

UDC 316.3

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Social capital in Ukraine's economic transformation

Abstract

Today, Ukraine has no alternative but to take a path of innovative changes as a necessary step for enhancing the competitiveness of the national economy. Against a backdrop of fierce global competition, restricted financial resources and geopolitical tensions, social capital is assuming particular importance. Though being an intangible asset of the society, it is helpful in searching for promising economic management models. The phenomenon of social capital also reveals itself under extreme conditions, as it was during the Revolution of Dignity in 2013–2014 when lots of Ukrainians were participating in numerous civic initiatives and defending public interests at various stages of social organisation within an innovative economic transformation. The authors draw attention to the new socio-economic environment which in a certain way spurs innovative development of the national economy, thereby facilitating Ukraine's integration into the European Union.

Keywords: *innovative economic transformation, social capital, the Revolution of Dignity*

Introduction

Successful implementation of the reforms in Ukraine needs an appropriate social basis that will ensure the irreversibility of the key changes. Sociologists, in

their turn, are charged with the important task of identifying and engaging the factors that strengthen the social basis of economic reforms and accelerate the economic transformation.

There are several types of state involvement in the economy. A socialist system is based on a planned (command) economy characterised by state ownership of the means of production: the central government regulates the prices and takes all decisions on the production, consumption and distribution of goods and services. Economic liberalism relies on the use of market regulators and (to a certain degree) government policies, but the state's influence on economic activity is reduced to a minimum. A mixed economic system provides for a free-market economy along with a considerable role of the state in socioeconomic development by using administrative linchpins; besides, it allows the public sector to make a significant contribution to the economy.

The expediency of developing a particular model of economic regulation is determined by its structure and possible outcomes of industrial modernisation, the society's orientation towards a certain economic formation, as well as by the willingness of citizens to adapt to the impacts of transformation [Reznik, 2015].

The need for the government to interfere in the economy emerges when the market fails to ensure proper development of industry and social infrastructure or facilitate innovations. That is a necessary measure to stimulate competition and prevent monopolies. However, implementing innovative reforms in over-regulated economies (like Ukraine) requires economic liberalisation and raising the level of trust in the state.

In turbulent times, Ukraine needs a new type of innovative systemic development that will mark the beginning of a real innovative modernisation strategy. An innovative modernisation is understood as a radical technological, economic, socio-political and cultural upgrade of today's society, which provides for advancing development rather than catch-up growth. The main task of Ukraine's modernisation consists in creating a new kind of society, social institutions, infrastructure and citizens that will meet the demands of globalisation. The principal goal of modernisation is to boost the global competitiveness of Ukraine as a state and Ukrainians as a nation.

It should also be noted that, in the context of global challenges, both geopolitical and geo-economic projects, including Ukraine's civilisational choice, will be successful only if they are based on the principles of development, social solidarity and public trust.

1. Theoretical framework

A distinctive feature of an unstable society is an "individualised" influence of objective factors, a predominance of micro-social dependencies regarding personal decisions and choices. Indeed, in terms of a usual value system destruction, a person's socioeconomic attitudes are not formed through adaptation to their social roles and statuses but based on the individual preferences. The person's experience of interacting with the key economic institutions which sustain considerable changes is also considered.

Analysing the social world as an accumulation of human experiences, particular attention should be paid to the capital phenomenon. Having a potential ca-

capacity to produce profits and reproduce itself in the same or expanded form, it contains a tendency towards stability. Different types of capital distribution represent the inherent structure of the social world. It is a set of possibilities, conditions and practices inscribed in the very reality of this world, determining its successful functioning and recognising the economic capital priority, which is converted into money and institutionalised in the form of property rights.

The authors draw attention to the fact that the efficient functioning of an economy is associated with the characteristic known as “social”. In other words, that is a mutual, permeating relationship and reciprocity of human activities. It can be interpreted as “trust” using such concepts as “reciprocity”, “social networks”, “integration” and “responsibility”. These concepts constitute social capital as actual and potential resources associated with the interactions between different factors and different actors, as well as the efficiency of economic processes.

