THE EVOLUTION OF THE REGULATORY FUNCTION OF THE STATE IN THE ECONOMY AND THE 'INVISIBLE HAND' OF THE MARKET

Hristo Borissov Tsvetanov[1], PhD student

Abstract: The paper presents the evolution of economic thought from its birth in ancient Eastern societies till present day, in terms of different approaches to property; the need of laws; state intervention and regulations. We review major economic theories within the historical context in which they appeared to arrive at arguments in favour of or against state intervention in the economy of a nation, in contrast to the effects produced by the 'invisible hand' of the market.

Key words: economy; market; state; 'the invisible hand'.
JEL: F00.

Introduction

A review of the evolution of the economic thought over the different stages in human development indicates that the process of expansion was paralleled by a growing need of order, laws and state regulation. The focus of attention in this paper is on the economic phenomena, which led to the

---

[1] Chairman of the Bulgarian Association of Agricultural Producers (2009 – 2014 г.), Member of the Management Board of the Institute for Agro-Straty and Innovation.

origin of different economic theories and schools, as well as the need of state or market regulation.

The **object** of this research is the market and/or the state as a regulator of the economy; the **subject** of our research is 'outlining' the scope of the evolutionary conflict between the regulatory function of the state and the 'invisible hand' of the market from the perspective of the economic schools, which focus on the triumvirate of economic agents, i.e. governments, companies and households.

The **aim** of this paper is to present an evolutionary review of economic theory from its occurrence in ancient Eastern societies to the present day. Such a review could then be used to further research the economic effects upon the agrarian sector as the one accumulating the most substantial resources from EU funds. To accomplish this, we need to fulfill the following **tasks**:

- Conduct a systematic analysis of ancient societies since they provide the first evidence of the role of the state in regulating economic relationships and processes;
- Summarise existing theories about the dominant role of the state and/or the market in the economy;
- Identify major economic crises and their impact on the development of global economy and business;
- Provide evidence in favour of the regulatory function of the state in the economy;
- Present findings and conclusions about the Common Agricultural Policy of the European Union as a classic example of a supranational regulator.

The paper supports the **thesis** that there is a mutually beneficial relationship between the state and the market which results in their interaction so as to promote business and economy and overcome any policies or practices which may oppose the two entities to each other (see Fig.1).

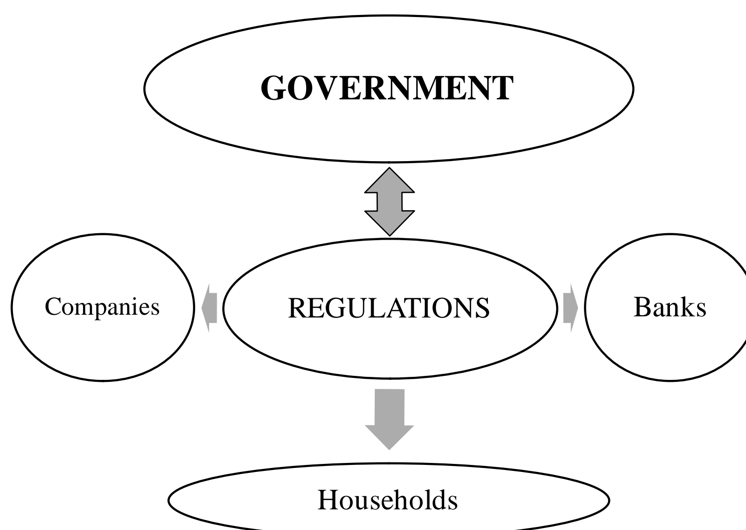


Figure 1. Regulations and economic agents

I. The Evolution of Economic Thought in Ancient Eastern Societies

Historically, economy is as old as human society. The effort to study, analyse and summarize facts about the economy dates back to ancient times. The experience, skills, habits and knowledge acquired in the production of commodities were passed down to generations through songs, legends and myths. The appearance of writing systems helped transform accumulated knowledge and existing myths into rules about and principles of good husbandry and production management (Yordanova, 2009).

The term 'economy' is believed to have been first used by the Greek poet Hesiod in the 6th century B.C. It was introduced in scientific circles by Xenophon in his work 'The Oeconomicus' (circa 354 B.C.). Ancient Greeks used the concept 'oikonomike' (from '*oikos*' – home and '*nomos*' – law, rule) to refer to good household management. For a long time, economy was approached as a system of organizing and managing slave-owners' and feudal

estates. That approach was subject to changes and further development after the establishment of national economies, while the concept of 'economy' acquired a broader meaning to refer to the rules of managing the national economy of a whole country, rather than a single household (Kirev, Vasilev, & Shishmanova, 2015).

