

## THE ROLE OF INSTITUTIONAL FACTORS IN PROVIDING POPULATION WELFARE

Prus Yu., lecturer

Demchenko S., magistrate

*V.N. Karazin Kharkiv National University, Ukraine*

Мета статті полягає у дослідженні впливу інститутів та інституційних чинників на рівень забезпечення добробуту населення. Аналізуючи, систематизуючи й узагальнюючи наукові праці багатьох дослідників, виявлено, що економічний успіх тієї чи іншої країни залежить від інститутів – правил, за якими працює її економіка, і стимулів, які отримують її громадяни.

У результаті дослідження розкрито сутність понять інклюзивних та екстрактивних інститутів. Виокремлено сучасні інституційні підходи до вивчення категорії «добробут». Розкрито особливості формування інституційного середовища в Україні та його роль у забезпеченні добробуту населення. Виявлено, що інституційна слабкість щодо забезпечення добробуту населення вища у країнах з повільними реформами, ніж в країнах-лідерах трансформації, що обумовлено низькою ефективністю запровадження політики інституцій, задоволенням потреб олігархічної верхівки, корупцією на місцевому та національному рівнях. Розкрито сутність поняття «інституційна пастка» та виявлено передумови її виникнення. Проведено порівняльний аналіз стану інституційного середовища України з іншими країнами світу, використовуючи індикатори Всесвітнього економічного форуму та провідних аналітичних центрів (індекс інклюзивного розвитку, індекс сприйняття корупції, міжнародний індекс щастя, коефіцієнт Джині, коефіцієнт Пальма тощо).

Перспективою подальших досліджень у даному напрямку є розробка механізму управління інституційними чинниками з метою підвищення рівня добробуту населення України.

**Ключові слова:** добробут, інституційні чинники, екстрактивні та інклюзивні інститути, інституційна пастка.

**Formulation of the problem.** Today we live in a period of uncertainty and contradictions. There are significant transformational changes, technologies are growing fast, everything that has always been beyond the imagination, is embodied in life. However, at the same time, poverty, inequality, social injustice are flourishing, the gap in income differentiation is constantly growing, that can not be estimated statistically. Questions arise that are the reason for the decline in the population welfare: how can it be overcome and if it is possible, who is responsible for providing it?

The study of the category “welfare” and the mechanisms for its sustainable functioning is the important but difficult and complex issue due to the realities of our time. Nowadays, it is well-known that welfare is determined not only by income and material wealth, but also satisfaction with the level of maintenance of own needs, realization of ambitions, talents, skills, development of intellectual capital, comfortable living environment etc., which determines the search for new methodological tools and ways to overcome global problems.

The current area of studying welfare is the institutional approach because the fundamental reason for the differences in quality and livelihoods is the institutions.

**Analysis of recent research and publications.** The study of the welfare economy originates from the neoclassical theory. Representatives of this direction are A. Pigou [1], V. Pareto, L. Walras [2], W. Beveridge [3], K. Menger [4], J. Neumann [5]. And although all previous researchers have paid attention to the welfare problem in one way or another but at the present stage due to R. Coase’s [6], P. Krugman’s, D. North’s [8], D. Acemoglu’s works is determined the importance of the study of institutes and institutional causes of different economic trajectories of countries and their differences in welfare, wealth and poverty, freedom and dependence.

In this regard, **the purpose of the article** is to research of institutes’ and institutional factors’ influence on the level of population welfare.

**The main results of the study.** “Institutes matter” – thesis of D. North [8], that is a recognized axiom of modern economic science and condition for the emergence of a new institutional theory.

The economic success of a country depends on institutions – the rules on which its economy works and the incentives received by its citizens.

Based on the new institutional theory J. Robinson and D. Acemoglu explain the differences in the economic and social development of different states and factors that promote or hinder economic growth and the accumulation of wealth. In 2012 to this end they wrote the book “Why Nations Fail: The Origins

of Power, Prosperity, and Poverty” [9-12]. The central point of their model is the comparison of extractive and inclusive institutions.

Economic and political institutions that stimulate the participation of the population in economic activity are called inclusive. They protect the rights of private property, the justice system and provide equal opportunities for citizens to participate in economic activity. These institutes also provide free entry to the market for new companies and free choice of profession and career for all citizens.

According to the D. Acemoglu and J. Robinson institutions with properties that are opposite to inclusive ones are called extractives. They are aimed at “squeezing out” the maximum revenue from the exploitation of one part of society and sending it to the enrichment of another [9-12].

There is a bifurcation in the economic trajectories of the former Soviet republics and the former satellites of the USSR. Some of them (Poland, Czech Republic, Slovakia, Estonia, Latvia, Lithuania) have opened their political systems, have modernized their economy and have achieved rapid growth over the last twenty years. Other countries (Belarus, Turkmenistan, Uzbekistan, Russia, Ukraine) went in the opposite direction.

