Chapter 6
Second Generation Reforms:
From Macroeconomics to Microeconomics

Mikail Kar
Bursa Uludag University, Turkey

ABSTRACT

Economic reforms include comprehensive and radical changes in the functioning of the economic system and its main rules. There is no clear and generally accepted classification of economic reforms in the literature. In this study, economic reforms are analyzed by classifying them as first-generation reforms and second-generation reforms. First-generation reforms are made in macroeconomics for the purposes of eliminating macroeconomic imbalances, ensuring stability, controlling inflation, ensuring fiscal and monetary discipline, reducing public debt. Second-generation reforms are microeconomic reforms, which include strengthening the infrastructure of the market economy, increasing efficiency, enhancing the competitive power, and strengthening the institutional infrastructure that creates competitive markets. The aim of this study is to examine the theoretical framework of first-generation and second-generation reforms in line with macroeconomic and microeconomic expectations and to explain and discuss the main areas of second-generation reforms.

INTRODUCTION

Reform means a planned and informed radical change, correction, reclamation, and improvement to make the current situation better. Reform in the economic approach is a radical change process that increases living standards, improves well-being and increases resistance against shocks in order to provide permanent and long-term improvement and solutions. In other words, economic reforms include comprehensive and radical changes in the functioning of the economic system and its main rules. In this respect, economic reforms aim to support economic growth and development by making changes in the areas that are currently problematic or which are predicted to cause problems in the future. Economic reforms aim to provide long-term and permanent improvements in the legal framework, in the functioning of markets or in the structure of economic institutions, rather than short-term and temporary solutions.

DOI: 10.4018/978-1-7998-4933-9.ch006

Although there is no clear and accepted general definition and distinction in the literature in the classification of economic reforms, the approach that divides reforms into two main groups, first-generation reforms, and second-generation reforms, is preferred in this study. First-generation reforms refer to the reforms in monetary and fiscal policies, which are in the field of macroeconomics, with the aim of eliminating economic imbalances, ensuring stability, lowering interest rates, controlling inflation, ensuring fiscal and monetary discipline, and reducing public debt. Second-generation reforms are microeconomic reforms that strengthen the infrastructure of the market economy, increase efficiency, increase competitiveness, create competitive markets and renew the institutional infrastructure. As problems in macroeconomic fields are more visible and easier to intervene, authorities primarily focus on first-generation reforms. With these reforms, basic problems have been tried to be solved and important progress has been made. However, in order to protect and improve the success achieved with the first generation reforms and to eliminate the detected deficiencies, it should be supported with the second generation reforms. Without second-generation reforms, the sustainability of macro-economic development is unrealistic. In other words, second-generation micro reforms must be implemented in order to make the macroeconomic gains permanent and sustainable. If this complementarity relationship is ignored, the maintenance of macroeconomic stability will be compromised, and the improvement in macroeconomic indicators will not contribute to the expected prosperity of producers and consumers on a micro-scale (Forsyth, 1992; Gregory, 1992; Jones, 1994; Pastor & Carol, 1999; Naim, 1995).

The aim of this study is to examine the theoretical framework of first-generation and second-generation reforms in line with macroeconomic and microeconomic expectations and to explain and discuss the main areas of second-generation reforms. Following this introduction, where the concept of reform is discussed, the process of the emergence of economic reforms is covered in the second part. In the third part, first and second-generation reforms are defined and in the fourth part, the transition process from first-generation reforms to second-generation reforms is evaluated by explaining the differences between first-generation and second-generation reforms. In the fifth part, where the areas of second-generation reforms are discussed, the reforms that have to be done and done are discussed in detail in five different basic areas. In the conclusion, a general evaluation of the study is made.

ECONOMIC REFORMS AND EMERGENCE PROCESS

The place and relations of the state and market in the economic structure have been discussed throughout the history of economic and there have often been differences of opinion in the policies to be adopted in this context. At the point of economic growth and development, the most important turning point in the debates on the place and relation of market and state was the Keynesian Revolution, which offered a recipe for a solution to the 1929 crisis. Keynes argued that the assumptions of the classical theory are valid only for particular situations, arguing that it does not reflect the characteristics of the society lived in, and as a result, he claimed that the classical approach has a weak link with the real world and cannot solve the problems of the real world. According to the Keynesian approach, when market failures occur, the deteriorating equilibrium can be recreated not by the free movement of market forces but by the intervention of the state in economic life through macroeconomic policies. During the period from 1929 to the 1970s, state intervention was seen as salvation for developing countries, and the state's influence in the economy gradually increased. During these periods, rapid economic growth, high levels

Related Content