

## **DICHOTOMY OR UNIFICATION OF CONTRASTS OF THE MARKET AND CAPITALISM: FORECAST AND PLAN (PART 2)**

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***Abstract:** Along with the already studied issues in the earlier paper “Dichotomy or the unification of contrasts of the market and capitalism: forecast and plan (Part 1)”, the process of development of the state as the established infrastructure of the economy and society was considered. Special and general characteristics of the institutional structure to manage public relations, presented in the form of an instrumental component, were substantiated.*

*These decisions of acceptance or rejection of the proposal will depend on how multilateral and deep is the process of our perception of the historical inheritance, which unites a nation and makes it different from other nations in matters of politics, economics, ideology, mentality, culture, religious and national traditions, identity and the perception of the national heritage.*

*The era of economic social progress and the beginning of crises, which stepped over twenty years' intervals and became more frequent each three to five years' periods, were investigated and substantiated. The global experience of state regulation was analyzed via a set of tools of direct and indirect influence. Institutionalism as a system to control social-oriented market economy was considered; corporate governance mechanism was identified through the prism of time.*

***Keywords:** institutionalism, rational economic structure, state influence tools, non-economic limitations, planning and market economy, forecasting, verification of truth, philosophical epistemocentrism, indicative planning, dichotomy.*

### **1. INTRODUCTION**

To identify the use of general scientific principles of systemacity and consistency and to form scientific approaches that contribute to rethinking that institutionalism is a unique system of institutions. To identify key conditions and factors affecting the

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general judgment on the process of empirical and theoretical laws that are conducive to identification of the hypothesis on disclosure of the mechanism of irrationality and rationality of market and capitalism.

To form the authors' vision of irrationality and rationality of market and capitalism by the method of generalized form in connection with development of the economic complex on the example of Russia, applying institutional instruments, such as the institution of forecasting and planning. To analyze the global experience of creating institutional forms and phenomena which are the basis for systemizing the factors, classifying them in special and common characteristics that can be life-giving force of economic theory.

Along with earlier considered works (Marshall, 2007; Perroux, 1946; Berdyaev, 1990; Mizes, 1994; Feldman, 2005; Marx, 2011), to consider the process of development of the state as the established infrastructure of the economy and society. To rationalize special and general characteristics of the institutional structure to manage public relations, presented in the form of an instrumental component.

These decisions of acceptance or rejection of the proposal will depend on how multilateral and deep is the process of our perception of the historical inheritance, which unites a nation and makes it different from other nations in matters of politics, economics, ideology, mentality, culture, religious and national traditions, identity and the perception of the national heritage.

To study and rationalize the era of economic social progress and the beginning of crises, which stepped over twenty years' intervals and became more frequent in five to three years' periods. To analyze the global experience of state regulation via a set of tools of direct and indirect influence. To consider institutionalism as a system to control social-oriented market economy, to identify corporate governance mechanism through the prism of time.

## **2. METHODOLOGY**

To consider institutionalism as an integral result, as a singular control system via the twisting system/methods, highlighting and summarizing processes and phenomena of systemic hierarchies, working out proactive recommendations and applying the highest influence tools. To investigate the genesis of the essence of the institutionalism category, enabling to single out the synthesizing meaning. To build the hypothesis of associative thinking which describes more accurately the weak structural system and the dynamics of the contradictions of market and capitalism. We considered the rational model of institutional economy of state forecasting and planning as systems integration, namely: unity of market and capitalism, development of irrationality of intuitions and rationality in planned development of the economy, based on hierarchies, as the layering stages of events and forms of economic history, which act as subjects/objects that have authority over internal space and time. Evolutionary development of government institutions, the system of state regulation and planning, based on the principles of unity of the

economic knowledge and retransmission of socio-economic development, built on the analysis, forecasting and planning, transforming processes and phenomena, is thus providing an attractive investment climate and social and economic development.

Based on a set of methods and principles of materialism and contradictions of the socio-economic system development by studying the scientific historicism, given the interaction of time, objective judgments of the authors' methodology and market irrationality and rationality of capitalism on the development of economic complex were identified, applying institutional forecasting and planning tools. A new hypothesis was built that the institutionalization as a market management system through the prism of time does not reflect the whole chain of the respective reality. The major triad in the control system – safety; identity; social standards and guarantees – is missing. It was found that this process is in the state regulation of business pricing structure, which should provide long-term stability. Then, the main meaning of planning is determined as the consistency of prices, investments, wages, business and the state, as the primary regulator.

