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### INSTITUTIONS AND SOCIAL RISKS IN UKRAINE: THEORETICAL AND PRACTICAL ASPECTS OF THE INTERCONNECTION

**Анотація.** Стаття присвячена аналізу особливостей впливу державних інститутів на актуалізацію соціальних ризиків. В якості основного інструментарію дослідження обрано методи теорії інституціоналізму, оскільки державні інститути відіграють ключову роль у формуванні і розвитку системи мінімізації соціальних ризиків.

**Ключові слова:** соціальні ризики, країнові ризики, інститути, корупція, інституційна теорія.

**Summary.** The article investigates the institutions impact on the actualization of the social risks. According to the analysis of cross-country studies the inefficiency of public institutions in Ukraine has been found, which corresponds to the exacerbation of the social risks in the country.

**Key words:** social risks, country risks, institutions, corruption, institutional theory.

**Introduction.** Today the theoretical field of the social risks has a simplified methodology. It is insufficiently adapted to the systemic nature of social changes and their transience. This may explain the fact that the problems of the social risks researches are based on the general scientific theories. These theories study them according to the general laws of development. Such scientific approach contradicts the actual processes that are typical for the society development.

The concept of three paradigms — neoclassical economic system, the theory of evolution and the theory of institutionalism — is the most adequate for a theoretical analysis of the social risk as a system object.

The last tendency is considered to be the least developed, but not less informative in understanding of the social risk category.

**Topical issues.** Dichotomy is the main qualifying characteristic of the social risks. Their subject and object at the same time is a particular social group or society, and the probability of the negative consequences for the risk object is caused by the current social phenomena and processes in real-life situation of uncertainty as a result of the social changes. Therefore the social risks can be considered as the second-order risks. It is a complex result of various social subjects' actions which affect the whole society functioning or

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its individual institutions. The social risks are distinguished within the risk system because they emerge and exist in usual conditions of society development. They naturally accompany the normal society functioning. The social risks are caused by the basic public relations. The state institutions have a major role in the formation and development of the protection system against the social risks. In this context, consideration of the economic aspects of public relations makes it impossible to research the nature and features of the social risks completely. It is very important to study all the socio-economic and political conditions and factors that affect their dynamics. The application of institutionalism theory makes it possible.

The urgency to develop a holistic knowledge of the mechanism of the social risk phenomenon, which is adequate to the current social needs, taking into account the institutions impact on the risks of the social and economic society development has made this research urgent.

**Objective** is to analyze the practice of institutions influence on the social risks formation in Ukraine and to develop a mechanism of state regulation.

**Reviewing the literature.** O. Pintelon using data from the 2005 EU-SILC intergenerational module, considered the impact of social class (of origin) on a relevant selection of risks: unemployment, ill-health, living in a jobless household, single parenthood and low-paid employment. The results provided clear evidence that the influence was substantial. A one-sided approach may create new forms of exclusion and give way to «Matthew effects» [1].

D. Wilkins claims that three themes in particular are discussed — the balancing of risk, protective and resilience factors; the use of family history and the child's wider circumstances; and 'known' and 'unknown' unknowns ('missing information'). These findings are considered in relation to the potential use of actuarial risk assessment tools or Structured Decisions Making tools in child protection social work [2].

Glenn W. Harrison considers that preferences over social risk can be closely approximated by individual risk attitudes when subjects have no information about the risk preferences of other group members. He finds no evidence that subjects systematically reveal different risk attitudes in a social setting with no prior knowledge about the risk preferences of others compared to when they solely bear the consequences of the decision. However, he also finds that subjects are significantly more risk averse when they know the risk preferences of other group members [3].

N. Aliyeva claims that risk is becoming an important characteristic of modern social life. It provides a transition from the knowledge society to the risk society. Knowledge about the risks becomes a risk factor that makes humanity look for ways to deal with it and this search becomes a characteristic of the social life in the XXI century [4].

D. Degtyarev and A. Pecherkin aim their research at the development of the new approaches to the social risk assessment. The authors propound to use the Bernoulli formula to remove uncertainty in the social risk calculation of the probability of death of a certain number of people [5].