Social capital is quite a complex phenomenon. Determining economic growth and development of democratic values and norms, it also comprises networks of more or less institutionalised relationships that demonstrate recognition, credibility, rating, status, etc. The worth of social capital as a public resource is primarily in the convergence of social and economic components of human society, which is a tendency of and prerequisite for balanced development of the social world. The main feature of social capital is determined by incorporeal nature of the system of social interaction: it is accumulated in the structure of relations between actors, describing a certain hierarchy of relationships upon mutually agreed terms. These relationships ensure the balance of interests; they are mutually beneficial both to social and economic actors and to the whole society (due to increasing economic, social and organisational resources and thereby converting the social capital into economic).

Social capital plays a crucial role in the society’s development: it directly influences the nature of social relationships, providing positive change in socio-economic and socio-political life due to interaction between individuals, groups, corporations and institutions. Social capital reveals itself through coordinated actions in diverse social processes that enhance entrepreneurial and business productivity, thereby contributing to economic growth.

The authors examine socially innovative strategies of economic actors in terms of various possibilities of using social networks to publish, share and store information, create a positive image and to save time as well. Some foreign researchers, e. g., Fabio Sabatini, studied the influence of different components of social capital generated by different types of interpersonal networks on the society’s economic development and then they systematised the indicators of this influence [Sabatini, 2009].

One of the benefits of social capital is the horizontal ties between individuals or groups “unified” on a certain basis. They serve as a tool for spreading useful information, building trust, promoting business and economic growth. This type of capital can be measured using such indicators as frequency of meetings with friends, colleagues, business partners, etc.

“Bridging” social capital refers to the relationship of participation in groups, aimed at achieving political or financial goals. It is measured using “Putnam’s toolkit” for civil society analysis I through the density of voluntary associations and the degree of members’ involvement in these associations.

“Corporate” social capital is concentrated in the network of professional organisations, which are mainly finance associations, business structures, etc.

Using the concept of social solidarity as a model of social progress, it is possible to assume that a case in point is an effective socioeconomic environment produced due to continuous social participation, which in turn ensures harmonised interaction between new and traditional social activities, as well as consistency between the economic processes within the social partnership.

One of the main elements of social capital is trust, including that for business and economic relationships. According to James Coleman, *trust serves as a basis for efficient functioning of economic institutions* [Coleman, 2001].

Pierre Bourdieu described trust as a social or symbolic capital [Bourdieu, 2003: p. 233], which helps people make deals provided that they have built a *reputation for being honest and established their business credibility*. It is highly rated in the market: people can enjoy certain advantages by using the power of trust and social connections, regardless of whether they have money at that moment or not. After all, trust is closely related to mutual aid, neighbourhood and partnership, i. e. acts as a unifier and activator for economic relationships.

Francis Fukuyama sees social capital as a certain potential of a society or its part, which arises owing to trust among its members [Fukuyama, 2004: p. 22]. Competitiveness, innovative development and economic prosperity of the country, as well as standard and quality of life of its citizens, depend on the level of trust inherent in the society. Low-trust societies have fewer prospects for successful development and transition to a knowledge-based economy compared to high-trust ones. They are likely to miss the opportunities that an innovative transformation offers.

In Fukuyama's opinion, trust inherent in the workplace and in industrial relations as a whole allows companies to reduce production costs and therefore to contribute to the economic growth of their country (as well as to innovations). *If people who work together in the same company trust each other (as long as they adhere to the same ethical standards), manufacturing costs will definitely lower. A society where people trust each other has more opportunities to introduce new forms of work organisation since the high level of trust facilitates diverse social contacts* [Fukuyama, 2004: p. 23]. In other words, trust in the workplace not only helps the company save resources but also facilitates socialising and creates a basis for employees' willingness to engage in innovative practices — although they are considered economically risky. At the same time, a trusting work environment where the staff are attentive and respectful to each other is a favourable factor for generating innovative ideas and putting them into practice.

Fukuyama believes that if working relationships are based on trust as an overriding human virtue, the company can quickly adapt to new circumstances. The people who trust each other and are able to work together can easily cope with changes and assume any form of organisation that is convenient for them [Fukuyama, 2004: p. 23]. Therefore, high-trust societies are ready to meet the challenges of globalisation and transform their national economies. New technologies are destroying the old, well-established and stable forms of economic relations, forcing the companies to seek new market niches and develop new forms of relationships with potential counterparts. Thus, the societies where level of trust is high are best to adapt to a new technological environment.