The earliest traces of economic thought can be found in the written monuments left by ancient Eastern civilisations. Food abundance, the high concentration of population in micro-regions, favourable weather conditions and various other factors contributed to the birth of economic ideas. The development of agriculture, the introduction of irrigation systems[2] and increased labour productivity led to significant cultural and economic progress (Kanev, Kirev & Naydenova, 2005).

The economy of ancient Egypt was based on autarkic households and barter. Ownership was interpreted as the state of possessing and utilizing different items which were either the private property of individuals or which they had access to due to their position as administrators or priests.

State property was considered to be public, rather than privately owned by the Pharaoh. State domains could only be inherited in conjunction with an administrative position. An item could be considered private property only if produced using one's own labour and materials upon private or no-man's land, but not upon land which belonged to the King (Kanev, Kirev & Naydenova, 2005).

Some scripts from Ancient Egypt provide evidence that the state economy was subject to careful organisation and management. Records were made of available labour force and tangible resources. The number of livestock was periodically recorded; the population of the country was thoroughly counted accounting for its age and professional characteristics; land plots was comprehensively recorded in cadastres, etc. (Kanev, Kirev & Naydenova, 2005).

In contrast, another oldest civilization, that of Babylon, was an example of much faster development of private property and commodity-money relations. Their development was a prerequisite for the appearance of multiple producers and merchants, on the one hand, and for their bankruptcy and

[2] Note: This is also the first evidence of artificial irrigation systems (canals) which men built across cultivated land plots.

getting into debts, on the other hand. The state therefore had to urgently intervene through *state regulation* so as to govern legal relations in terms of private property, trading conditions, lease and rent agreements, etc. and protect free citizens against money-lenders (Kanev, Kirev & Naydenova, 2005).

We consider the laws coined by Eshnunna (20th century B.C.), Lipit-Ishtar (20th - 19th century B.C.) and Hammurabi (18th century B.C.), to be significant to the economic development of the Old Babylonian Empire. The Laws of the Old Babylonian Kingdom of Eshnunna (recordings of which were discovered by archaeologists in 1945 and in 1947) are some of the oldest evidence of state regulation and consist of 61 legal rules. The composition included provisions about economic and trade relations and dealt with numerous situations, including slavery relations, etc. The Laws of Eshnunna also set fixed prices for two commodity groups[3].

As for the Laws of Lipit-Ishtar, the prologue, the epilogue and 39 provisions are extant. The provisions in the collection deal mainly with rent, inheritance rights and property liability. The first group of these laws prescribes methods for calculating the compensation, which was due in case some damage had been inflicted to the leased or rented property. The second group of laws deals with marriage and associated property rights. The third group of laws deals with land disputes and the liability for destructing or appropriating property.

The collection of rules, which became known as the Laws of Hammurabi was discovered by archaeologists in 1901 and provided that 'the strong shall not oppress the weak'. The sale of land plots was forbidden. Special attention was paid to private property; rights and obligations related to lease and rent; payment, etc. (Kanev, Kirev & Naydenova, 2005).

The Neo-Babylonian Empire (626 - 539 B. C.) witnessed some of the most remarkable achievements in terms of production; the fast development of commodity-money relations, silver being the universal equivalent at the time. Archaeologists have discovered evidence that loans were extended against housing, slaves and land as collateral or without being secured by collateral at all. The first 'business houses', which were the predecessors of

[3] Note: The first group includes catfish, silk, honey, barley, etc.; the second group includes different oils. The value of barley was measured in silver.

modern banks, appeared to accept deposits and to pay out interest, to provide loans, to cash cheques, etc. (Kanev, Kirev & Naydenova, 2005).

Economy in Ancient India relied on plant-growing, animal-keeping, crafts, money-lending and trade. Economic independence was sought after while reliance on somebody else was considered to be a vice. There were three ultimate goals to be pursued by people throughout their lifetime: to fulfill their religious duty; to acquire material affluence and to experience passion.

The economic though in Ancient China developed in several schools, which became known as Confucianism, Legalism, Daoism, etc. The father of the philosophy of Confucianism, Confucius (551-479 B.C.) identified labour as the major source of the wealth of a nation. Confucius championed the interests of the aristocratic families, which were being expelled from their land by private slave farms. He did not condemn slavery. An underlying idea of Confucianism was that of the 'noble man' governed by his sense of filial piety and respect for the elders (ibid, 2005).