I. Theron, who studies the risks interests providing of the social and labor relations subjects, concludes that in Ukraine the risks of wage polarization and the income stratification of the population produce the idea of social injustice and social tension among the economically active population and destabilize productive social capital [6].

K. Wicksell was the first who phrased the hypothesis that the bureaucracy provides useful services to the population [7]. In this case, taxes are the price of public sector services. If the public sector services are not provided properly, the people have the right not to pay taxes or to change service providers — public servants. Institutions measurement is necessary to monitor the functioning of the state efficiency, which produces services in exchange for taxes. It is typical for one of the key areas of institutionalism — public choice theory. For public choice theory the specific idea about the costs for collective action to create social institutions is typical.

S. Knack and P. Keefer made an econometric analysis of the institutions impact on economic growth. In the process of study, the authors tested the hypothesis of «conditional convergence», the essence of which is that poor countries with strong institutions will develop faster than the rich ones. The problem of measuring of the institutions quality was the main for the researchers. Ideally, quality coefficients should be comparable among the countries and periods. They should measure the same characteristics of the institutional environment and be as objective as possible. If such data are not available, the authors use the measurement of the country risk. The results of these measurements testify that the country's ability to transform its «relative backwardness» into the advantage of high growth rate depends on the institutions quality. If the property rights and contracts are poorly protected, a larger gap with the leader will only reduce the rate of growth. In contrast, the convergence of the development levels, that is proactive growth of poor country compared to the rich one, is possible if strong institutions are available. Furthermore, the authors tested the hypothesis feedback: economic growth increases the resources value and creates incentives to establish the property rights and improve the institutional environment. The authors solved the problem of the reverse causality, which is standard in empirical studies, by different specifications of the regression equation. If the economic growth had been the cause of institutions improving, the quality coefficient at the end of the period would have been higher in fast-growing countries. However, it was not observed — the quality of institu-

tions at the beginning of the period determined the average rate of growth in the coming years [8].

Investigation of the institutional quality influence on the development of the country social risks is impossible without consideration of corruption. The results of the causes and consequences of corruption research in the scientific literature testify that there are two main hypotheses. The first one is that corruption is the result of excessive economy regulation, which is established by the power elites to obtain administrative rent. In this case, corruption severely limits the opportunities for productive entrepreneurship, reduces the investment activity and slows the introduction of new products and technologies [9]. According to the second hypothesis, corruption can contribute the economic development, accelerating the bureaucratic procedures and encouraging officials to compete for limited resources [10]. As social risks are inversely proportional to economic growth, it is proposed to use the results of P. Mauro's research. He tested both hypotheses on real data and found out that corruption coefficients are negatively correlated with economic growth rate and the level of investment. This connection is resistant to the introduction of control variables (per capita income, level of education, etc.) and is manifested in all countries. The quality of the bureaucracy coefficients improving and corruption reduce by one standard deviation leads to increase the average growth rates of 1.3 and 0.8 %, respectively [11].

**Results.** According to the international organization Transparency International, in 2013, Ukraine has worsened the coefficient of the corruption level. Our country received 25 points of 100 — the worst performance in Europe. According to the authors, Ukrainian and foreign business is ready to sound the alarm, because the basic problems of business community are not only solved but exacerbated. The basic are the following:

— business monopolization. Oligarchic clans actively redistribute business resources between themselves and displace transparency and healthy competitiveness from the market;

— failure of long-term business planning. In Ukraine the property becomes less secure, the single and unchanging rules of conducting business cease to act for all market participants;

— occupation of the business by the state corrupters. The procedures of receiving permits to conduct business become more corrupt, corruption is flourishing in cooperation with the state authorities, officials, who takes decisions, take control of financial flows [12].

According to the results of the «Global Corruption Barometer» research, which was carried out in Ukraine in 2013 by the international organizations Transparency International and Gallup International Association, 36 % of Ukrainians are ready to participate in the protests against corruption. Such public sentiment is caused by the fact that 43 % of questioned people are confident that in recent years the level of bribery in our country has considerably grown. The vast majority of respondents (80 %) believe the government's actions in the fight against corruption is ineffective. The judiciary, the police and the health sector are thought to be the most corrupt in Ukraine.

