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OFFICE 1, VELOCITY TOWER,
10 ST. MARY'S GATE, SHEFFIELD, S
YORKSHIRE, ENGLAND, S1 4LR

e-mail: paha@rusnauka.com

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Markovych I. B.

POLITICAL AND ECONOMIC INSTITUTIONS – BASIS AND CONSEQUENCE

The use of the term institution has become widespread in the social sciences in the last decades. This term become usual not only for economic sciences, but for the philosophy, sociology, politics, and geography as well.

Institutionalism attracts the attention of many researchers, such as R. Coase, D. North, E. Ostrum, A. Vilyamson, Weber, John. Marsh etc.

A characteristic feature of institutionalism is its interdisciplinary and impressive set of options research objects, attracting the attention of many researchers and scientists. Also intensive discussions are connected with not only formal but also informal institutions which has sometimes controversial impact on economic growth of the state.

The link between economic and political institutions is quite ambiguous. Some authors argue that the basis of the formation of effective economic institutions are always political institutions.

Mechanism of the relationship between elements of the institutional environment and their consequences is shown on the fig.1.

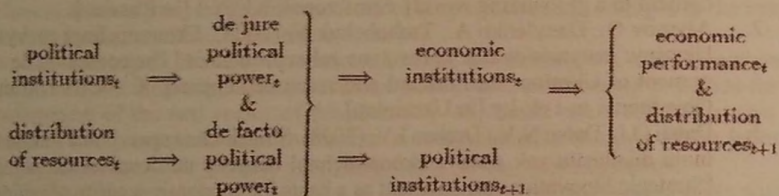


Figure 1. Relationship between elements of the institutional environment and their consequences

Source: [1, p.6]

The two state variables are political institutions and the distribution of resources, and the knowledge of these two variables at time t is sufficient to determine all the other variables in the system. While political institutions determine the distribution of *de jure* political power in society, the distribution of resources influences the distribution of *de facto* political power at time t . These two sources of political power, in turn, affect the choice of economic institutions and influence the future evolution of political

institutions. Economic institutions determine economic outcomes, including the aggregate growth rate of the economy and the distribution of resources at time $t + 1$. Although economic institutions are the essential factor shaping economic outcomes, they are themselves endogenous and determined by political institutions and distribution of resources in society [1, p.8].

Thus, the relationship between political and economic institutions are usually consistent, that confirms the idea that the economy traditional is a derivative of policy.

Usually, the institutions are the consequences of previous stages of social development and can be considered largely inertia and «outdated» comparable to the present time. Formed in this way, institutions, on the one hand, constrain excessive and unjustified innovation of individual subjects, on the other – are stabilizers of economic and social contradictions.

Political institutions are stable enough and we can clearly see features of conservative effect, ie difficulties in changing the main direction of development. Such inertia of political institutions sometimes can be a major obstacle to dynamic economic growth state.

Strong formal institutions are one of the elements of the system of public confidence in the state of possible action in the case of deterioration in the quality of life. In the face of extremely inert institutions or the low level of efficiency in order to confirm the status of a paternalistic society can be triggered by arrangements aimed at improving living standards by increasing the tax burden on businesses and extensive replenishment.

As a result of inefficiency of the state strengthen manifestations of so-called «market failures». The main «market failure» requiring state correction, are as follows:

- incomplete competition;
- coordination failures (companies in their decisions may be guided solely by their own interests, «forgetting» about the social aspect of work);
- information asymmetry;
- the difficulty assessing the value of public goods, etc.

It is clear that its impossible completely eliminate these signs of social development, but the state has at its disposal some balancing and control instruments perform their functions.

However to eliminate negative aspects of states activities, there is importance of following the non-increase without the need of its functions. This principle K. Popper calls «razor liberalism.»

For the success of the state is necessary to obtain power, that is bigger than citizens or other institutions and organizations obtain, in addition to that price for the protection of citizens turned out to be not too large [2, p. 510-513].

In other words, political institutions form the basis of aggregated institutional environment of state, they may play role of an accelerator and «pusher» of socio-economic reforms or completely block them.

Nowadays, institutions are the weakest spot of the competitiveness of Ukrainian economy. This result is one of the worst not only in relation to the EU and other developed economies, but also in comparison with the closest neighbors (Figure 2).

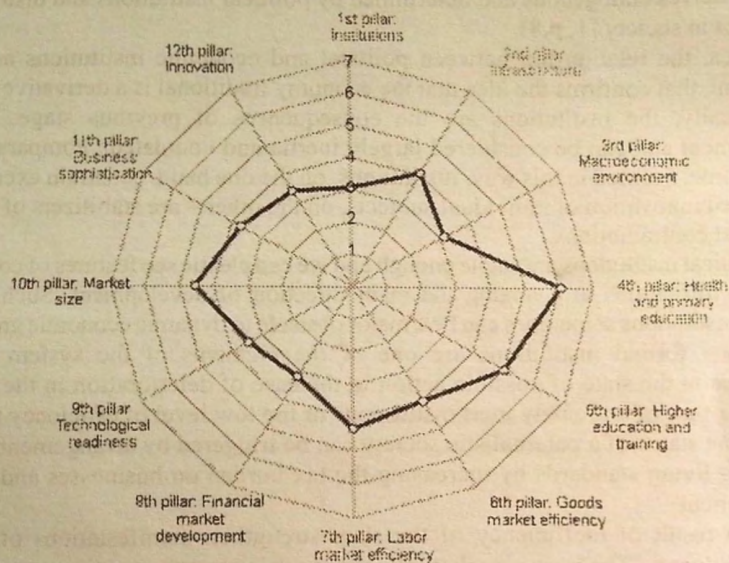


Fig. 2 Reviews of components the Global Competitiveness Index 2015-2016, Ukraine

Source: [3]

The influence of institutions on the economy largely depends on the stage of economic development in the country. WEF identifies three stages of economic development: first – focus factor, the second – focus on efficiency, the third – the focus on innovation. Countries whose economies are between two of the three stages, according to the definition WEF, are the «country of transition».

On the first stage of economic development (factor orientation) economic growth depends on the basic factors that united into such four components: public and private institutions; infrastructure; the macroeconomic environment; health and primary education.

One of the determinants of institutional quality is efficiency in the public sector, which has two aspects: efficient administrative services and a stable policy environment. Administrative efficiency implies a lack of unnecessary red tape in business processes such as the collection of taxes, compliance with regulations, obtaining permits, and the judicial system; there is empirical evidence that burdensome bureaucracy decreases investments and firms' efficiency [3].

It is also necessary to clearly understand the importance of social institutions in economic development. In the relationship of government and business structures a powerful public takes an intermediate position, which can become a strong driving force to dramatic changes in all society.

In developed democracies the public has leverage both public institutions and on the principles of forming business processes.

The problem of interaction of public authorities with civil society is multidimensional in nature. Quite often you can hear about the efficiency of the tripartite partnership «government-public-business». Members partnership can be considered as separate institutional units that have similar economic objectives, functions and behavior.

Aisha Ghaus-Pasha allows that the civil society sector falls in a conceptually complex social terrain that lies mostly outside the market and the state. For much of the recent history, social and political discourse has been dominated by the 'two-sector model' that acknowledges the existence of only two actors – the market (for profit private sector) and the state [4, p.2].

The state's role in the process of developing an effective partnership is reduced to forming legal and regulatory framework that will enable businesses and the public most actively use the opportunities offered by their socio-economic environment. Of course, this is only possible if willingness to innovation «radicalism» of all partnership members.

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