### **3. RESULTS**

#### **3.1. Era of economic and social progress, the beginning of “soap bubbles”.**

Unfortunately, the Soviet Union did not hold back at its historic height under the circumstances. With the victory of J. Stalin in the struggle in the Party, new economic policy (NEP) was cancelled and the centralization of economic life went far beyond the optimum level. This reduced the efficiency of planning, which is reflected in the emergence of significant imbalances of the economy, high cost of industrialization, which led to a shortage of consumer goods, reduced the stimulating functions of wage and non-perception of technological progress. Despite the internal struggle, reduced centralized economic life, the advantages of planned organization of manufacturing were very strong, so the Soviet Union has reached great economic and social progress. In this regard, the Western expert on the Soviet economy Gur Ofer said: “as a result of an intense spurt of economic modernization the Soviet Union transformed its underdeveloped economy into a modern industrial state that was falling behind the USA only in terms of gross national product (GNP)”. During this time, the Soviet economy has increased tenfold, and the level of GNP per capita has grown more than five times. Industry structure has changed diametrically – from 82% of the rural population and the highest portion of GNP created by agriculture to 78% of the urban population and 40-45% of GNP created in industrial and related sectors. Moreover, the Soviet power of the state was seen as the parity of the US power (Ofer, 1978). Meantime, the Western society had a significant evolution in the twentieth century. The Great Depression (1929-1933) much hit the market illusions, being a complete surprise to the liberals.

Just a few days before the collapse of the New York Stock Exchange in October 1929, a leading American theorist of liberal economics of that time Irving Fisher stated

that “the quotation of stock is not high, and the Wall Street will not crash” (Ahamed, 2009). In response to the failure of the free Western market, he adapted the Soviet experience of planning as a Keynesian, a “state of universal prosperity” and regulation of the economy via indirect methods. This determined that the market self-regulation does not work. Keynesianism provided the West with unprecedented economic growth in the postwar years. Yet the limitations of this model of state regulation were connected with the fact that it foresees a more closed national economy.

In the era of increasing globalization, when the global economic processes began more dominating the national, Keynesian regulation of the economy became apparently a brake (Greider, 1998). At the turn of the 1980s, Ronald Reagan and Margaret Thatcher carried out the neoliberal reforms: significantly dismantled the old forms of the speculative *influence* of state regulation. Of particular importance was then the “deregulation”, that is, freedom from all sorts of restrictions. Thus, the market of speculative capital got speculating progress that brought the economy away from equilibrium (Cooper, 2008). Similar markets are the oil markets, loans, real estate, foreign currency, securities. Inflating the market of speculative capital has led to the “bubble” that burst in late 2007, causing the global economic crisis (Krugman, 2009). The result was a demonstration of non-cautious optimism in anticipation of the next collapse. It is becoming a tradition of neoclassical economists. Ironically, in 2003, when another economic crisis was rapidly approaching, one of the neoclassicists, the leader of the school of rational expectations, a Nobel Laureate in Economics, Professor of Chicago University Robert Lucas declared that “the main problem to pre-empt depression is solved in terms of all practical purposes” (Krugman, 2009). The collapse of the neoliberal model of its economy is natural and acknowledges the opinion of those scientists who believe that the crisis of global capitalism brings to the fore the issue of regulation of the economy, especially the level of wages within the global economy.

### **3.2. State regulation through a set of tools of direct and indirect influence**

The global and domestic experience suggests that a unilateral approach to state regulation of the economy is wrong. This is especially true for government regulation, through a set of tools of direct and indirect influence on the formation of forecasting and planning the national socio-economic development (Cooper, 2008). Back in 1980, academician Moiseev warned that the views of “a market economy and that it will be able to solve all the problems of overall development can have tragic consequences,” because that is contrary to the global development (Moiseev, 1998). The meaning of planning lies in the fact that it is a tool to reduce the uncertainty of the future economy. This is reflected in the works of famous Soviet economist of the 1920s Bazarov: “in planned work, we anticipate the planned development of the market and we must anticipate the results of the development in the form of *a priori* targeting” (Bazarov, 1989).