Social trust facilitates people's communication and integration, and ensures social and economic efficiency as well. According to Fukuyama, these are the core functions of trust.

The World Values Survey data show that transition economies and Ukraine in particular are characterised by a much lower level of trust and civic engagement compared to developed countries. The major reason is that in transition economies the society is deeply divided into common people who constitute the majority and elite as a small privileged stratum. Both of these groups communicate a lot with their friends and families rather than each other. In transition societies, social strata are more closed than in developed countries. The ruling elite generate corporate social capital, which operates within their environment.

2. Empirical base

The authors use the data of sociological monitoring conducted by the Institute of Sociology of the National Academy of Sciences of Ukraine in July 2016. The Institute of Sociology has been carrying out an annual monitoring survey since 1994. The average sample size for each survey is 1,800 persons; they represent the entire adult population of Ukraine (18 years old and over). The sample is designed in three stages: first, the settlement selection (survey points); second, the address selection (route starting points); third, the respondent selection. So, this is a stratified three-stage random sampling with quotas at the final stage. The quota sampling is used to represent correctly the population of each Ukrainian region by settlement type (city, town or village), sex, age and educational level, which are specific to a certain region and settlement type. The Crimea and occupied areas of Donbas were not monitored in the survey. The self-administered questionnaire was used as a survey technique.

All the surveys are conducted by the interviewers' network covering the whole Ukraine. The network has been designed by the Institute of Sociology of the NAS of Ukraine together with the Centre for Social and Marketing Research "SOCIS". The Centre "SOCIS" organises field research while the Institute of Sociology is responsible for quality control.

3. Research findings

Social capital is generally regarded as a set of resources contributing to social cohesion; in other words, these are norms and values regulating and facilitating collaboration between individuals, institutions and organisations in a variety of social contexts. The key value of social capital is that it increases the ability and willingness to collaborate, thereby reducing control over contract performance.

A number of studies on social capital made in Ukraine show that in terms of institutional trust and civic engagement this country is considerably lagging behind not only Western democracies but also the post-communist countries which joined the EU. This can present a serious obstacle to the modernisation of Ukrainian society in the context of Ukraine's foreign policy which is focused on the EU integration [Sereda, 2015: p. 71].

The transition period in Ukraine as a post-Soviet state is marked by rapid destruction of the old values, principles and institutions (ideological monism, egalitarianism, state and collective ownership of the means of production, etc.). This

has led to the reinforcement of negative social capital manifested as illegal practices and unfair rules of collaboration. Being an economically unstable country, Ukraine is burdened with high rates of poverty, inequality, unemployment and imperfect competition in the labour market, which also impedes the proper functioning of both social and collaborative networks.

The problem of building social capital in Ukraine is manifested in overwhelmingly informal social links, a high level of negative social capital and low level of institutional trust.

By definition, the informal relations are beyond the government regulation; for example, in production and distribution of goods and services. They also differ in the nature of their ultimate goal (legal or illegal) [Castells, Portes, 1989: pp. 11–37]. Informal economic relations are established through the network consisting mainly of close friends or relatives, who are supposed to be trustworthy and loyal to each other. The study conducted by a Russian sociologist Vadim Radaev suggests that there is a series of reasons for the informalisation of rules typical of post-socialist countries, including Ukraine: a) formal rules are determined by civil servants in such a way that any rule may be circumvented, which brings about uncertainty for market participants; b) facing the high cost of compliance with formal rules, economic agents create special management structures to avoid formal rules on a systematic basis; c) civil servants exercise selective control, using formal rules to put pressure on certain economic agents; d) economic agents, in turn, bargain with civil servants over the terms and conditions of compliance with formal rules; e) multiple arguments and interpretations are produced to legitimate practices of informalisation [Radaev, 2004: p. 97–98].

It is clear that social capital, based on informal relationships, plays an important role in producing and practicing effective problem-solving strategies. However, it can also hinder the development of market mechanisms and thereby affect economic growth (by ignoring the law or disregarding the value of the state-owned assets, as well as underestimating the role of market mechanisms in economic regulation, etc.).

