

Transformation Shifts in Economy: Basic Approaches

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Abstract

The article aims to study and analyze the political and social–economic changes in the process of system transformation in Ukraine. It singles out factors that might lead to a more sustainable strategy of political and social – economic development. The paper represents an attempt to understand the content of system transformation, causes of successful and inefficient practices, and proposes recommendations for its improvement.

The hypothesis of the study is to estimate how the GDP growth in Ukraine depends on the degree of economic, political, social transformation, as well as the overall indicators (market and democratic) transformation. The study discusses the concepts of system transformation, describes types of transformation, determines the impact of transformation shifts on economic growth in a country, and estimates the econometric model of GDP from transformational changes, contributing and slowing down factors.

Keywords: system transformation, transformation shift, economic growth.



1. Introduction

Analysis of trends prevailing in modern political science allows admitting the stage-structure approach as dominant in the evaluation of post-communist transformations. Ukraine's path of economic reform has shown that the market means the economic transformation does not work without government regulation and funding the innovative production process. As a result, the economy has lost its reproduction capacity and transformed into a reallocating system. Oligarchs have managed to retain their status as essential players in Ukraine's politics and economy. The systemic corruption, the lack of an independent judiciary, and an inefficient administration impede to reach the maximum heights, which can be seen in examples of Poland's success and other Central East European countries.

The article is aimed to study and analyze the political and social –economic changes in the process of system transformation in Ukraine and to single out factors that might lead to a more sustainable strategy of political and social – economic development at current stage of the development. The paper represents an attempt to understand the content of system transformation, causes of successful and inefficient processes, and proposes recommendations for its improvement. The hypothesis of the study is to estimate how the GDP growth in Ukraine depends on the degree of economic, political, social transformation, as well as the overall indicators (market and democratic) transformation. The first part of the paper gives an overview of basic concepts of transformation and determines the impact of various transformation forms on economic development.

In the second part of the paper, we define which transformational changes contribute to GDP growth, and what it slows down it.

The source of information is data of the Bertelsmann Stiftung's Transformation Index (BTI) 2003-2018, of the Democracy Barometer, EBRD transitional index, and national statistics. The methods for research include the interdisciplinary approach, statistical methods, and descriptive analysis.

2. Literature Review

A review of the scholarly and refereed literature shows the existence of various theories and whole diversity points of view. The system transformation analyses in the context of economic, political, and social transformation. This process includes the democratization of all spheres in the country's life, formation of civil society, sequencing reforms, creation of new kinds of institutions, and new management mechanisms application. The application interdisciplinary approach directs to apply the methods used for solving social problems based on systemic comparative analysis of the different disciplines in other areas of knowledge, generating new interdisciplinary principals and instruments. As part of the study, we consider the main theoretical approaches of system transformation without diminishing the role of others.

The system transformation theories reflect complex process combining economic, political, social, and cultural components. The political transformation is accompanied by the change from authoritarian to a democratic regime. The political transformation includes the elimination of the old political system, creation of new political structures, organization of

system functioning based on a democratic mechanisms and procedures. Carothers (2002) claims that the transition paradigm rests on the assumption that democratic transitions making up the third wave are being built on coherent, functioning states. The process of a redesign of state institutions suggests the creation of new electoral institutions, parliamentary reform, and judicial reform.

According to Polanyi (2001) transformation forces various groups to offer their own ways to adapt to the new situation, and the proposed methods reflect both the interests of the group itself and more wide public interests. An important role in transformation is assigned to governments of states, citizens, and individuals. Hölscher et al (2018) differentiate concepts transition and transformation, referring to change in complex adaptive systems and large-scale societal change processes. Authors draw attention to the implications on the analysis of elements of change. Transition analyses changes in societal subsystems (e.g. energy, mobility, cities), focusing on social, technological and institutional interactions. Transformation refers to large-scale changes in whole societies.