Therefore, it is understandable why the level of public confidence in the authorities and a significant number of social institutions is low. It should be noted that in any country, regardless of its level of democracy and economic development, there is a number of people who do not trust in government. However, in countries with transition economies the level of trust in some institutions, officials and state as a whole is much lower than in countries with developed democratic system. It has been proved by the Razumkov Center survey (table 1).

Table 1

## How much do you trust the following public institutions? % of respondents

	Trust	Mainly trust	Mainly don't trust	Don't trust	Index trust	It is difficult to answer
The Armed Forces of Ukraine	7,9	33,2	23,1	20,2	-2,2	15,6
Local authorities	5,0	36,4	25,5	23,9	-8,0	9,2
The security service of Ukraine	4,8	26,4	25,6	28,7	-23,1	14,6
President of Ukraine	6,9	22,5	22,4	43,3	-36,3	4,9
The Constitutional Court of Ukraine	3,3	19,3	24,9	37,1	-39,4	15,4
The Government of Ukraine	2,9	23,2	27,9	40,9	-42,7	5,1
Prosecutor General's Office of Ukraine	2,7	20,3	25,7	40,1	-42,8	11,1
The Verkhovna Rada of Ukraine	2,1	17,6	34,6	39,7	-54,6	6,0
Police	2,0	16,7	28,3	46,4	-56,0	6,6
Courts	1,7	16,1	28,3	45,6	-56,1	8,2

Source: Judicial reform and the state of justice in Ukraine. Expert survey (2013). Available at: <http://razumkov.org.ua/ukr/socpolls.php>.

According to the European Social Survey, in terms of coefficient of trust in government institutions (2010), Ukraine occupies the last places among the European countries. Trust coefficients are highly

correlated with the level of citizens' satisfaction. So, in comparison with the citizens of 26 European countries over the last few years, Ukrainians were the least satisfied with their life. The problem of trust between

the government and society is in several planes, the main of which is the continuing rejection of the main figures of power by the population of some regions of the country. There is an interconnection between the level of trust in the government, the subjective perception of the economic situation in the country and the level of the social risks [13].

In the scientific literature there is one more point of view, according to which distrust to government at all levels does not mean the so-called «bare denial». Moreover, it is assumed that distrust to authority «contains a huge positive, constructive potential». Today the quintessence of distrust is the tendency to develop new network social system, mainly horizontal, between people and their associations. In this system, of course, the state is remained in place but its role and impact become more limited [14].

According to Hodgson G., institutions are structured in a certain way, organizational systems. They are designed to perform more or less clearly defined objectives and operate on the basis of the certain principles or rules. Institutions restrict people's behavior in the certain way, but at the same time, they expand their capabilities, give new options of choosing actions, encourage ability not only to create conditions for the people's aspirations, but also to form and modify the aspirations themselves. Institutions do not only depend on the activity of individuals, but also constrain and form it, and the availability of such positive feedback provides further strengthening and increases institutions perpetuation [15].

On the other hand, the institution, being a set of interconnections and systems behavior, is eventually determined by the needs of individuals. Although it forms the interconnections and standards itself, there are some people among which these interconnections are realized. These people use these standards in practice. In this context, the institution can be considered as an original form of human activity, which is based on a clearly developed ideology, a system of rules and regulations, as well as developed social control over their execution.

Institutional activity is carried out by people who are organized into groups or associations. There is a division into the status and roles in accordance with the needs of a particular social group or society as a whole. These way institutions support the social structures and social order.

In transitional societies the risk has its own peculiarities. They are defined by the process of social reproduction, which is characterized as a denial of the outgoing phase of society development, when the old mechanisms lose their effectiveness, and the coming stage is affirmed, when the socio-economic mechanisms have not been formed yet.