One of the primary tasks required for successful functioning of social capital in Ukraine consists in its strengthening through economic development. To date, there have been several examples of successful public-private partnerships and collaboration between businesses and communities, which show an increase in trust in social and economic institutions. The strategy for strengthening social capital involves not only raising the population's standard of living but also creating conditions favourable to small and medium enterprises and thus promoting entrepreneurship. Of course, expanding access to financial resources, strengthening trust between financial institutions and the public, developing a reliable microfinance system are assuming great importance today.

While innovative sectors across the world demonstrate positive tendencies, Ukraine's economy sticks to the opposite pattern [Holovatiuk, 2012: p. 78]. The phenomenon of rapid high-tech industry growth remains unattainable. To make matters worse, Ukraine continues to lose both its innovative potential and scientific capacity.

An innovative economy requires, first of all, the well-developed innovative sector. Those who are involved in producing social capital take an interest in innovations due to the nature of social and economic relationships in their com-

pany. The ability to accept new ideas and go beyond the usual practices, as well as the significance attached to acquiring new knowledge, constitute the essence of people's innovative culture and, finally, determine their innovative thinking and action.

Ukraine's innovative economic development primarily depends on the quality of socioeconomic environment, which is supposed to generate favourable business conditions and contribute to implementation of innovations. Unfortunately, the socioeconomic environment of this country is far from being favourable. The traditional model of national economic policy has led to excessive regional disparities in socioeconomic development and therefore intensified disintegrative processes and tendencies that are posing serious obstacles to the innovative development of Ukrainian society.

It is necessary to accelerate the implementation of strategy for advancing Ukraine's economic development by increasing investment attractiveness and enhancing investment climate. The latter involves political, legal, economic, social, etc. components that ensure the ability of an economic system to develop itself and contribute to more effective use of innovations and social capital. According to the expert evaluations, the index which characterises the attractiveness of socioeconomic environment in Ukraine (for all components of the investment climate) rose from -0.115 in 1998 to 0.037 in 2007 [Holovatiuk, 2012: p. 207].

A prerequisite for improving investment climate is the increase in social trust being the basis for social collaboration. Exploring the role of social capital, Fukuyama notes that societies with high levels of trust and social capital are able to create large-scale enterprises without government support. Thus, comparing and evaluating advantages of different strategies for a country's development, economists should take into account not only its conventional but also social capital [Fukuyama, 2004: p. 16].

So far, Ukraine's innovative economic development has not sufficiently strengthened the interdependence between material and financial components of economic activity on the one hand and intangible/imperceptible ones on the other. Investments will contribute to economic growth only if social trust is built and manifested, e. g., as a good business reputation which, in turn, cannot be formed without following ethical principles and norms, both in internal and external socioeconomic relations.

The Revolution of Dignity (2013–2014) along with subsequent events has become an ordeal for Ukrainian society. Today, Ukraine is facing multiple challenges such as a severe economic downturn, lack of trust in major institutions and authorities, difficulties on the path towards the EU integration, unclear future of the European Union itself and, finally, the armed conflict in Donbas. Together, they are destroying the fabric of today's society and increasing its fragmentation. Ukrainians respond to these challenges by producing new forms of self-organisation, which also becomes a new basis for the society's overall modernisation. Therefore, it is essential to decide on what this basis will look like and how it will evolve in a new social environment.

Unfortunately, the revolution has not been able to overcome the crisis of institutional trust in Ukraine. According to the latest figures, few Ukrainians trust major social institutions. Only 18% of respondents report that they trust the President. The levels of trust in the Verkhovna Rada (Ukrainian Parliament)

and in the government are even lower: about 8% and 9%, respectively. The most trusted institutions are family (over 90% of respondents say they trust their family and relatives) and volunteers (more than 55% show trust towards them). So, the overwhelming majority of Ukrainians still tend to trust only in their closest environment, which considerably hampers the national-scale social capital production [Ukrainian Society, 2015: p. 539, 544, 545, 551].

It is worth recalling that the force largely instigating the Euromaidan protests was Ukrainians' resentment towards oligarchs and bureaucrats for having "privatised" all the state institutions and their determination to "get rid of the privatisers" in order to "bring the state back to ordinary people". Figuratively speaking, Euromaidan "let the genie out of the bottle" as it could release the suppressed energy of the masses, kick-start their initiative and generate their self-organising capacity.