The importance of developing inclusive institutions, study of the transition from extractive to inclusive ones were confirmed by various indicators and led to the creation of a new index by the World Economic Forum (WEF). This index was called the Inclusive Development Index (IDI). WEF revised the new index of 109 countries, individually 30 developed countries and separately 79 developing countries. The division of countries into two groups is due to the difference between them in determining the level of poverty [13-15].

According to the research, Ukraine ranks 47th in the IDI rating (Table 1) taking positions in terms significantly lower than 5 years ago. Prolonged hostilities in the east roll back some progress and contribute to the "brain drain" and the labor force from the country. Ukraine also has one of the highest rates of inequality among all developing countries. However, according to the “Framework”, the education system contributes to inclusive growth. The state of health and high unemployment benefits helped Ukraine to rank first in its social security income group [13-15].

Table 1 – The Inclusive Development Index (IDI) of developing economies, 2017 [14]

Rank overall	Economy	Overall IDI score	5 year trend IDI overall, %	Rank overall	Economy	Overall IDI score	5 year trend IDI overall, %
1.	Lithuania	4.73	2.01	20.	Turkey	4.30	2.62
2.	Azerbaijan	4.73	-0.46	31.	Georgia	4.09	6.82
3.	Hungary	4.57	3.14	34.	Moldova	4.08	1.43
4.	Poland	4.57	1.12	46.	Guatemala	3.83	1.55
5.	Romania	4.53	5.17	47.	Ukraine	3.67	-3.16
13.	Russian Federation	4.42	1.24	48.	Honduras	3.67	-1.76
15.	China	4.40	1.65	60.	India	3.38	2.50
17.	Kazakhstan	4.37	4.36	78.	Mozambique	2.79	-9.27

Ukraine’s priorities for the development of inclusive institutions should be aimed at improving professional training, reducing the administrative burden of creating a new business, financing small business and combating corruption.

Need to understand the transition of former Soviet-era economic systems to the market. The most important lesson to be learned from this is the limited knowledge of institutional dynamics, on the ways of introducing new social, political and economic institutions, and, most importantly, on providing a new organization of the economy with the help of these institutions.

Ukraine has always been in countries with extractive political and economic institutions – both within the USSR and in the times of independence. After the collapse of the USSR was a chance for the future of an inclusive society but the oligarchy had created a new model of extraction.

According to the authors it is necessary to consider how the institutional environment (in the case of Ukraine, its incompleteness) affects the development of the country and how reflected in the population welfare on the example of specific indicators (distribution of incomes, level of corruption, level of shadow economy) and to conduct a comparative analysis of these indicators in post-Soviet countries.

After the collapse of the USSR, economic reforms contained such important elements as the elimination of price controls, measures to curb inflation, privatization, market liberalization, exchange rate systems and the regime of foreign trade. All this directly influenced economic growth, employment and was a priority task for postcommunist governments [16].

However, institutional reforms that ensure transparency, public sector efficiency, accountability did not pay much attention. As a result, the institutional environment that has been operating in Ukraine for 26 years is characterized by mistrust, incompleteness, combination with the shadow economy and corruption. It significantly affects the population welfare, because such institutional traps contribute to its decline [17]. Institutional factors have a significant impact on the level of income distribution, their structure and inequality of distribution [16].

Economic institutions of the society welfare (ownership structure, availability and degree of market perfection) have a key role to play in the functioning of the economy because they influence the structure of economic incentives in society. Without ownership of individuals there will be no incentive to invest in physical, human or social capital or to introduce more efficient investments. Institutes determine the overall efficiency of the economy's functioning and its competitiveness. They also direct resources to those areas where they will be used most effectively. Institutes determine the distribution of resources in the future (distribution of wealth and income, physical and human capital).

Studies of the World Bank, the CIA, the WEF and other authoritative sources show that the institutional weakness in providing the population welfare is higher in countries with slow reforms than in the countries that are leaders in transformation through three interconnected institutional factors. Firstly, the failure to introduce policies and institutions as the main mechanism for market allocation of resources should be taken into account. The social consequence of these failures was the collapse of the labor market – a reduction in employment, a decline in real wages and an increase in delays in wage payments, which pushed many people to self-employment and led to an increase in income inequality. Secondly, the national governments were linked to the interests of the oligarchic tops. Interested groups blocked reforms that could damage their privileges and lead to a fairer distribution of incomes and opportunities. Thirdly, corruption at the local and national levels had a significant impact on the growth of inequality.