We could therefore conclude that the economic development of ancient Eastern societies was based on agriculture in which items for both personal consumption and trade were produced. Yet, societies needed to introduce laws that would prescribe relevant rules and regulations for governing economic relations.

II. Contemporary Economic Theories and Their Contribution to Developing the Regulatory Function of the State

In the course of development of human society, new ideas and assumptions appeared thus contributing to the further development of economic thought. As trade expanded and production of commodities increased, commerce began to be perceived as the chief source of the wealth of a nation and the philosophy of mercantilism was born. Most modern economists agree that the appearance of mercantilism coincided with the historical period in which existing economic ideas and theories began to be approached as constituents of a new branch of study and knowledge – that of the economic science.

Mercantilists never presented their views in a comprehensive theoretical system. Rather, they shared their views as ideas, comments and practical guidelines. An underlying principle of the philosophy of mercantilism is that the wealth of a nation can only be measured in money, and that production, as a prerequisite for creating wealth, is to be encouraged and supported by governments. The sale of produced commodities is then the source of wealth, since finished products turn into money through their sale. Sales generate profit, as the prices at which goods are sold are higher than the prices at which they are bought. Mercantilists also considered the state to be a major factor to the development of a national economy (Grigovor & Beyazov, 1990).

The increased volume of capital in agriculture in the 18th century led to the appearance of a new school of economic thought in France – that of the physiocrats who drew their economic theories from Francois Quesnay (1694-1744). Quesnay and the physiocratic school claimed that '*land is the only source of wealth and that agriculture helps increase that wealth*'. The philosophy of the physiocratic school is based on the concept of the '*produit net*', i.e. net product. According to the physiocrats, a net product can only be created in agriculture (ibid, 1990).

Adam Smith (1723-1790) is considered to be the economist who integrated the principles of political economy into a science. His work '*An Inquiry into the Nature and Causes of the Wealth of Nations*', published in 1776, laid the foundations of the Classical School of economic thought and is considered to be the departing point for all subsequent economic theories and ideas in favour of the market economy (Kovachev & Vladimirov, Ikonomicheska teoriya, 1999). According to Smith, the main driving force of economic development is the competition which forces a market player to take into account the prices set by all other market players. He claimed that one of the functions of the market was to promote the production of goods which consumers needed so that these goods could sell (Trendafilov, 2001).

Smith advanced the thesis that a major factor contirbuting to the growing wealth of nations, and hence, their economic progress, were not their geographical location, climate, soil, etc. but labour and its growing productivity. This idea added new dimensions to the development of economic thought. One of the central tenets in Smith's treatise is that the

quantity of the products which are available as food supply to nations depend on both the quantity of labour employed in their production and the productivity of that labour. The Classical School of economic thought laid the foundations for two other major schools of economic theory. One of them developed further the ideas proposed by Smith, and later by Ricardo, to arrive at the conclusion that human society tended to follow an evolutionary course of development. The representatives of the other school of economic thought criticised existing social relations and formulated the laws of changing the social system through a revolution. The radical views of the German phylosopher, economist and political theorist, Karl Marx, were shared by a large number of people (Yordanova, 2009).

The proponents of the Classical School of economic thought established a Neo-Classical School at the end of the 19th century and further expanded the subject of economic theory. The underlying principles of Neo-Classicism were those of economic subjectivism as they had been formulated in ancient times in the treatises of the Greek philosophers and scientists Xenophon and Aristotle. Some of them refer to freedom as an ultimate human value; the natural order hypothesis; free competition; natural laws and the natural harmony in which interests exist; the thesis that, in the long run, economies operate at the level of their potential by fully exploiting all available resources, etc. (Kanev, Kirev & Naydenova, 2005).

The Neoclassicists focus on the analysis of marginal values. The major objective is to study the positive or negative growth of economic values as interrelated phenomena within national economies, branches at a microeconomic level, or companies. Hence, the diminishing marginal utility, returns and productivity determine the maximum quantity of a commodity, labour, income, etc. which can be consumeed before their utility begins to decline (Kanev, Kirev & Naydenova, 2005).

In the first half of the 20th century, the British economist John Maynard Keynes formulated a theory, which focused on the limitations of market mechanisms and advocated for government intervention to curb their negative effects. The years of the Great Depression (1929-1933) put an end

to the belief in Say's Law of Markets and the tenets proposed by the Classical School of economic thought that economies were self-regulated[4].