Institutional specifics of Ukraine is that the country is characterized by an excessive political and commanding influence on the processes, that require a widespread social and public participation, which is

manifested in the economy as a tendency towards monopolization, dominance and non-market non-price competition, and in the social sphere — in excessive centralization, mainly targeting distribution of state activity and its residual role among the other government activities. Thus, in the country even economically active person, who can earn and has achieved some relevant professional qualification, is unable to provide neither himself nor his family with all necessary conditions for a decent standard of living and development.

It determines the special role that the state should play in building of the affordable infrastructure providing sharing conditions at the level of each settlement unit, without exception, and without prejudice both in quantity and quality. Unfortunately, the social function of the Ukrainian state did not bother to respond to such a role [16].

Because of this state position, Ukraine is one of the countries which are the most vulnerable to global risks. According to published analytical report on global risks (Global Risks Report) our country is on the 37th place, being more at risk than Russia, India, Turkey (table 2). The report is based on a survey of 469 experts from industry, government, scientific community and civil society. It examines 50 global risks according to five categories. The report's aspect is biased towards the cluster analysis of global risks, rather than focusing on an existential risk. Three clusters of risk which are a very serious threat to our prosperity and security in the near future are brought to the fore: dystopia, security guarantee, the threat of persistent connection within 5-centers of gravity: economics, geopolitics, environment, society and technology.

The institutional structure of society includes the following basic elements: formal and legal, administrative norms (formed and controlled by the state); sociocultural norms (formed and controlled by the civil society) institutionalized social practices in the field of social services.

Operation of public institutions is manifested in the social practices — sustainable systems of interconnected and mutually oriented behavior of the social subjects, their result helps minimize the social risks. However, not all social practices which minimize the social risks are institutional. Only those social practices that are different in greater significance and mass character or stability and traditionalism are institutionalized. The effectiveness of the social risk management at the level of institutional structure depends on the mutual correspondence of formal and informal norms, standards and actual practices. Thus, the vitality of the social institutions are made up of legal and socio-cultural forces whose potential is necessary to meet public needs (a necessary condition for the existence of the institute), including the provision of the social risks minimizing.

Actually risk is connected with the likelihood of harm, negative event, not just a likely consequence of having a neutral nature. We can speak about the risk

Table 2

Global Risks Perception Survey Resilience Question Results

Rank	Country by country of expertise	Economic Development Stage	Sample	Adaptability/Recoverability Score	Margin of Error at 95 % Confidence Level
1	Singapore	Stage 3	10	3.66	0.93
2	Norway	Stage 3	6	3.56	1.62
3	Sweden	Stage 3	8	3.46	1.07
7	China	Stage 2	72	3.26	0.25
9	USA	Stage 3	283	3.23	0.12
15	Belgium	Stage 3	7	3.15	1.35
25	Russian Federation	Transition from 2 to 3	35	2.84	0.48
32	India	Stage 2	64	2.71	0.28
36	Turkey	Transition from 2 to 3	11	2.61	0.95
<b>37</b>	<b>Ukraine</b>	<b>Stage 2</b>	<b>11</b>	<b>2.54</b>	<b>0.99</b>
48	Nigeria	Stage 1	16	2.21	0.66
49	Ethiopia	Stage 1	7	2.08	1.41

Source: Global-Risks-Report-2013. Available at: <http://www.scribd.com/doc/119441108/Global-Risks-Report-2013-WEF>.

only in case when the future situation entails some damage, «negative» or «undesirable» event. Risk is always the possibility of losses. It should be emphasized the relativity of the interpretation of the damage. Damage is considered only in relation to an initial state with a mandatory contingency probable damage to the probability of winning. The action that can have a chance to cause damage will be a risk only when this potential damage affects the decision itself. Risks are substantially completely different in nature than danger, although they are sometimes legitimately reproduced by modern institutions which offer individuals a variety of solutions choice and actions. Almost any choice (or non-participation in it) involves risk, including the risk of lost opportunities of gaining material or cultural wealth.