The latter factor is a typical example of an “institutional trap». Inequality in the distribution of income as a result of the redistribution of transformation rent at the beginning of reforms and shock liberalization leads to an increase in corruption. According to V. Polterovych, additional factors include weakening of state control, gaps in legislation and uncertainty of the rules of “market behavior”. Corruption is a co-ordination effect that is typical of many institutional traps. Further consolidation of such an ineffective norm of behavior is associated with tax evasion, lobbying laws, and improving corruption systems. It only complicates the struggle with it. As a result, corruption becomes the cause of cultural inertia. Under the influence of these mechanisms, the transaction costs of corruption behavior are reduced and the transformational costs of transition to alternative norms increase [18].

One of the most common indicators of corruption is the Corruption Perceptions Index (CPI), which is calculated by an international organization Transparency International [19]. It is based on a series of independent surveys involving international financial and human rights experts, including from the Asian and African Development Banks, the World Bank and the American organization “Freedom House”. The index value ranges from 0 (maximum level of corruption) to 100 (no corruption).

According to the study, there is an improvement in the fight against corruption in the post-Soviet space with inclusive institutions and rather low rates in countries with extractive institutions (Russia, Ukraine, Uzbekistan). In 2016 Ukraine ranked 131st among the 176 countries in the world ranking CPI. This step with an indicator of 29 points was shared by Kazakhstan, Russia, Nepal and Iran [19] (Table 2).

The direct link between the scale of corruption and the scale of the shadow economy is confirmed by global and local practices. Therefore today it is possible to accept for the fact that the shadow economy generates corruption and corruption, in its turn, creates the basis for the flowering of the shadow economy. Such significant institutional traps prevent the accumulation of material well-being of the population which is the basis of its welfare but give impetus to a more detailed study of them and to create the best ways to overcome it [16].

The main reason for the emergence of the shadow economy is the desire not to pay taxes and the imperfection of the tax system. However, transition economies have their own specifics. A profound and prolonged recession in the first years of transformation was accompanied by massive job cuts. Real household incomes had fallen sharply as a result of lower real wages and a decline in employment [20].

Scale estimation of the shadow economy is associated with considerable difficulties because neither physical individuals nor firms engaged in informal activities have no incentive to provide accurate information, a large number of them, on the contrary, hides it. However, a number of attempts were made to assess the scale of the shadow economy.

For today the latest research on this issue is the works of the German economist F. Schneider. In his work “The Shadow Economy and Work in the Shadow: What Do We (Not) Know”, “The Shadow Economy

in Europe” [21-23] the scientist studies the scale of the shadow economy in the world countries since the 90’s but the issue of Ukraine is insufficiently highlighted. In 2016 his work “The Size and Development of The Shadow Economies of Ukraine and Six Other Countries Over The Period of 1999-2015” was published. It provides an opportunity to explore the size of the shadow economy in transitive economies, in particular in our country. F. Schneider conducted an assessment of the size of the shadow economy in Ukraine, Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Turkey for the period from 1999 to 2015.

Table 2 – Corruption perceptions index 2016 [19]

2016 Rank	Country	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score
1.	Denmark	90	91	92	91	90
1.	New Zealand	90	91	91	91	90
3.	Finland	89	90	89	89	90
4.	Sweden	88	89	87	89	88
5.	Switzerland	86	86	86	85	86
10.	Germany	81	81	79	78	79
18.	United States	74	76	74	73	73
29.	Poland	62	63	61	60	58
38.	Lithuania	59	59	58	57	54
44.	Georgia	57	52	52	49	52
57.	Hungary	48	51	54	54	55
75.	Turkey	41	42	45	50	49
79.	Belarus	40	32	31	29	31
113.	Armenia	33	35	37	36	34
123.	Azerbaijan	30	29	29	28	27
131.	Russia	29	29	27	28	28
131.	Ukraine	29	27	26	25	26
136.	Guatemala	28	28	32	29	33
154.	Turkmenistan	22	18	17	17	17
176.	Somalia	10	8	8	8	8

The author emphasizes that the average size of the shadow economy (1999-2015) were 44.6% in Ukraine, 42.3% in Armenia, 35.8% in Kazakhstan, 37.4% in Kyrgyzstan, 39.7% in the Russian Federation, 41.5% in Tajikistan and 30.1% in Turkey and gives measures to combat the shadow economy:

- reduction of direct and indirect tax rates;
- exemption from value added tax on labor-intensive work (reconstruction of old houses, etc.);
- regulation of mini-work, such as in Germany;
- labor-intensive services may be taxed per household by a certain amount per year;
- firms that make up demand or supply for the shadow economy should be suspended for 4-5 years from all government contracts;
- cancellation of cash which will increase transaction costs for the shadow economy and, consequently, reduce it;
- stimulating the use of credit cards for operations;
- severe punishment if the activities of the shadow economy are related to organized crime;
- good governance and deregulation of the “official” economy.