Only the state is able to perform similar tasks. It is the state, which collects data on the current economic development and defines the basic proportions of the economy, such as the ratio of consumption and saving, mining and manufacturing sectors,

agriculture development, etc. State achieves this through a set of direct and indirect tools of influence on the economy. Solution of these problems creates a powerful foundation for the activities of all other parties of economic life, including powerful corporations, small and medium-sized businesses as well as households. Efficient planning cannot be comprehensive; there is a kind of dialectic of the plan and the market. It looks as if the free market gives rise to natural imbalances in the economy (Krugman, 2009). This fact is inherent to the excessive centralization of economic management. As stated by a Nobel Laureate Wassily Leontief: "private initiative blows the sails of the economy, and the government controls the lever" (Leontief, 1990). In calm wind, ship is in place, and in case of strong wind it can get to the reefs without the control lever. That is the pragmatic approach governing the contemporary China. Not watching the Western developed economies, it is looking for a specific form of the ratio of the plan and the market. The global crisis, which is gaining momentum, optimized in a theoretical and practical manner the ratio of government regulation and market. It becomes clear that to put such an ambitious task is much easier than to solve it. Not expecting to get the last word in the discussion of these complex issues and fundamental approaches regarding forecasts, programs (plans) for development of national economy, we hope for polemical reviews from interested readers.

In our opinion, a similar economic system must be based on the compromise of key stakeholders interested in the modernization of the state. Economy cannot be left to short-term oriented owners having absolute power. No upgrade may be successful, unless skilled workers, working *intelligentsia* (doctors, teachers, scientists, engineers and technicians, managers and other social sectors of the population who are carriers of a rational culture of our society) are interested. Basically, their work creates wealth and cultural wealth of the state, and they have lost most with the establishment of the new social order, being an exploited and powerless majority. The effectiveness of any alternative model of development will depend on the extent possible within the framework of this model to ensure the dominance of the interests of these social groups.

In the event of such economic and social reality, a consistent set of institutions will form, which will create the parameters, formalize and focus efforts on socio-economic development, based on public interest, removing contradictions, harmonizing the social aspect. Thus, the satisfaction of human desire for freedom and the desire of involvement in the community of "sociality", the satisfaction of human desires by the state will lead to the formation of a society with a single development vector, not simplifying the structure of public social and economic motivation to promote social and economic spheres.

### **3.3. Strengthening of internal corporate governance mechanisms**

Considering institutionalization as a market economy management system through the prism of time, we may put the hypothesis and find that it does not show the whole chain of the respective reality. The experience of countries with developed market economies has proved the effectiveness of the internal state governance mechanisms

capable of creating the internal energy to strengthen the corporate governance mechanisms (Borsch *et al.*, 2015). The key to the state and large corporations may be the concept of indicative agreed planning on the parity of pricing policy, wages, and investments in future periods.

The processes of planning and market management can be implemented by the state administrative apparatus, which consists of three levels: higher bodies of state regulation; ministries and agencies; individual industrial corporations. With this approach, the focus is the issue of effective interaction of state bodies, able to strengthen the internal mechanisms of corporate governance. First of all, a deep reform of corporate governance is required, oriented by major events to be developed, while public/community councils can serve as an example, being actively involved in committees of various sectors of the economy, their function is not clearly defined in the legislation and has the nature of revealing “compliance inequalities”, bringing them for public discussion. The interaction of public institutions in the management of the planned market economy needs to go to the next level, carried out via fiduciary cooperation of the state and society. To give publicity to the opinions of local public activists at meetings of the administrative apparatus at all levels of the planned market economy. To observe the national identity of society, values, ideological and economic culture in socio-economic development. Their essence is to strengthen the internal mechanisms of corporate governance through strengthening the public role in corporate governance on disclosure of information that will enable collective state authorities and companies to build a fruitful cooperation on a contractual basis for the benefit of economic development with the participation of people – the basic intellectual resource of the state. It is the effective management of the planned market economy, which will be one of the points of innovative growth.

Taking into account the international experience, the changes in the US law increased the role of minority shareholders in corporate governance (Bebchuk, 2005). The changes of corporate law in Europe and the United States have conferred on companies additional responsibilities on the disclosure of information in four key areas: 1) corporate governance; 2) elimination of assets and insider trading; 3) motivation of corporate top managers; 4) financial statements (Enriques, & Volpin, 2007). According to the Sarbanes-Oxley Act, passed by the US Congress in 2002, Public Company Accounting Oversight Board, established to control auditing, should attract auditors in order to follow the implementation of existing laws against stealing and fraud by corporate employees (Coates, 2007).

