

# Microeconomic Features Socialist Transition and Capitalist Economie

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**Abstract---** *This paper discusses the main features of a socialist and capitalist economies, monetary policy in a socialist economy, matters related to accounting and business analysis, issues of improving the system of criteria for determining signs of economic insolvency of enterprises, microeconomic problems of countries with economies in transition.*

**Keywords---** *Socialist Economy, Corruption, Capitalist Economy, Budget Financing, Monetary System and Public Policy, Monopoly, Firm Budget Constraint, Accounting and Business Analysis.*

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## I. INTRODUCTION

Socialism is the doctrine that freedom and equality, happiness and prosperity can be achieved through the transformation of private property into social property. Proponents of socialism consider a social system built in this way to be a perfect society.

The main features of a socialist economy

1. All property rights belong to the state. Private property is being liquidated.
2. Management of the economy is carried out from a single center, which decides: what, how and for whom to produce.
3. The market mechanism as a decentralized communication system based on price signals is destroyed; money ceases to fulfill its primary function.
4. The share of each participant in the production process in society is determined on the basis of labor costs; such an order, according to the theorists of socialism, destroys social injustice and exploitation.
5. There are no transaction costs in the system of economy managed from the Center.

The main features of totalitarianism (from lat. Totus - whole, whole, aggregate)

1. Unified ideology.
2. A single party is a monopoly led by one person.
3. State monopoly on coercive means.
4. State monopoly on the media.
5. Repressive police system.
6. The total dominance of state ownership of all factors of production.

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### The main features of the bureaucracy

Bureaucracy has always been and is the number one tool for those who control the activities of the bureaucratic apparatus.

1. Large size organization.
2. Clear hierarchy.
3. Availability:
  - Formal rules and laws;
  - Long-term staff to fulfill stable responsibilities.

Bureaucratic management is a department that must follow the detailed rules and regulations established by the authority of a higher authority.

The harm is not caused by the bureaucracy itself, but by its desire to intervene in absolutely all spheres of society, to keep all aspects of the country's life under control. This is exactly what the bureaucracy does in the command-administrative system.

### *The Main Features of Corruption*

Lack of clear laws, instability lead to **corruption**. Corruption - bribery, corruption of political and public figures. The low incomes of the apparatchiks exacerbate the situation even more - there is a desire to replenish them from secondary sources, legal (distribution system: official cars, cottages, closed distributors) and illegal (bribes).

Objective and subjective reasons why government officials are not able to properly perform their duties assigned to them by society

1. Objective reasons - the government makes the wrong decision, being mistaken about the information received about it about the interests and preferences of various groups of society. Such reasons include, for example, lobbying.
2. Subjective reasons - the government takes decisions contrary to the interests of society, not due to lack of information, but guided by its own interests. Officials can make decisions that put them in preferential terms (on the construction of state dachas, on the use of state-owned cars, on salaries and benefits), make regular appointments not on their merits, but on the basis of personal loyalty, up to the placement of relatives and friends in separate posts. Socially-popular events are taking with a short-term effect, but with catastrophic consequences in the future. For example, on the eve of the election, you can spend half of the national treasury, but what will it turn out to be afterwards?

The only way to deal with this situation is to exercise effective control over the activities of the managerial apparatus, but in the command and administrative system this is practically impossible, because there is no alternative to the command system of economic management – a market mechanism and a developed civil society.

## II. MATERIALS AND METHODS

Four conditions for a firm budget constraint (ideal case of a tight budget constraint):

1. Exogenous prices (the supplier or consumer is not able to influence the sale prices of finished products, that is, the enterprise is a “price receiver” and not a “price seeker”).
2. A strict tax system, which provides for a low degree of progression of tax rates, and compliance with the following principles:
  - An enterprise cannot influence taxation standards;
  - Taxes are set on the basis of easily calculated criteria;
  - No individual incentives for enterprises;
  - Taxes are strictly paid.
3. Lack of free state support.
4. The impossibility of external financial investments (owners can withdraw profits, but do not have the right to invest it again in the development of production).

Institutional phenomena affecting tight budget constraints:

1. Concentration of production, the formation of an oligopolistic market structure lead to the emergence of “price recipients” firms, which themselves actively influence prices.
2. The role of the state in the process of redistribution of income of business entities is growing.
3. Businesses can mitigate the rigidity of paragraph 4 by making extensive use of mutual loans. They are paid not so much in cash as they make cashless payments based on the relationship of the creditor - the debtor.
4. Owners of funds can invest in expanding the activities of enterprises.

In a capitalist system, all of the four conditions mills I tsya almost stiff. For example, in their pricing policy, monopolies and oligopolies are limited by the solvent demand of the population, fierce foreign competition, etc.; loans are not distributed free of charge; the state is not liable for the debts of private firms; the buyer cannot force the seller to provide a loan without prior agreement, refusing to immediately pay for delivered goods, etc.

In the conditions of the command-administrative system, the budget constraint for the enterprise becomes soft.