The new situation rendered it necessary to approach ongoing economic processes from a different perspective and to urgently identify anti-crises measures. John Maynard Keynes' economic theory thus marked the beginning of what prominent economists define as the Keynesian revolution in economic thought. Keynes employed critical analysis to prove that economic equilibrium was possible even when there was not full employment within a national economy and that such equilibrium could be ensured through government intervention (Kanev, Kirev & Naydenova, 2005).

In his most prominent work, '*The General Theory of Employment, Interest and Money*', the economist paid special attention to the marginal efficiency of capital, which he defined as the ratio between the income expected from exploiting an additional unit of capital and the expenditures incurred for the production of that unit. Hence, concludes Keynes, capital generates profit due to its scarcity and an increase in its quantity will result in the declining efficiency of that capital (Kovachev & Vladimirov, 2001).

We can therefore conclude that the historical development of human civilisations and social relations was accompanied by an evolution in economic thought, from Mercantilism to Keynesianism, in favour of the active intrvention of states into national economies.

III. A Review of Economic Crises and Their Impact upon Economic Agents

This part of the research reviews chronologically the major economic crises in global history and the immediate effect, which they produced upon the economic agents: governments, companies and households.

The Great Depression in 1929 is defined as the worst economic downturn in the history of the USA, Europe and Great Britain. The aftermath

[4] Note: During the period, unemployment rose from 3% to 25%; the national currency was devalued; most banks went bankrupt; the national income declined by half; the rate of securities declined; entrepreneurship and the construction of housing estates came to a halt, etc. (Kanev, Kirev & Naydenova, 2005).

of the Great Depression was high unemployment, bank failures, a drop in the GDP, and declining values of the financial indicators of national economies. The crisis started in the notorious 'Black October' with the crash of the Wall Street stock exchange. It was due to a number of factors: a sharp fall in industrial orders; shortage of money supply; a dramatic increase in the population of the USA; and an unparalleled level of unemployment (32%) in 1932.

In his president campaign in 1932, Democrat Franklin D. Roosevelt promised a 'New Deal' and won an overwhelming victory in the presidential election (57% of the votes). He was inaugurated at a time when the USA was at the bottom of the worst depression. Roosevelt initiated immediate proactive government measures to address the country's economic woes and regulate the behaviour of companies and households. Furthermore, the President began addressing the public directly over the radio in a series of talks (the so-called 'fireside chats') which described planned economic regulations, and succeeded in restoring the public confidence in the system.[5]

Despite those nearly 20 newly enacted bills and all measures through which the state was enabled to intervene into the economy, Roosevelt's administration could not improve the values of the economic indicators sufficiently or deal with the devastating consequences of the Great Depression. By putting into practice the ideas proposed by Keynes in his '*General Theory of Employment, Interest and Money*', Roosevelt's administration increased both government deficit and government spending on investment. We should note, though, that some of the immediate effects of increased investments

[5] Those measures included creating a number of institutions and enacting major bills such as the Federal Deposit Insurance Corporation to protect depositors' accounts; the Federal Emergency Relief Administration; the Work Progress Administration to provide jobs to unemployed people through local projects; the Agricultural Adjustment Administration; the National Industrial Recovery Act (July 1933), which introduced regulatory measures and gave workers the right to unionise and bargain collectively for better working conditions; the Agricultural Adjustment Act (12th May 1933) which provided that commodity farmers would be paid to leave their fields fallow in order to end agricultural surpluses. The $ 12 billion debt of farmers was restructured by extending the term and reducing the interest rate on the loan. New loans on preferential terms were extended to nearly 500,000 farmers; the banking bill known as the Glass-Steagall Act (1933) distinguished between investment and commercial banks. Other major bills included the Homeowners Refinancing Act and the Gold Reserve Act, which reduced the gold value of the dollar by 41%.

were the greater number of jobs; increased purchasing power and consumption; and the higher share of people employed in public projects (nearly 4 million people).

Historical evidence about the effects, which economic crises produce on economic agents also speaks in favour of state regulation. Some examples include:

1. The 1973 oil crisis, which started with the Arab-Israeli war fought by a coalition of Arab states, led by Egypt and Syria, against Israel. The Organisation of the Arab Petroleum Exporting Countries then proclaimed an oil embargo targeted at nations, which were perceived as supporting Israel. The price of oil per barrel rose by 400% within a month.

2. The 1992 Souk Al-Manakh crisis, when Kuwait's unofficial stock market crashed. Share dealings using postdated checks resulted in huge unregulated expansion of credit, which affected thousands of investors, the worth of unsecured checks amounting to more than $ 94 billion.