Taking into account international and Russian experience, the state forecasting and planning actions are relevant in domestic big business in Russia. Judging by the Soviet experience, long-term forecasts are based on forecasts of the triad: sectoral, functional and regional. Similar analyses were performed by federal, sectoral and regional authorities through their analytical departments. On this basis, a number of complex documents were developed. In the course of development, the global economic, socio-economic and scientific-technical forecasts were made. The first

determined the level of integration, globalization, social and economic policy, defining the dynamics of the major trends of the global economy. The second formed the main internal goals. The third level defined the resources. In addition, national economic, demographic, environmental and natural resources related to foreign policy and military strategy were taken into account for future forecasts. On this basis, generic documents were formed, being forecasts harmonization tool based on inter-sectoral balance sheets.

The accelerating globalization of the world economy does not leave time for slow economic reforms. The global challenges (threats, risks) need to be promptly responded to, on proactive work basis, as is the case of developed countries. Of course, such behavior of the state can be formed only with the system of state and corporate strategic planning with appropriate institutional support, and the latter depends on public authorities, local governments and business circles in connection with transition to forecasting and strategic planning in the long term.

The main role in implementing such a model of forecasting and planning socio-economic development has to be taken by the Russian Academy of Sciences, ministries and agencies that have significant achievements in this regard and are ready to promote public importance and target goals of the reform, especially in public administration.

#### **3.4. Model of dominance of creative interests of social groups, carriers of rational economic structure in the system of state planning and forecasting.**

Of particular importance for Russia may be the German experience of “overall management” system (Henderson, 1993). It would allow the Public Council to represent social groups, suspended today from the actual management – hired staff, minority shareholders, customers, suppliers, creditors, and government agencies of the municipal or federal levels present in public councils. Enjoying the right to participate in elections, to monitor business activity, the Public Council may be a representative body that will contribute to the harmonization of interests of the four parties: industry leadership; state; corporate staff and common developing social and environmental institutions, forming the processes of social and economic development and institutional changes, based on the consistency of all the parties. Not attempting to be original, we should emphasize that such changes must possess a number of characteristics of the national economy and particular opportunities. Considering previous studies (Borsch *et al.*, 2015; Burkaltseva *et al.*, 2016; Burkaltseva, 2012), the aim of the new ecosystem is to achieve as much as possible qualitative growth under particular conditions of security, not only economic (financial, manufacturing, investment, food, macro-economic, social, science and technology, foreign trade, energy, demographic, institutional), but also military, political, environmental, informational, legal, and cultural. The social essence of the model is the dominance of creative interests of social groups, carriers of rational economic culture (Fig. 1). Maximizing the welfare of these social groups is achieved through their total personal incomes and social benefits based on the triad: security – identity – social guarantees

and standards. The allocation of resources is carried out through a set of investment and production decisions of business and government. The main instrument of state influence on this process is the regulation of the business structure of pricing, to ensure stability of the monetary and technological introductions of the long-term national economic growth. The basic meaning of planning becomes the consistency of price, investment, wages, businesses and the state, as the main regulator. We note that the carriers of rational economic structure of the national ecosystem are creative social groups, which in the current conditions of globalization are, if not the only, the main instrument to preserve the integrity and security of the state, as an intellectual resource, given the essential and spiritual identical component.

The principal way of our legacy from the past in order to maintain the balance of the national economy on the micro and macro levels did not foresee the formal control over small and medium-sized businesses. A similar approach was fully based on an idea of the classical school of political economy that determination of price and distribution were carried out at the same time (Eichner, 1976). The ongoing maintenance of indicated ratios at the level of balance was the main objective of the proposed