Boettke and Leeson (2015) assert that “political – economic presumptions” reflect different evaluations of the costs and benefits of extending government’s reach into the economic domain, which in turn give rise to different “default” positions regarding the appropriate role of government. Pezoldt and Koval (2018) propose new transformation theory that explains changes in economic systems are dependent on the needs of citizens. Thus, the choice of the political regime depends on the needs of the population, and there is no predetermined direction of transformation. Beichelt (2012) analyses the levels of democracy new EU members’ states, and states that in some dimension which form of the EU’s trans and supra-national regulatory system affects the quality of democracy and existing relationship. The classification of basic system transformation approaches is presented in table 1. The classification criteria define the title, authors, and subject of application, typical attributes and applied methods.

Table 1. Classification of basic system transformation approaches

№	Title	Authors	Subject of Application	Typical Attributes	Applied Methods
1	New transformation theory.	Pezoldt & Koval (2018)	Political transformation.	The choice of political regime depends on the needs of the population.	Institutional analysis, rational choice theory.
2	The stabilization of the post socialist state in orbit of the planetary system.	Glinkina& Koval (2015)	Political transformation. Economic transformation.	The criteria for completing the post-socialist transition is stabilization of post socialist state being geo-economic center of attraction or formation such center by the country independently.	Multilevel analysis of post-communist transformations for social-economic effects.
3	The microcosmic evaluations of modernization.	Goorha (2017)	Political transformation.	The role of political communication and the media, bureaucratic corruption.	Macrocosmic studies of modernization.

4	Path dependency approach in cognitive and institutional economics	Gigante (2016)	Economic transformation. Social transformation.	The interpretations of economic behavior, through the explanation of individual and social mechanisms.	Mechanisms of standardization and change of institutional norms.
5	The model of sociopolitical transition.	Boaky (2007)	Political transformation. Social transformation.	The social integrative process reallocates resources from inefficient use (political power struggle or even political conflicts) to efficient use (production).	Models of social fragmentation, dynamics of output per-capital, economic growth.
6	Substantial change of social systems.	Merkel et al. (2019)	Social transformation.	The change of the institutional environment, and patterns of behavior, of economic agents.	The decisions of intentionally acting subjects.
7	New Institutional Economics. (Institutional Transplantation)	Zweynert & Goldschmidt (2006)	Political transformation. Social transformation.	The allocation of formal and informal rules. Institutional structure of the state, real institutes (organizations), household systems.	Sociological evolutionary approach, an integrated approach to household systems' analysis.
8.	Neo Institutional Economics. (Varieties of Capitalism)	Drahokoup (2009).	Political transformation. Economic transformation.	Analysis of property rights. Transaction costs. Organizational forms of behavior in contract's relations.	Principle of methodological individualism. Rational behavior of economically isolated agents.

Source: Author's approach.

The author made an attempt to unite and analyze the most significant system transformation theories without decreasing the significance of those not considered in this paper.

The interdependence of the political and economic transformation is investigated in a number of works of East European and Western scientists. Glinkina and Kulikova (2010) apply the methodology of the multilevel analysis of post-communist transformations for social-economic effects assessment of system transformation in Central East European countries. The "socialist development period" is perceived as a "lapse" from the historical development process to mankind (an experiment, crime, etc.) and, accordingly, transformation transition as a return to the bosom of civilization. Transition analyses through borrowing existing West type institutions in the developed countries in the hope of catching up with modernization. Scientists propose the hypothesis that the stabilization of the post - socialist state in orbit of the planetary system built by geo-economic centers of attraction leads to the fact that in form the same economic processes taking place in different groups of post-socialist countries are filled with significantly different contents.

The study of works considering interaction between political and economic subsystems shows that the dualistic approach is applied in majority of it. This theory defines the form of the relation which depends on those mechanisms that set in motion the transformation processes within the subsystems (Pezoldt, Koval, 2018). Scientists ascertained that the political system must comply with the relevant requirements, which is heterogeneous for each country, which affects the direction of its transformation, and assume that changes in economic systems are dependent on the needs of citizens. The applied method does not take into account the impact of other subsystems and analyses external factors. The following approach limits the research subject, excluding legal, social, cultural institutions and etc.