3. The 1987 Black Monday, when stock markets around the world crashed. The value of the Australian stock exchange indices fell by 42%; those of the Canadian stock exchange – by 22%. The value of the UK's stock exchange indices fell by 26%; those of the USA's – by 26%; and those in Hong Kong – by 26%.

4. The 1998 Russian financial crisis. In order to raise public confidence in Russian economy, the Russian ruble was pegged to the US dollar. This attracted a large number of new foreign investors. A number of factors such as low productivity; corruption; lack of reforms; political instability; the devaluation of the ruble and unpegging it from the US dollar drove Russia to one of the worst financial crises. The spill-over effects of the crisis also hit the Ukraine and the Czech Republic and even affected the Dow Jones and the DAX indices, their values falling dramatically low. 5. The 1999 Argentine Great Depression when investors lost confidence in the country and left it; banks failed and the government was forced to freeze all bank accounts for a year, which provoked numerous protests and social unrest.

6. The 2007 financial or mortgage crisis which was brought on by the policy implemented to make home loans more affordable and the govern-

ment protection over two private mortgage companies, Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation).

7. The 2008 global financial and economic crisis, which had its origin in the increased sensitivity of the global market to the acquisition of financial institutions. In September 2008, the Federal Reserve expended $200 billion on the Fannie Mae and Freddie Mac bailout. This was followed by the collapse of the Lehman Brothers Holdings Inc. when the company filed for bankruptcy in September 20008. On the same day, September 15th, it was announced that Bank of America had bought Merrill Lynch at an extremely low price. The largest insurance company, AIG, avoided bankruptcy after selling 80% of its shares for $ 85 billion to the state. After it became clear that the mortgage crisis would be difficult to deal with, the Federal Reserve and the Department of Treasury offered a remedy plan worth $ 700 billion to bailout all bad assets. The crisis spread across to Europe and Asia. Hypo Real Estate in Germany borrowed 35 million from the state; in Great Britain, the troubled mortgage lender Bradford & Bingley was nationalized; Ireland issued a total of two-year guarantee to six major banks.

The G7 (France, Japan, Great Britain, Italy, Canada, the USA and Russia) also initiated a set of joint measures to deal with the crisis. Those measures sought to ensure the sustainability of the financial systems; to guarantee liquidity; to restore the confidence of investors and to secure mortgage loans. 2008 thus remained in world history as the year of black records with the biggest failures, the heaviest intervention on behalf of central banks and the most expensive government measures to counteract the crisis.

These examples clearly indicate that during an economic downturn, central banks can mobilize substantial resources to counteract the effects, which crises produce on national economies and their agents – companies, banks and households. Globalisation renders the spillover effects of economic turmoil even stronger. Negative economic effects are easily transferred across countries. Stock exchange panic quickly spreads over stock markets around the world and has a trigger effect on the volatility of assets and the expectations about stock market capitalization.

It is therefore necessary to design and implement both globally and locally appropriate mechanisms and agreements that would coordinate the

activity of central banks, international institutions and global funds so as to accomplish a common goal – to efficiently deal with emerging economic crises and prevent the occurrence of new ones.

IV. The Common Agricultural Policy as an Instance of State Intervention into National Policies on Behalf of the EU

The Common Agricultural Policy of the European Union is a prime example of a long-term mechanism for state intervention into the economy. The Policy was designed to deal with the consequences of a crisis, yet the post-crisis measures and instruments it proposed have been subject to elaboration and improvement to this day. The underlying idea of the CAP is to ensure sustainable agricultural production in order to provide food security for all EU citizens. At a lower level, the aim of member-states is to produce higher volumes of raw materials and products locally and thus ensure better food security. Some of the factors, which render state intervention in the sector necessary include the need to implement strategic production, as well as the dependence of the sector on climate and weather conditions; the danger of spreading diseases and pests on crops and animals; the time lag between the investment of capital and the end of the production cycle; the high dependence of agricultural production on limited resources (e.g. land); the growing number of population and changes in eating habits. Agriculture can only be developed provided that there is available land; workforce with specific skills and knowledge, and sufficient free capital (Blazheva, 2013).

The CAP was created in 1962, yet the reasons for its origin could be traced back to 1950 when Western Europe was trying to recover from World War Two. The Policy was introduced by the legislations of six countries - Germany, France, Italy, the Netherlands, Belgium and Luxemburg. Sicco Mansholt, a former Dutch farmer who entered politics in the 1930s, is considered to be the father of modern European agriculture due to his immense contribution to designing the CAP. The EU council introduced common market requirements for six agricultural products: cereals; fruits and vegetables; pork and chicken; eggs and wine, and set the rules for competition and trade.