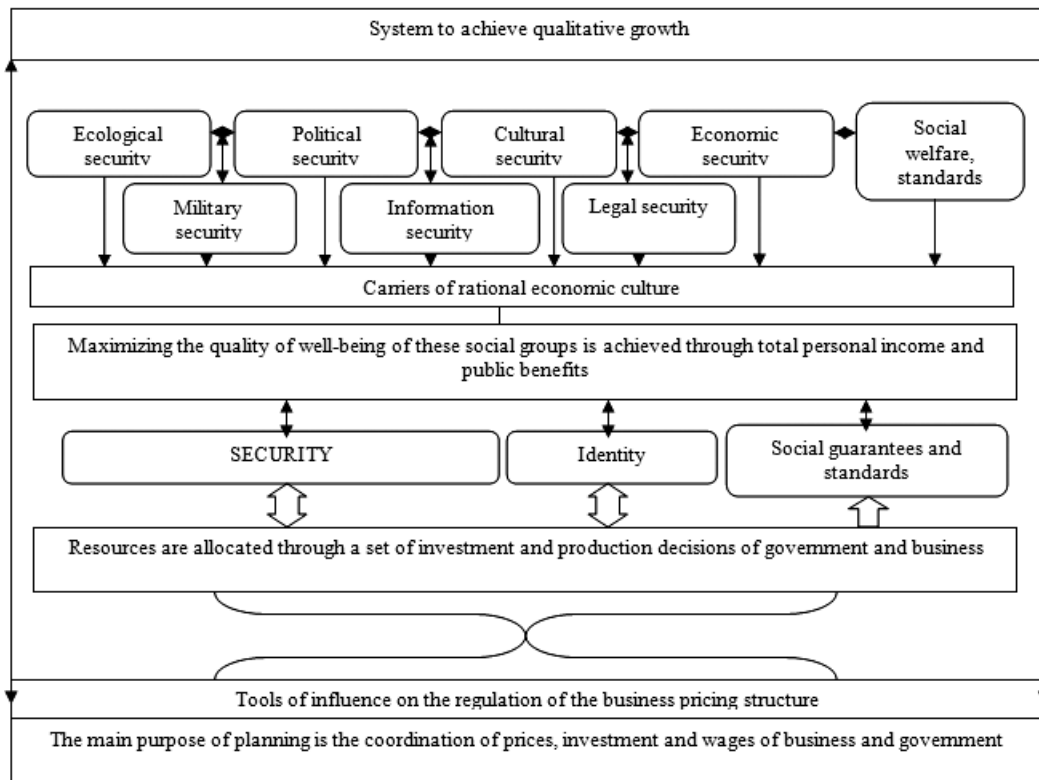


Figure 1: Model to achieve qualitative growth of the system, dominated by the interests of creative social groups, carriers of rational economic structure of the national ecosystem



approach. Of course, forecasting and planning was, on the one hand, binding, while on the other hand, – strict, not for discussion, based on a system of mandatory interrelated forecasts (Borsch *et al.*, 2015).

As the main research object of the economy, the investment behavior of large corporations must come to the forefront, and the management of these organizations should be involved in that work. Annual forecasts should be based on corporate plans, taking into account the sporadic market trends. Mutual interlinking of the three types of forecast contributes to the unity of the long-term, medium-term and short-term planning, providing a joint strategy for cooperation of the governmental economic development strategy in the context of globalization with prospective development of individual sectors and particular corporations. For the realization of synergies and the effectiveness of current planning and forecasting purposes, it is necessary to adhere to the key strategic objectives. Unity planning at all three time horizons provides for planned economic growth as a process of informed maintenance of proportionality of the economy. It should be noted that forecasting on the time interval of 15-20 years must take into account the main trends of the global economy for forecasting and planning the national economic development. Also, it should be remembered that everything has a life cycle and any planned system should be transformed to the extent of global changes, together with institutional rules and regulations. Then, forecasts will be qualitative in nature. Short time horizons increase forecast accuracy, and quality analysis is measured by quantitative indicators. It seems appropriate to develop a federal standard on forecast of socio-economic development for the country as a whole and for the regions individually.

### **3.5. The dichotomy of the unity of opposites of market and capitalism in the system of state planning and forecasting.**

The dichotomy of the unity of opposites of economic development of the present economy – where the market and the plan are a model of dominating interests of social groups, carriers of rational economic structure capable of ensuring the economic growth rate of the system, are an instrument of economic reality.

