GAAMA: A New Perspective For Emerging Markets

Stephen A. Boyko
Global Market Thoughtware, Inc.

Abstract

The end of the Twentieth Century witnessed seismic societal shocks for approximately one-third of the world’s population who lived under totalitarian political regimes and communist economic systems. However, what Western policymakers perceived as an opportunity for a quick and robust transformation to a market economy has produced mixed results.

To this point, the GAAMA symposium provides a new perspective for understanding why the economic development of some of the post-Soviet successor states has been slower than and less than expected. GAAMA is an acronym for global, asynchronous, asymmetrical, market activity. The symposium consists of three related papers that examine:

1. GAAMA metaphysics—to define the governance structure of the former Soviet Union as a “failed firm” NOT an “inefficient market;”
2. GAAMA metrics—for better management of far-from-equilibrium conditions that are omnipresent in transitioning economies; and
3. GAAMA governance—to identify firm-market incentives that are prerequisites for commercial viability.

GAAMA metaphysics posits that suboptimal GDP growth is, in part, attributable to the misdiagnosis of the former Soviet Union’s governance structure as an “inefficient market” rather than a “failed firm.” Markets are economic organizational structures that effect transactions for goods and services through a negotiated bid-ask process. Firms, on the other hand, are non-market solutions whose marketing departments set prices for the goods and services that they offer. There were very few goods and services that were obtained through a negotiated process in the former Soviet Union’s planned economy. Employing market protocols of regulation and infrastructure to remedy firm maladies added complexity to the preexisting Byzantine structure. The misdiagnosis of the initial condition created false constructs and unintended consequences for both the supply
and demand functions of the post-Soviet successor states’ transitioning economies.

The metrics paper introduces the GAAMA Model as a blueprint for the better management of the former Soviet Union’s transitioning economies. GAAMA results in a far-from-equilibrium condition caused by standards that are either too high or too low, interacting with too many or too few rules for a given level of commercial activity. The Soviet Union experienced a systemic failure caused by bad policy (i.e. the standard of full employment at any cost) that was uniformly supported by unquestioning bureaucratic procedures (rules). The GAAMA Model links neoclassical economics with Chaos Theory to analyze far-from-equilibrium commercial activity where a large number of seemingly independent elements act coherently. Neoclassical economics is devoted to the study of equilibrium positions. The concept of equilibrium is instructive in determining a unique end-condition, but the precision of the procedural process is misleading in that true equilibrium is difficult to achieve in transitioning economies. Equilibrium is an axiomatic system where supply and demand functions are given to produce a unique market-clearing price for normative economies that have attained a critical level of commercial activity. The idea that supply and demand may be interdependent or dependent on market prices for a given cost structure was not considered; yet that is what the behavior of the emerging financial market demonstrates.

GAAMA governance provides a practitioner’s perspective from which to develop commercially viable economies. It is premised upon the principle that “good governance is good business.” The bottom line for corporate governance activity is to create shareholder wealth. The paper goes beyond traditional presentations that provide procedures for servicing compliance requirements for shareholder relations to emphasize incentives for creating shareholder wealth. GAAMA governance determines the levels of market multiples and liquidity that aligns shareholder value with management self-interest as measured by an after-tax, risk-adjusted net benefit.

Preparatory to reading the symposium it is suggested that the reader become familiar with the glossary contained in Appendix A. In writing the symposium, it was necessary to enhance yesterday’s vocabulary to define today’s new realities. This sometimes required a redefining of existing vocabulary in order to describe better the new global economic species.