In 1970, the EU adopted laws, which aimed to modernize agricultural holdings, to encourage the vocational training of farmers and to support farmers who worked in difficult conditions.

In the 1980s, farms were so productive that they were producing more food than was needed. Stored surpluses of food led to the 'food mountains' issue. The measures, which were introduced to align production with market needs, distorted the effect of market mechanisms on a global level. It became clear that global markets did not always serve farmers' interests and that incurred high budget expenditure at the expense of tax-payers. The first quotas on milk and sugar were introduced in 1984. In 1988, a maximum ceiling of the CAP budget was proposed.

The first major reform was introduced in 1992, when the CAP shifted from market support to producer support (i.e. the so-called 'direct aid payments' to farmers were introduced). 2003 started with a reform which cut the link between subsidies and production. A system of 'cross-compliance' was introduced to link the receipt of CAP support by farmers to environmental protection, food safety, public health standards and animal welfare (European Commision, 2017).

The reform which was launched in 2013 integrated sustainable direct payments to farmers with the so-called 'green payments' – a form of CAP direct payment whose objective was to improve the CAP's environmental performance. Green payments were designed to financially award farmers' commitment to the environment in terms of:

- Crop diversification;
- Maintenance of permanent grassland;
- Ecological focus areas.

The development model of EU agriculture is of key importance to our analysis. It is an example of a Common policy that was introduced more than 50 years ago and whose scope continued to expand in line with EU enlargement to refer to all present member-states.

It is a fact, though, that the governments in most countries support their agricultural production. State intervention in the sector is becoming increasingly important, despite the fact that it may differ from the most popular measures which are generally employed.

Currently, the CAP after 2020 is being discussed. A major issue to be looked into is whether to maintain or reduce the share of expenditure for agriculture in the EU general budget. The impact of two latest phenomena is also being assessed – Britain's exit from the EU (which will mean a reduction in the general budget of the Union by nearly € 12 billion) and the migrant crisis which was caused by the conflicts in South Africa and the Middle East.

These phenomena pose a challenge to maintaining the EU budget as either member states will have to pay higher contributions or the Union will have to align the implementation of its policies to a smaller budget. The possibility to simplify CAP procedures is also being discussed as the policy has been found to be an enormous administrative burden to agricultural producers, in addition to their increased commitment to environmental protections, animal welfare, rural regions development and risk management.

A question which follows logically from the considerations above is that about the marginal utility of state intervention in the economy and in the CAP in particular. In other words, is it possible to fulfill all assumed commitments and apply less complicated administrative procedures at the same time? Further on, is that the best model for ensuring sustainable production and food security? Is state intervention in a particular sector of the economy necessary, given the effects of the 'invisible hand' of the market? And finally, what is the point at which government regulation should stop in order to avoid unwanted market distortions?

Should our analysis go beyond agricultural issues and approach those problems from a broader economic perspective, it would be impossible to identify the state or the market as the sole regulator of economic relations or processes. Rather, a diversified approach needs to be employed to each sector of the economy. At any rate, it is the other economic agents – companies, banks and consumers – that 'pay the price' in case of excessive regulation and slowdown in economic activity due to imposed and constantly amended restrictions, quotas, embargos and standards. Hence, the EU is becoming a global economic entity whose share in global GDP is declining.

Conclusion

Contemporary economists would hardly claim that the state should refrain from any intervention in the economy and fulfill its regulatory and balancing functions. Clearly, the 'invisible hand' of the market cannot ensure desired economic growth, which, in its pure form, would not be a good or achievable practice at a micro- or macro-economic level. As a matter of fact, one of the characteristics of all developed economies is that their sectors are subject to numerous regulations exercised at all levels. Examples include the development of a strong public sector; the employment of various administrative mechanisms, such as laws, rules, regulations, policies, state incentives and subsidies, etc.

There is an ongoing debate among economists about the optimum level of state intervention into the economy. The proponents of the Neo-classical economic theory believe in the self-regulation of economic systems while the advocates of Neo-Keynesianism argue that markets themselves are not able to ensure their equilibrium. At the same time, state intervention instruments must be employed very carefully to avoid disrupting the normal operation of economic mechanisms or the natural course of economic development.