The processes of planning and market management can be implemented by the administrative apparatus, which consists of three levels: the highest body/authority of state power, ministries and agencies, corporations. This approach brings into focus the problem of organizing interaction of state bodies of different levels. The main objective is the distribution of duties and responsibilities between them. The key interaction between the state and big business may be the concept of long-term contracts of the state, corporations, and municipal bodies. Thus, the parties with not only rights but also liabilities will emerge, which will strengthen the responsibility and harmonize the institution of believing the authorities. The key to the interaction of big business may be the concept of indicative planning of the famous American post-Keynesian scholar Eichner (Burkaltseva *et al.*, 2016). The concept is based on the mega-corporation

model, which provides that decisions on the company's income, investments and prices are taken at the same time. The decisive role in a similar system of indicative planning is played by sectoral commissions in which representatives of the state, management, shareholders, and workers seek a compromise at the level of wages, investments and prices for the next planning period. An integral part of this mechanism should be sectoral tripartite commissions, which form the remuneration benchmark in the industry to enhance modernization. State participation in this process will ensure compliance of sectoral plans with the macroeconomic equilibrium. A special role in the achievement of compliance with plans will be played by the new pricing system. It requires structured planning objects – the national economy by areas of activity, which will apply different management methods. The national economy is divided into spheres of directed, regulated and free prices. The degree of rigidity of those main parameters of state regulation of the economy will be determined by the other regulatory authorities. They must be more rigid in supporting sectors that define the costs of manufacturing sectors. Here, prices should be set by the state, based on the needs of a balanced development of the economy. The model of management of these industries should be public tariffs service (which will include representatives of public councils), which regulates the natural monopolies in major industries, including oil, coal, metallurgical, chemical, pulp and other corporations. Such a service should consider four aspects in the energy sector of natural monopolies: natural output, income, expenses, and investments. This approach should seek to plan the operation of supporting industries, which tend to produce standard products. Therefore, they can be supported and funded via government programs, adjusting the pace of development and maintaining technological business structure. This regulation should govern the two types of indicators: products by types and products by regions. Both types of analysis must be applied to corporate incomes. Costs *per se* have complex classification and yet they must be present as indicators in these two aspects. Investments are classified by project classes.

Practice shows that in the course of hard work to analyze all the indicators mentioned above using the balance method is imperative. The impact of the level of prices on the national economy as a whole provides the ability to anticipate using the input-output balance for the future development. A useful foreign experience for the discussed model of the economy is the government's role in the modernization of the Asian "tigers" in the postwar years. In South Korea, they developed five-year plans for economic development, which were fixed at the legislative level. As per Farbariv, "these laws provided for steps seeking to implement plans: restrictions for the penetration in priority sectors of random 'newbies', especially foreign competitors, defining technical standards for equipment in selected industries and for finished products, control over quality and manufacturers' prices" (Krasilschikov, 2003). Later, a single law on industrial development was adopted, which unified all the previous steps, and was aimed at stimulating the development of new and rationalization of the existing industrial sectors.

#### **4. CONCLUSION**

It was identified that the dichotomy is a system model to achieve quality growth, able to reflect the pattern of conflicting two parts, market and capitalism, with the dominance of interests, capable of optimizing the relationship and interests of different social groups and classes, reaching compromises of the interests of the state and the social community, improving on this basis the effectiveness of the national economy, social standards and standards of living.

The model of management of a modern market system in the state was developed, which determines that the market and the plan do not contradict to each other, and can work in controlled proportions. This new challenge is realized through the rebirth of forecasting and planning institution that must go a new market, democratic and transparent way that will create real opportunities for mutual monitoring of the above social forces on micro, macro, and meso levels, on a compromise of which the modernization of the state depends.

Institutionalism was considered as an integral result, a single control system, via twisting system/methods highlighting and summarizing the processes and phenomena of systemic hierarchies, developing proactive recommendations and applying the highest influence tools.

The genesis of the essence of “institutionalism” category was investigated based on irrational and rational choice of neo-institutionalism and capitalism. The hypothesis of associative thinking was considered and weak structural system was described more accurately as well as the dynamics of the contradictions of capitalism and market, for better institutional forecast and planning of socio-economic development system.

The experience of countries with developed market economies has proved the effectiveness of the internal state governance mechanisms capable of creating the internal energy to strengthen the corporate governance mechanisms. The key for state and large corporations may be the concept of indicative agreement on parity of price policy, wages, and investments in future periods.

Further research should be directed at the methodological basis of the principles of the system hierarchy through “organized complexity” approaches; theoretical and methodological foundations for decomposition of multivariate space of interconnected sectoral socio-economic indicators using neurotechnologies.

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