Economic transformation involves a series of reforms involving the transition from one system of resource allocation to another. Reform approaches undertaken after 1990 in Central and Eastern European countries considered pragmatic and lacked a theoretical fundament. Gomulka derives four phases for a typical transition. Phase one centers on macro stabilization, phase two on structural adjustment, phase three on the recovery of growth, phase four on sustaining growth, and macroeconomic balance (Reforming Central and Eastern European Economies, 1991). The theory of the structural transformation of social production was formed as a result of a comprehensive analysis of a qualitatively new economic situation. It directed to discover the characteristic features of the emerging post-industrial economic system. The vast majority of researchers argued the main signs of the structural transformation of social production. They are radical acceleration of technological progress, a decrease in the share of material production in the total social product, the development of the services and information sector, a change in the motives and nature of the human activity, as well as the emergence of a new type of resource. Structural transformation refers to the reallocation of economic activity across the broad sectors of agriculture, manufacturing and services (Herrendorf, Rogerson, Valentinyi, 2013).

The behavioral theory is applied in a majority of works describing the transformation processes as some changes in human behavior. Behavioral approach studies the influence of social, cognitive and emotional factors on economic behavior, economic decision - making by individuals and institutions, and the consequences of this effect on market variables. Behaviors' based theory of motivation indicates that by manipulating certain behaviors in employees, they are more or less likely to perform. Teitelbaum and Zeiler (2018) emphasize behavior economic theories and draw attention to motivation theory. They conclude that by allowing firms along the supply chain to "exploit technological complementarities, reduce transaction costs, gain control over production processes and preclude opportunistic behavior, overcome informational imperfections, and internalize externalities" it can increase consumer surplus. Authors emphasize that these theories are key to understanding potential motivations behind exclusionary arrangements because motivations drive our regulatory intuitions to increase their market power in other markets or to take advantage of their monopoly positions

The legal forms of behavior are the subject of works discussing the organization theory of law. The legal and political institutions play the central role in the allocation of power within a society. They constrain political decisions via the application of a law enforcement mechanism. Baron & Wilkinson-Ryan (2018) argue that the forces that produce irrational biases are not fully understood, and are likely to remain. Nevertheless, civilization and its army of educators will be waging a constant battle against these forces, but they will probably

continue to exist. Thus, the design of the law and its application may need to consider how it can deal with irrationality for the foreseeable future. Scientists draw attention to legal approaches reducing the probability or harm of impulsive choices.

The application behavior theory is directed to the consolidation of the new set of behavior rules with asymmetric distribution properties. It causes the improvement of the negotiation process of all participants in the contract process. The evolution of the power relation of economic agents affects the behavior of people. The process of learning influences the change in informal patterns of behavior. They include the problem of credit, labor relations, asymmetric information, and opportunistic behavior. The regulation of economic activity of social agencies is provided via the negotiation process. The coordination problem is connected with the behavior of economic agents. The absence of getting of any advantages of different people's groups destroys the basis of the domination of the representatives of oligarchy, and corrupted groups in the institutional structure.

The modernization theory deals with the process of adapting something to modern needs or habits. The concept of political modernization applies to countries transitioning from traditional to a modern industrial society. With regard to the microcosmic evaluations of modernization Goorha (2017) notes that it emphasizes on the componential elements of social modernization such as urbanization, gender and income inequality, skills acquisition and education, the role of political communication and the media, bureaucratic corruption, and so on. At a broader level are the macrocosmic studies of modernization focused on the empirical trajectories and manifest processes of the modernization of nations and their societies, economies, and politics.

Wallace & Haerpfer (1998) assert that a particular model of political, economic, and societal modernization dominated in East European countries based on a version of Marxist theory. After the Soviet Union dissolution there was no change of political elite in Ukraine in 90th XX century. The party leaders and nomenclature representatives seized the power. Discrete system transformations are historical exceptions quite often triggered by crisis situations. (Merkel et al, 2019: 2).

Boaky (2007) proposes the model of sociopolitical transformation as a dynamic process, and analyses the level of the fractionalization in society.