On the other hand, the policies implemented by institutions like the World Trade Organisation, which seek to coordinate the liberalization of global trade among member states and to provide a common framework of agreements in terms of duties and trade, aim to achieve the opposite effect, i.e. to encourage the liberalization of trade and eliminate any trading restrictions or prohibitions. This agreement has been signed by 162 member states of the WTO, which account for 97% of global international trade. Hence, ensuring sustainable terms of international trade, food security and feeding the population is a sphere of economic activity which is in fact a totally regulated process without whose rules developed economies would not be able to function properly.

In our opinion, market mechanisms alone would not be efficient to overcome spontaneously arising economic crises when the active intervention of states is required. We should note, though, that states should not restrict the freedom or choice of economic players or take on the functions of

the market. Rather, states should intervene in cases when the market itself is not an efficient regulator. By supporting and adjusting the regulating functions of the market, states could optimize the operation of the economic system and maintain growth rates.

There are clear indications that economies would not be able to operate at their full potential without the intervention of central banks or governments so as to optimize general welfare and maintain GDP growth both on a national and global scale.

References:

Blazheva, V. (2013). *Agrarna politika*. Svishtov: Al Tsenov.

Dimov, I., Zlateva, D., Doneva, D., & Dimov, E. (2007). *Obshta ikonomicheska teoriya*. Sofia: Nova zvezda.

European Commision. (2017). *The History of CAP.*

Grigovor, K. & Beyazov, Ch. (1990). *Istoriya na ikonomicheskite ucheniya*. Sofia: Vissh Ikonomicheski Institut 'Karl Marks'.

Kanev, M., Kirev, L., & Naydenova, S. (2005). *Ikonomicheski teorii*. Veliko Tarnovo: Abagar.

Kirev, Vasilev, & Shishmanova (2015). *Ikonomiks (Mikroikonomika i Makroikonomika)*. V. Tarnovo: ABAGAR.

Kovachev, Z., & Vladimirov, V. (1999). *Ikonomicheska teoriya*. Varna: Ikonomicheski universitet - Varna.

Kovachev, Z., & Vladimirov, V. (2001). *Ikonomicheski teorii*. Varna: Ikonomicheski universitet - Varna.

Smit, A. (1983). *Bogatstvoto na narodite*.

Trendafilov, R. (2001). *Agrarna politika*. Stara Zagora: Bolid.

Yordanova, E. (2009). *Vavedenie v ikonomikata*. Sofia: Dionis.

Editorial board:

Krasimir Shishmanov – editor in chief, Tsenov Academy of Economics, Svishtov Bulgaria
Nikola Yankov – Co-editor in chief, Tsenov Academy of Economics, Svishtov Bulgaria
Ivan Marchevski, Tsenov Academy of Economics, Svishtov Bulgaria
Irena Emilova, Tsenov Academy of Economics, Svishtov Bulgaria
Lubcho Varamezov, Tsenov Academy of Economics, Svishtov Bulgaria
Rumen Erusalimov, Tsenov Academy of Economics, Svishtov Bulgaria
Silviya Kostova, Tsenov Academy of Economics, Svishtov Bulgaria

International editorial board

Alexandru Nedelea – Stefan cel Mare University of Suceava, Romania
Dmitry Vladimirovich Chistov - Financial University under the Government of the Russian Federation, Moskow, Russia
Ioana Panagoret - Valahia University of Targoviste, Alexandria, Romania
Jan Tadeusz Duda – AGH, Krakow, Poland
Mohsen Mahmoud El Batran – Cairo University, Cairo, Egypt
Nataliya Borisovna Golovanova - Technological University Moscow , Moscow Russia
Tadija Djukic – University of Nish, Nish, Serbia
Tatiana Viktorovna Orehova – *Donetsk* National *University*, Ukraine
Yoto Yotov - Drexel University, Philadelphia, USA
Viktor Chuzhykov - Kyiv National Economic University named after Vadym Hetman, Kyiv, Ukraine

Proofreader – Anka Taneva
English translation – senior lecturer Zvetana Shenkova, senior lecturer Daniela Stoilova, senior lecturer Ivanka Borisova
Russian translation - senior lecturer Irina Ivanova
Technical secretary – Assist. Prof. Zhivka Tananeeva

Submitted for publishinq on 12.09.2018, published on 21.09.2018, format 70x100/16, total print 40

© D. A. Tsenov Academy of Economics, Svishtov,
2 Emanuil Chakarov Str, telephone number: +359 631 66298
© Tsenov Academic Publishing House, Svishtov, 24 Gradevo str

BUSINESS management

D. A. Tsenov Academy of Economics, Svishtov

Year XXVIII * Book 3, 2018

CONTENTS

MANAGEMENT theory

ASPECTS OF RATIONAL BEHAVIOUR IN ORGANISATIONAL MANAGEMENT
Head Assist. Prof. Elena Yordanova, PhD……………………………………………… 5