Regarding the social risks, they are not a consequence of reasons resulting from natural or technological processes, as well as individual biological and behavioral characteristics of individuals. They are caused by the social changes as a result of discrepancies between subject and object actions risk and the changes in the social environment. This approach is demonstrated in the Eighth Edition Global Risks 2013. The authors of the report distinguish the most urgent social risks (fig. 1): water supply crises, unsustainable population growth, food shortage crises, rising religious fanaticism, mismanagement of population ageing, backlash against globalization, vulnerability to pandemics, rising rates of chronic disease, unmanaged migration, ineffective illicit drug policies [17].

Within the framework of the institutional theory it is necessary to distinguish a fundamentally different approach to the definition of the social risk, which is found in the decisions of the European Court of Human Rights. One of the decisions the court stated that «... the provision of this article do not necessarily require the proof of guilt in the actions of the administration, its responsibility has an absolute and objective nature and is based on the theory of the «social risk». Therefore, the administration must compensate the public harm which had been caused by acts committed by unknown

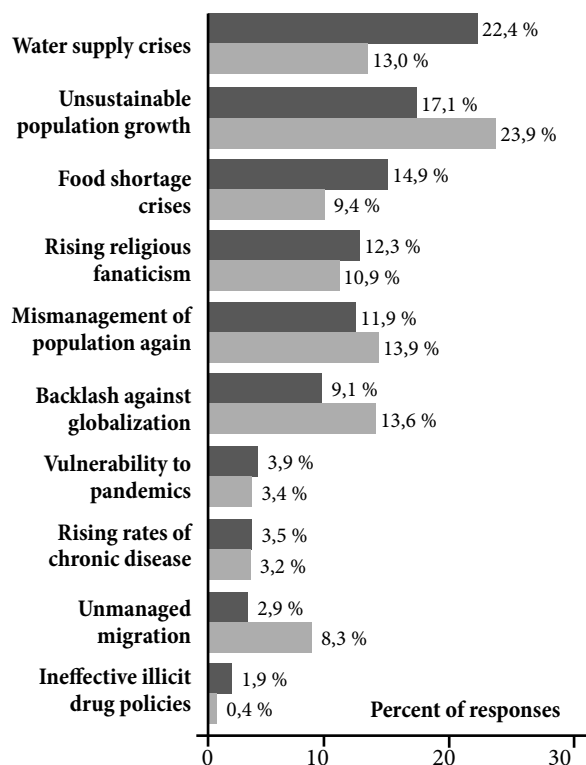


Figure 1. Societal risks

(Source: Global-Risks-Report-2013. Available at: <http://www.scribd.com/doc/119441108/Global-Risks-Report-2013-WEF>)

persons or terrorists when we can say that the State has failed in its duty to maintain public order and public safety or the duty to protect life and property of individuals» [18]. Such definition is the result of a widespread understanding of the social risk, which is identified in this case with the State's duty to take care of its citizens.

**Conclusions.** Thus, we can conclude that the effectiveness of the social risk management in the country fully corresponds to the quality of its institutions especially public ones. The results of cross-country studies indicate that the differences between economic and political institutions constitute the fundamental reason for

the differences between wealth level of countries and the country risks. According to D. Acemoglu, «although cultural and geographical factors may also be important for the economy functioning, the main source of cross-country differences in economic growth and wealth levels are differences in economic institutions. Economic institutions determine not only the economic growth potential of the country, but also a number of economic peculiarities, including the resources distribution in the future [19]. Among the different types of explanations why countries have different institutions, one of the most acceptable explanations can be considered the explanation which was made from the standpoint of the theory of social conflict. According to this theory the inefficient institutions exist because they are beneficial for groups with political and economic power.

One of the most important factors in minimizing of the social risks in Ukraine, in terms of institutional theory, may be increasing confidence to the institutions, and first of all, to the state. Trust to the institutions is determined by the level they meet the expectations of the subjects, that is how they work in terms of, firstly, efficiency, and secondly justice.

The prospect of application of the institutional analysis methodology to the social risks is that it orients the researcher to analyze the reasons according to which inefficient in terms of the social risk management and sometimes destructive institutions are very viable. The reasons for these peculiar «institutional traps» are that when they emerge once negative phenomenon increases and roots in the behavior patterns of the population. It has influential groups which are interested in its preserving.

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