1. Prices are not exogenous. An enterprise can pass on to the consumer an increase in its costs by inflating prices. The state only authorizes enterprises to cover mismanagement and wasteful use of resources at the expense of the end consumer. The consumer is forced to put up with this process in the conditions of the supplier’s monopoly and total deficit.
2. Soft tax policy:
  - The company affects the formation of tax rules (lobbying practice);
  - An enterprise may violate regulatory regulation with impunity and receive benefits, deferrals, etc.;
  - Taxes are not strictly paid.
3. Gratuitous state support.
4. Soft credit system. The company can get a loan, even if it is known that it will not pay the debt on time with the appropriate interest. Debts, accumulating, can simply be written off.
5. External financial investments on soft terms. The state may make financial injections not to expand production at the enterprise, but to solve problems associated with financial difficulties.

The capitalist economy is almost not confronted with resource constraints; businessman does not know what a constant lack of raw materials, materials, equipment, labor. Prices for all factors of production determine the volume of consumption of these resources, in the most effective combination, and the demand for them cannot be unsaturated.

In a socialist economy, prices have practically no effect on the behavior of the enterprise; the demand for resources becomes unsaturated and constantly unsatisfied.

The effect of income and its effect on changes in the price of goods and the real income of the buyer.

With increasing prices for any type of resource, the derivative demand for them decreases, because within a given budgetary constraint, the company will be able to acquire fewer more expensive factors of production.

Under the socialist system, due to soft budget constraints, the income effect does not work. The company acquires more expensive raw materials, equipment, I am confident that its increased costs will ultimately be passed on to the consumer of the finished product or paid by the state. Price signals are constantly distorted both under the influence of directives and orders, and under the influence of deficit. The consumer seeks to acquire a scarce resource, despite an increase in the price of it. Therefore, the higher the deficit intensity, the more difficult is the effect of the price signal.

### ***Budget Financing***

It sharply reduced the interest of enterprises in the efficient use of resources. Investments from state sources were perceived as gratuitous, which led to inconsistency of local interests and the interests of the central government.

### ***Monetary Policy in a Socialist Economy***

Until 1990, statistics did not provide data characterizing the state of money circulation and the banking system: it did not contain an indicator of the amount of money in circulation and its dynamics; economic calculations did not use the division of money supply into aggregates M1, M2, and accepted in many countries of the market economy etc.

### ***Causes***

1. Monetary aggregates were not converted among themselves and, therefore, the concept of liquidity was not used in relation to the indicated monetary aggregates.
2. There was no such thing as reserve accounts of enterprises.
3. Statistics did not divide the accounts of enterprises into: urgent and demand deposits.

## **III. RESULTS AND DISCUSSIONS**

Characteristic features of the monetary system and public policy:

1. The Central Bank (CB) was given a secondary role compared to decision makers; The Central Bank acted only as an accountant of monetary policy, and therefore money was considered primarily as an accounting category that appears in forecasts and plans; they were not used as an instrument of economic regulation and

they played an active role only in the form of cash in the consumer market and in a certain framework when remunerating.

2. 9/10 money was non-cash money. No one planned cashless circulation.
3. There was a strict regulated cash flow between sectors of the economy. For example, funds for investing could not be used for working capital, for the payment of wages, for research purposes, and even more so for the purchase of goods for import.
4. Insurmountable barriers were erected between cashless payments (settlements between enterprises, banks and the state) and cash turnover (payment of wages and other settlements with the population).

As a result, in 1989, a cash ruble in the former USSR cost three non-cash rubles, and there was an exchange on the "black market" between the two forms of money.

5. Under such conditions, the ruble could not truly fulfill its functions of money, and acquired different values in various sectors of the economy. Such isolation from the movement of material values created obstacles to solving the economic problems of society. Enterprises could not realize their available funds due to the shortage of many types of material and technical resources and the system of their stock distribution.
6. Created the conditions for the functioning of the shadow economy.

According to financiers of Western countries, the presence and size of the shadow economy depends on the structure of taxes. If the share of direct taxes prevails in the structure of state budget revenues, then this can lead to an increase in the shadow economy.

The main slogan in the tax systems of developed countries: "Few privileges and more indirect taxes."

Microeconomic problems of countries with economies in transition (receivables and payables)

The presence of receivables and payables is a normal phenomenon for the balance of any enterprise, associated with a mismatch in the terms of shipment and payment of goods. Their growth, comparable with the increase in production volumes and the movement of commodity-cash flows in absolute amounts, is also a normal phenomenon. The problem of non-payments is the presence of arrears. All measures should be aimed at preventing overdue debt.

In most countries of the world, depending on the structure of the economy, accounts payable reaches up to 60-70% of GDP and characterizes the need for borrowing funds for economic entities for the reproduction process. However, non-payments (arrears) make up no more than 3-5% of GDP and sustainable non-payers are declared bankrupt. As world wholesale shows, the inclusion of a bankruptcy mechanism can result in overdue debts to an acceptable level.