MARKETING

THE SYMBIOSIS BETWEEN INTEGRATED DISTRIBUTION SYSTEMS AND CONTEMPORARY INFORMATION TECHNOLOGIES
Head Assist. Prof. Vanya Petkova Grigorova, PhD ……………………………………… 14

INFORMATION technologies

APPLYING THE ARCHITECTURAL APPROACH TO THE DESIGN OF A DIGITAL PLATFORM: THE CASE STUDY OF AN AVIATION HOLDING COMPANY
Evgeniy Zaramenskih ………………………………………………………………….. 29

MANAGEMENT practice

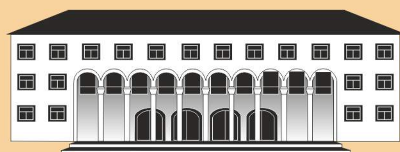
THE EVOLUTION OF THE REGULATORY FUNCTION OF THE STATE IN THE ECONOMY AND THE ‘INVISIBLE HAND’ OF THE MARKET
Hristo Borissov Tsvetanov, PhD student ………………………………………………... 44

THE ROLE OF FUNERAL DIRECTOR
Alexandre Krassimirov Barboukov, Bartosz Marcinkowski ……………………………. 61

ISSN 0861 - 6604

BUSINESS management

BUSINESS management 3/2018



PUBLISHED BY
D. A. TSENOV ACADEMY
OF ECONOMICS - SVISHTOV

3/2018

TO THE READERS AND AUTHORS OF "BUSINESS MANAGEMENT"

The journal of "Business Management" publishes research articles, methodological articles and studies, review articles, book reviews, commentaries and good practices reports.

1. **Volume:**
   - Articles: between 12 – 20 pages;
   - Other publications (review articles; book reviews, etc.): between 5 – 10 pages.
2. **Submission of materials:**
   - On paper and electronically at one of the following e-mail addresses: bm@uni-svishtov.bg or zh.tananeeva@uni-svishtov.bg

3. **Technical requirements** (the article template is can be downloaded from the webpage of the journal):
   - Format – Word for Windows 2003 (at least);
   - Font – Times New Roman, size 14 pt, line spacing 1,5 lines;
   - Page size – A4, 29–31 lines and 60–65 characters per line;
   - Line spacing 1,5 lines (at least 22 pt);
   - Margins – Top – 2.54 cm; Bottom – 2.54 cm; Left – 3.17 cm; Right – 3.17 cm;
   - Page numbers – bottom right;
   - Footnotes – size 10 pt;

4. **Layout:**

- Title of article title; name, scientific degree and scientific title of author – font: Times New Roman, 14 pt, capital letters, Bold – centered;

- Employer and address of place of employment; contact telephone(s) and e-mail – Times new Roman, 14 pt, capital letters, Bold – centered.

- Abstract – up to 30 lines; Key words – from three to five;

- **JEL** classification code for papers in Economics (http://ideas.repec.org/j/index.html);

- Introduction – it should be from half a page to a page long. It should state the main ideas and/or objectives of the study and justify the relevance of the discussed issue.

- The main body of the paper – it should contain discussion questions, an outline of the study and research findings/main conclusions; bibliographical citation and additional notes, explanations and comments written in the footnotes.

- Conclusion – it should provide a summary of the main research points supported by sufficient arguments.

- References – authors should list first references written in Cyrillic alphabet, then references written in Latin alphabet.

- Graphs and figures – Word 2003 or Power Point; the tables, graphs and figures must be embedded in the text (to facilitate language correction and English translation); Font for numbers and inside text – Times New Roman, 12 pt;

- Formulae must be created with Equation Editor;

5. **Citation guidelines:**

When citing sources, authors should observe the requirements of **APA Style**. More information can be found at: https://www.uni-svishtov.bg/default.asp?page=page&id=71#jan2017, or: http://owl.english.purdue.edu/owl/resource/560/01/

6. **Contacts:**

Editor in chief: tel.: (++359) 631-66-397
Co-editor in chief: tel.: (++359) 631-66-299
Proofreader: tel.: (++359) 631-66-335
E-mail: bm@uni-svishtov.bg; zh.tananeeva@uni-svishtov.bg;
Web: bm.uni-svishtov.bg
Address: "D. A. Tsenov" Academy of Economics, 2, Em. Chakarov Str., Svishtov, Bulgaria