The disappointing results of the economic reforms and incomplete transition in the majority of East European countries raise questions to single out and apply such theory that could be a methodological and theoretical basis for the justification and practical implementation of the program for transforming countries. Scientists are looking for the theories, which, in their arsenal, along with methods of study the organizational behavior allow us theoretically and methodologically to explain the current changes and suggest measures at accelerating the transformation process. "Under institutes, - writes J. Knight, - we will consider a set of the rules, with the help of which every conforms definitely established relationships in the company. The knowledge of these rules and their fulfillment are necessary and should be executed by all members of company." (Knight, 1992). The market system provides selection institutions. The priority is related to those institutions, which everyone provides the rational behavior of the economic agents, and result in minimization of transactional costs.

The transformation in East European countries demonstrates different methods, mechanisms, and results. The use of the institutional approach provides the solution of the main tasks: 1) the explanation of the emergence of institutions, 2) the elucidation of the institutional order, and 3) the assessment of the institutional change. Scientists distinguish the transformation from any kinds of reforms in society through the results of system changes in the whole political and economic structure of the state. North (1990) believes that institutional change shapes the way societies evolve through time and hence is the key to understanding historical change.

The institutional methodology provides the study of the mechanism of an individual choice of economic agents, methods, using different sets of constraints. They determine the mode of the interrelation between economic agents, and organizations. The institutions considered as the internal constraints of the economic behavior of agents, functioning in the framework of economic system. The aggregate formal and informal behavior rules explained via the institutions. Tridico (2004) suggests that, while there has been some exploration of the various theoretical approaches to the study rationale choice institutionalism, historical institutionalism, new institutionalism, neo-institutionalism, the theory of property rights, evolutionary economics and etc. The new institutional economics is studying various government structures, the elements of which are the contract system, organizations (institutions), and the institutional structure of society. Clague (1997) highlights ideas of the institutional reform, and points out an important role in how people change their mental models of work behavior. Zweynert & Goldschmidt (2006) interpret transition as process of institutional transplantation. They consider the borrowing process of political institutions, business fashions, management practices, and policies from one country to another. The informal settings are interpreted in the different countries interacted with the imported formal institutions.

The subject of the neo-institutional economics is organizational behavior and political regimes. The main areas of this approach are the theory of property rights, agents and transaction costs, and the theory of public choice. The subject of the neo-institutional economy considers transformation and institutional change from a broader overview of legal and economic factors. This approach defines the foundations of the rational behavior of economically isolated agents, the decision - making process, and the forms for property rights protection. The system of property rights determines the use of scarce resources, methods of profit maximization in different social-economic systems. The concept of property rights is applied to system transformation research. Drahokoup (2009) analyses the regulation theory in the context of institutional concepts and states the predominance of the application of the approach of varieties of capitalism in Eastern Europe and the former Soviet Union. He notes that the core ideas of this approach offered analytical tools that have become a leading paradigm in the comparative political economy of Western societies, but also provided a rationale for saving European capitalisms from the ideological attack.

The institutions vary in accordance with the notion of the rules of corporate governance and their use. The determination of property rights stimulates the rational behavior of the economic agent with minimized transaction costs. The efficiency of the institutional transformation is based on the change of the old institutional order and the establishment of the new order in East European countries. The institutional order characterized by the pattern

of the standard behavior of economic agents, and methods of coordination, collaboration and strengthening local public policies. Kahler (1988) points out that the policy of international organizations should be directed to facilitate national leaders to provide coordination of their own domestic political coalitions and government. Technological progress stimulates the saturation of internal needs of market and causes the development of the national production. There is perceived the behavior of the economic agents, organizations on a standard sample, and ways of their economic coordination under the institutional order. The institutional change actuates the replacement of the old institutional order with the new order. The systems of coordination of economic behavior of the subjects are subdivided depending on forms of organization on hierarchical and non-hierarchical principles. The economic development is accompanied by the institutional change of the forms of behavior of the economic agents.

