan or be planned for*. New York : John Wiley & Sons.

23. Zabrodskyy, V. & Kyzym, N. (2000). *Development of large-scale economic and productive systems*. Kharkiv: Business-Inform.

24. Nykolys, H. & Pryhozhyn, I. (1979). *Self-organization in unbalanced systems: from dissipative structures to the order through fluctuations*. Moscow: World.

25. Osaulenko, O. (2000). *Sustainable social and economic growth: modeling and managing*. Kiev: Dumka.

26. Arkhanhelskyy, G. (2005) Method of limited chaos. Retrieved from: <http://www.improvement.ru/bibliot/ogrchaos/index.shtm>.

27. Jullien, F. (1996). Tractate about efficiency. Retrieved from: <http://www.improvement.ru/bibliot/jullien/index.shtm>.

28. Arutsev, A., Ermolaev, B. & Kutateladze, I. Concepts of modern natural science. Retrieved from: <http://nrc.edu.ru>.

29. Knyazeva, E. & Kurdyumov, S. (2002). *Grounds for synergy. Blow-up regimes, self-organization, terms*. St. Petersburg: Aleteya.

30. The Financial Development Report (2010). *World Economic Forum*. Retrieved from: [http://www3.weforum.org/docs/WEF\\_FinancialDevelopmentReport\\_2010.pdf](http://www3.weforum.org/docs/WEF_FinancialDevelopmentReport_2010.pdf).

31. Dorucci, E., Meyer-Cirkel, A. & Santabarbara, D. (2009) Domestic financial development in emerging economies: evidence and implications. *Occasional paper series*. – №. 102. – Retrieved from: <http://www.ecb.int/pub/pdf/scpops/ecbocp102.pdf>.

### References (in language original)

1. Гегель Г. В. Ф. Наука логики / Г. В. Ф. Гегель. – СПб. : Наука, 1997. – 800 с.
2. Keynes J. M. *The General Theory of Employment, Interest and Money*, London : Macmillan Cambridge University Press, 1936. – 263 p.
3. Kuznets S. *Modern Economic Growth: Rate, Structure and Spread* / S. Kuznets. – New Heaven : Yale University Press, 1966. – 546 p.
4. Москаленко А. Н. Опережающее развитие и концептуальные основы экономической политики современного государства / А. Н. Москаленко. – *Економічний часопис-XXI*. – 2014. – №1–2 (2). – С. 4–7.
5. Нуреев Р. М. Экономика развития: модели становления рыночной экономики / Р. М. Нуреев. – М. : ИНФРА-М, 2001. – 240 с.
6. Пилипенко А. А. Стратегічна інтеграція підприємств: механізм управління та моделювання розвитку : монографія / А. А. Пилипенко. – Х. : ІНЖЕК, 2008. – 408 с.
7. Пушкарь А. И. Концепция моделирования управляемого развития производственно-экономических систем : препринт / А. И. Пушкарь. – Донецк : ИЭП, 1997. – 32 с.
8. Todaro M. P. *Economic Development* / M. P. Todaro, S. C. Smith. – New York : Pearson Education, 1977. – 832 p.
9. Schumpeter J. A. *The Theory of Economic Development* / J. A. Schumpeter. – Cambridge, Mass : Harvard University Press, 1934. – 280 p.
10. Самородов Б. В. Методологія управління фінансовим розвитком банку : монографія / Б. В. Самородов. – К. : УБС НБУ, 2012. – 307 с.
11. Сніжко О. В. Фінансовий розвиток трансформаційних економік: структурно-функціональний аналіз : монографія / О. В. Сніжко. – К. : Київський національний університет ім. Т. Г. Шевченка, 2009. – 815 с.
12. Сунцова О. О. Фінансові аспекти соціально-економічного розвитку держави та її регіонів : монографія / О. О. Сунцова. – К. : УкрІНТЕІ, 2009. – 299 с.
13. Спиркин А. Г. *Философия* / А. Г. Спиркин. – М. : Гардарики, 2002. – 736 с.
14. Новая философская энциклопедия [Электронный ресурс]. – Режим доступа : <http://iph.ras.ru/enc.htm>.
15. Гуревич П. С. *Основы философии* / П. С. Гуревич. – М. : КНОРУС, 2014. – 478 с.
16. Філософський енциклопедичний словник / за ред. В. І. Шинкарука. – К. : Абрис, 2002. – 742 с.
17. Ядгаров Я. С. *История экономических учений* / Я. С. Ядгаров. – М. : ИНФРА-М, 2004. – 480 с.
18. Лисовицкий В. Н. *История экономических учений* / В. Н. Лисовицкий. –

Х. : Р.И.Ф., 2002. – 320 с.

19. Domar E. D. Essays in the Theory of Economic Growth / E. D. Domar. – Oxford : Oxford University Press, 1960. – 272 p.

20. Harrod R. Economic Dynamics / R. Harrod. – London, New York : Macmillan, St. Martin's Press, 1973. – 210 p.

21. Ястремська О. М. Інвестиційна діяльність промислових підприємств: методологічні та методичні засади : монографія / О. М. Ястремська. – Х. : ХДЕУ, 2004. – 472 с.

22. Ackoff R. Creating the Corporate Future: plan or be planned for / R. Ackoff. – New York : John Wiley & Sons, 1987. – 312 p.

23. Забродский В. А. Развитие крупномасштабных экономико-производственных систем / В. А. Забродский, Н. А. Кизим. – Х. : Бизнес-Информ, 2000. – 72 с.

24. Николис Г. Самоорганизация в неравновесных системах: от диссипативных структур к упорядоченности через флуктуации / Г. Николис, И. Пригожин ; пер. с англ. В. Ф. Пастушенко ; под ред. Ю. А. Чизмадтева. – М. : Мир, 1979. – 512 с.

25. Осауленко О. Г. Сталий соціально-економічний розвиток: моделювання та управління : монографія / О. Г. Осауленко. – К. : Думка, 2000. – 176 с.

26. Архангельский Г. А. Метод ограниченного хаоса [Электронный ресурс] / Г. А. Архангельский. – Режим доступа : <http://www.improvement.ru/bibliot/ogrchaos/index.shtm>.

27. Жюльен Ф. Трактат об эффективности [Электронный ресурс] / Ф. Жюльен ; пер. с франц. Б. Грушняка ; под ред. Н. Трубниковой. – Режим доступа : <http://www.improvement.ru/bibliot/jullien/index.shtm>.

28. Аруцев А. А. Концепции современного естествознания [Электронный ресурс] / А. А. Аруцев, Б. В. Ермолаев, И. О. Кутателадзе. – Режим доступа : <http://nrc.edu.ru>.

29. Князева Е. Н. Основания синергетики. Режимы с обострением, самоорганизация, темпомиры / Е. Н. Князева, С. П. Курдюмов. – Спб. : Алетейя, 2002. – 414 с.

30. The Financial Development Report 2010 [Electronic resource] // World Economic Forum, 2010. – 420 p. – Access mode : [http://www3.weforum.org/docs/WEF\\_FinancialDevelopmentReport\\_2010.pdf](http://www3.weforum.org/docs/WEF_FinancialDevelopmentReport_2010.pdf).

31. Dorucci E. Domestic financial development in emerging economies: evidence and implications [Electronic resource] / E. Dorucci, A. Meyer-Cirkel, D. Santabarbara // Occasional paper series. – № 102. – 2009. – Access mode : <http://www.ecb.int/pub/pdf/scpops/ecbocp102.pdf>.