The extremely inefficient and corrupt government could no longer be trusted. It had lost its legitimacy and therefore the right to rule. Hundreds of thousands of ordinary Ukrainians including social activists, Civil Defence volunteers, humanitarian aid workers, etc. decided to take charge of the nation's destiny.

The monitoring data indicate that Ukrainians are changing their views on the government's role in managing the economy. In 2015, 12.7% of respondents (compared to 8.1% in 2013) argued that the government's involvement in the economy should be minimised; 49.4% (compared to 41.3% in 2013) supported combining government regulation with a free market economy. The share of those who wanted to return to a centrally planned economy decreased from 27.2% in 2013 to 24.8% in 2015. However, 16.8% of respondents in 2013 and 12.3% in 2015 did not have a clear idea of what should be the role of the state in managing the economy [Ukrainian Society, 2015: p. 527].

Social capital highly contributed to Ukrainians' civil mobilisation during the Euromaidan events. Ordinary citizens along with different social groups and movements united on the basis of solidarity and commitment to democracy. Socio-political mobilisation at the national level has become a factor influencing the choice of a model for the society's further development, economic in particular.

The Revolution of Dignity has marked a new stage in Ukraine's transformation. However, the world is also undergoing substantial geopolitical and economic changes. Ukraine will not be able to adjust to these global changes without achieving an appropriate quality of social and economic institutions.

According to the Sustainable Development Strategy "Ukraine – 2020" initiated by the President in 2014, over 60 reforms and government programmes (lustration and anti-corruption laws, judicial reform, decentralisation of governance, tax reform, etc.) must be launched in a rather short period. All of these reforms are designed to benefit the country. But being developed and implemented almost simultaneously, they are causing confusion and discontent in the society, thereby leading to further social disintegration. The basis for successful implementation of reforms is social capital in the form of trust and socially useful participation of the authorities and ordinary citizens in establishing a real democracy.

To this day, the central government has not taken adequate measures to ensure the integrity of Ukrainian society. It seems to not completely understand or even ignore the nature of social transformations occurring now. Political decisions made by Ukrainian government officials are not only ineffective – they also

aggravate the ongoing conflict in the society and raise social tension. Neither new realities nor current needs of ordinary citizens are taken into account before offering them “new rules of the game”. Today, there is an urgent need for open dialogue with the public (social activists in particular), which also means generating social capital, first of all, at the meso- and macro-level.

Conclusions

The authors have tried to analyse how social capital is being formed in Ukraine and identify some of its distinctive features. These issues assume particular relevance against a background of implementing reforms and carrying out modernisation.

The crucial role of social capital is determined by its ability to convert the assets of relations between individuals into collective actions. Ukrainian society is no exception in this regard. The recent data indicate a surge in volunteerism and citizens' willingness to exercise control over government decisions (mainly as a result of Euromaidan). However, the mechanism for ensuring civic participation at the national and regional levels remains imperfect. Investing in social capital for the long term implies creating favourable conditions for the development of civil society (through expanding direct democracy and consensus decision-making in particular), improving economic climate, raising standards of living, promoting values of civic participation, collaboration and solidarity between all social forces.

The strategy for strengthening social capital should take into account regional specificities. According to empirical research, the social capital is mostly generated by Putnam-type associations in Western Ukraine (whose members unite for the common good) while the Olson-type associations prevail in northern and central regions (whose members pursue private interests and lobby for preferential policies). The membership in social organisations does not result in building trust in Southern Ukraine. Donbas is the only region where a person's perception of efficiency of social institutions and therefore level of institutional trust are determined by self-evaluation of material well-being. It is hardly possible to produce social capital in this region unless the current economic situation is improved. On the other hand, hostilities and increasing number of people fleeing Donbas considerably hamper its economic recovery.

Political stability, effectiveness of systemic transformations and economic growth are decisive factors in forming social capital in the process of establishing and maintaining trilateral collaboration between government authorities, civil society and market. Ukraine should understand and adopt the EU paradigm of solidarity, which is based on a compromise between the central government and local authorities. This paradigm allows civic actors to take an active role in developing and implementing state policies and programmes.

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