F. Schneider’s research shows that the scale of the shadow economy is ahead of Ukraine not only with developed inclusive institutions but also those who created a new model of extraction after the collapse of the USSR. The shadow economy has a significant impact on the distribution of income and on the population welfare. Those who are involved in the shadow economy receive additional revenues without paying taxes. Instead, people who work in the official economy are forced to pay them. In this regard, the spread of the shadow economy increases the inequality of income distribution [21-23].

The Gini coefficient is the most widely used inequality indicator, which takes into account the distribution of income of the country where 0 means full equality and 100 complete inequality. Using recent data from the World Bank in 2017 researchers have determined that South Africa, Namibia and Haiti are among the most unequal in terms of income distribution. At the same time, Ukraine, Slovenia and Norway are among the most equal nations in the world [24].

An alternative to the Gini coefficient is the Palma coefficient which focuses on the growing gap between the rich and the poor in society. According to researches, Ukraine is again in the leaders. However, in “The Guardian” it is noted that the assessment of inequality is far from unequivocal if one does not focus exclusively on financial inequality, but also to assess living standards, the result will be different [24].

Mixed ratings use a large number of methods and indicators to measure, not just taking into account income and GDP growth. The idea is to encourage countries to pursue a state policy aimed at improving the population welfare, making it more lucky.

The World Happiness Report takes into account such indicators of GDP per capita, levels of social support, life expectancy, freedom of citizens to make vital decisions, generosity and attitude to corruption. In this report 155 countries are ranked. For 2014-2016 Ukraine occupied 132th place. This indicator is decreasing, as from 2013 Ukraine had lost 45 steps [25].

Providing the prerequisites and factors for the formation of happiness is one of the foundations for ensuring sustainable population welfare. However, according to sociological studies of the Ukrainian Institute of the Future, over the past two years, Ukrainians have evaluated their welfare as “much worse” – 31.4% and “somewhat worse” – 40.7% [26].

The pessimistic feelings of Ukrainians and the same pessimistic assessments of their welfare show a significant contradiction between what citizens and experts consider themselves and as reported by official World Bank statistics. Ukrainians are convinced that society is too stratified, statistics show that in Ukraine the distribution of income is uniform. The reason is that the statistics do not include the assessment of the income of the extreme population groups – the richest and the poorest. The real situation is that the poor who are not in the sample are getting poorer and the rich with growing rising shadow revenues become richer. The dynamics of the bundle of the population is evidenced by the growth in sales of luxury goods despite the economic crisis.

The growing inequality is very negative perceptions of the population. It manifests itself not only in the difference between the ways of life of the rich and the poor, but also in the distortion of the social structure of society [27]. In Ukraine there is almost no middle class which is the basis and stabilizing factor of inclusive population welfare. Modern Ukrainian society is not only deeply layered, but even polarized. At one end of the scale is concentrated relatively few (no more than 5-7%) a large group of people and on the other – at least a quarter of the population on the verge of survival. According to the State Statistics Service in 2016 about 5.1% of households receive less than the subsistence minimum (1227.3 UAH) per month and 57.5% of those who are below the average income level (2427.5 UAH) [28]. There was a phenomenon such as hereditary poverty, which is identified through the consolidation of contingents that live exclusively on state aid and goes from generation to generation [27]. This is not surprising as according to expert estimates in Ukraine there were more than 130 categories of recipients of various types of social benefits.

At this stage, it is important to note the special role of the state in ensuring and increasing the population welfare. The state must not only increase the material well-being of citizens but also promote the transformation of human capital into national wealth taking into account the health of the nation, the level of general and vocational education, the state of science and culture, the maintenance and development of social and moral climate in society. The institute for state social support and the system of social mobility require major changes to increase the impact of reducing inequality and poverty alleviation.

One of the most important steps towards ensuring the welfare of the nation is the construction a civil society that will systematically participate in the development and implementation of management decisions, above all, at the local level. At the same time, an extremely important task is to ensure the participation of really different groups of the population in order to prevent social inequality and focus on a high level of education because this is a more effective way of avoiding poverty than material support for the population. This explains the interest of parents in raising the educational level of children, even in conditions of paid training with limited family financial resources. This tendency indicates the prospects of educational potential growth of the country due to awareness of the importance of education by the population.

**Conclusions.** Investigating the institutions of population welfare through various instruments and conducting a comparative description of the post-Soviet countries we can conclude that countries with stronger institutional mechanisms of containment and counterweight and inclusive institutions have been more successful in building the market economy and have achieved significant economic outcomes than those in which political and economic institutions are poorly developed to provide a decent living standard for their citizens. The spread of poverty, corruption, the shadow economy, and polarized society in Ukraine are the result of an “institutional heritage”. These are the institutional factors that influenced the behavior of statesmen in the transition period, their interest in conducting transparent reforms. The analysis shows that there is a need for more attention, deep research and a plan for building effective institutions in Ukraine

to increase human capital and material well-being, improve the health of the nation, develop social and cultural climate, that is, everything that is the main component of the population welfare.

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