On the whole, the problem of non-payments remains a weak link in deepening economic reforms. The main causes of the problem of non-payments are:

1. Incompleteness of structural reforms in the real sector, low competitiveness of domestic producers in the foreign and domestic market.

2. Ineffective financial management of enterprises at the micro level due to the underdevelopment of modern market management.
3. Weak implementation of the bankruptcy procedure of economically insolvent enterprises.

In our view, to solve the problems of non-payment should be focusing first on e of the following questions:

1. It is necessary to speed up work to create a market for debt claims and obligations as one of the directions for increasing the efficiency of the financial market. At the same time, it is clear to enterprises and banks that the state no longer intends to take over the repayment of their overdue and bad debts. The role of the state and the Central Bank should be limited only to the provision of the necessary regulatory and organizational and legal mechanisms aimed at preventing such violations (for example, financial fraud).
2. To practically introduce the bankruptcy mechanism of inefficiently operating enterprises that generate a chain of non-payments, providing for procedures for the quick satisfaction of claims between the supplier and the buyer, as well as a system of enforcement of court decisions. A narrow circle of enterprises in serious debt should be identified. If any of these enterprises is recognized as a hopeless debtor, the government itself must initiate bankruptcy proceedings. If the bankruptcy of an enterprise cannot be considered expedient, for strategic reasons, the problem of preventing new defaults should be addressed by reconstructing the enterprise and allocating budget financing for the medium term. At the same time, it is important to note the requirement to pay off existing debt and avoid non-payment in the future.
3. For large non-payers, an order should be established so that products are shipped only with the guarantees of commercial banks.
4. It is necessary to organize, with the active participation of commercial banks, production or purchase from abroad the means of small-scale mechanization for agricultural entrepreneurs. Given their low initial solvency, it is advisable to create branches of leasing companies serving agriculture in each region, because, as the experience of developed countries shows, leasing operations are one of the main mechanisms for economic development in the context of a lack of financial resources.

Matters related to accounting and business analysis

In countries in transition, many enterprises fall into the zone of economic uncertainty and increased risk. Enterprises needed to objectively evaluate the financial condition, solvency and reliability of their partners, continuous monitoring of the quality of settlement and financial transactions and payment discipline.

According to generally accepted criteria, an excessive growth of a company's debt obligations by an amount 2 times the value of its property is one of the conditions for applying bankruptcy proceedings to it. Nonetheless, the vicious practice of borrowing is rooted in many businesses. The paradox of life was the situation when an enterprise, which is considered a hopeless debtor, at the same time has a solid foreign currency account, makes active financial investments in shares and other securities, in the authorized capital of other enterprises and banks. Using the mechanism of an interest-free commodity loan, partner enterprises receive products without prepayment, turn them into money and use them as working capital. If for a long time the parties do not show a desire to collect (pay off) debt, then in their actions you can see signs of conscious intent not to pay. So the phenomenon of mass non-payments turns into the immoral benefit of some business entities that make void transactions.

The legislation in the Republic of Uzbekistan establishes a 2-month period from the date of actual receipt of goods by the debtor, during which all settlements between the producer and the consumer must be made. If this requirement is not met and the creditor has not taken decisive actions to collect the debt, then the debtor is invited to voluntarily, within one month, make the proper payments to the state. After a month, the unclaimed amount is transferred from the account of the enterprise to the budget by force. Thus, the receivable becomes a loss to the lender.

The state of receivables and payables, their size and quality have a strong impact on the financial condition of enterprises.

The analysis of accounts receivable and payable is carried out according to the analytical accounting on the corresponding accounts monthly (in Uzbekistan, on accounts receivable, accounts 09.45.61-82, on accounts payable 60.65.67-71.75-76.79).

Issues of improving the system of criteria for determining signs of economic insolvency of enterprises.

One of the categories of market management is the bankruptcy or insolvency of business entities.

Bankruptcy of an enterprise is understood as its inability to finance current operating activities and pay off urgent obligations.

Bankruptcy is a consequence of the imbalance of the economic mechanism of reproduction of capital of the enterprise, the result of its ineffective pricing, investment and financial policies.

#### IV. CONCLUSION

In countries of a market economy, a mechanism has been developed to anticipate and protect enterprises from complete collapse. The main elements of this mechanism are:

- Legal regulation of bankruptcy;
- The availability of organizational, economic and regulatory and methodological support for decision-making processes in the implementation of acts of insolvency (bankruptcy) of enterprises;
- Measures of state financial support to insolvent enterprises in order to preserve promising producers;
- Financing of reorganization and liquidation measures;
- Economic protection of the interests of all participants in bankruptcy proceedings;
- Maintaining a register of insolvent enterprises; ensuring the publicity of bankruptcy information for the general public.

Thus, in countries in transition, in particular in the Republic of Uzbekistan, the main microeconomic problem is the mutual settlements between business entities and structural reforms in enterprises.

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