Many works in transformation research use path dependency theory to explain the sequencing institutional reforms and practices. Path dependency theory explains how the set of decisions one faces for any given circumstance is limited by the decisions one has made in the past or by the events that one has experienced. Path dependence refers to a dynamic property of allocative processes. David (2010) divides on the process dynamics and the outcome(s) to which it converges, or limits probability distribution of the stochastic process under consideration. Gigante (2016) considers the path dependency theory. It is a non-linear process. The author investigates the character of learning processes, shown by cognitive and neurobiological studies, and suggests interpretations of economic behavior, through the explanation of individual and social mechanisms intervening in learning processes, but it has also clarified some mechanisms of standardization and change of institutional norms.

Institutional transformation is a set of transformations system of society, ensuring the minimization of costs the allocation of limited institutional resources (Nosova, 2017). The accumulation of knowledge and changes in values can perhaps be explained only in an evolutionary way. Institutions may likewise have originated in an evolutionary fashion. But as far as formal institutions are concerned, their modification, as a rule, takes place consciously. In this context, Merkel et al. (2019, p.4) point out that transformation is a substantial change of social systems, which may involve spontaneously, but is mostly caused by the decisions of intentionally acting subjects. The institutional system transformation is accompanied by the change of the institutional environment, patterns of behavior of economic agents.

The sociology approach deals with the concepts of social structure, social capital, and system of social relations. The social transformation questions are deeply discussed in the in works by Simmel, Parsons, and lately by Luhmann, Beck, Giddens and Habermass. Social transformation defines through social changes in institutions, norms, values, and hierarchies, results in the formation of civil society. Thus, managing economic units as well as global business requires balancing forces between homogenization and differentiation. Or to rephrase the issue: the management of the trade-off between integration and variety (for example cultural responsiveness) can be informed by an evolutionary account of how social systems unfold (Ioannides, 2008: 200).

Zaslavskay (2010) argues that transformation process includes various structural levels of society. Gurenkova (2016) adheres the point of view that social disintegration provides the separation of elements that were united. The most common forms of disintegration are the

collapse or disappearance of shared social value, shared social organization, institutions, norms and common interests.

Social capital defines as a “product of government institutions”, as dependent on how groups make their own choices or decisions, and it produced through “purposive external interventions” (Thomas & Hendrick-Wong, 2019: 64). The authors argue that success of social changes depends on democratizing process and income distribution improvement.

Kaldaru & Parts (2008) provide regression model estimated the dependence of economic development from human and social capital, income equality, and redistribution indices.

The cultural Economics approach Guiso, Sapienza, Zingales (2006) consider that the most important is the degree of impatience, respect for laws in culture. In other words, almost every economic decision has cultural components, perception of uncertainty. Guiso et al. substantiate the interdependence of behavior and outcomes in economic life from the political preferences of individuals (Guiso et al., 2006: 40).

The various number of views to transformation exhibit the common features, and some peculiarities for methods and forms. The common feature of all under consideration approaches is a study of some separate direction of system transformation, and its relationship with political, economic, and social subsystems. The subject of application concepts demonstrates the limitation of research in any specified transformation trend, and causalities within the analyzed system. Some scientists apply approaches, combining several areas of transformation research or suggest limited research of certain narrow questions. The typical attributes of system transformation theories include defining the basic individual historical, political, economic, social characteristics applying for understanding transformation changes in East Europe. The applied methodology emphasizes the broad variety of methods using in social research including behaviouralism, structuralism, post-structuralism, realism, modernism, institutionalism, pluralism, rational choice theory and etc. Further research of system transformation needed for further reevaluation processes in East European countries. The application of the interdisciplinary approach will contribute to positive shift in research paradigm development of system transformation.

3. Modeling of transformation shifts

Theoretical analysis of numerous studies on system transformation in East European countries tackles some fundamental questions the prerequisites and factors for its successful implementation. The widespread econometric methods and techniques applied for modeling transformation in the works defining phases and stages transformation modeling, human, political and economic developments in East Europe, varieties of capitalist development and etc.

Henderson (2019) proposes appropriate models for transformation. The author points out those transition paths were assumed to be free-market capitalism and democratic state forms. Herrendorf et al. (2013) apply the multi-sector model for structural transformation assessment. Aisen & Veiga (2011) use the linear dynamic panel data model and calculate the impact of system changes on societies. This method applied effectively for Ukrainian transition model.

The analysis of the Bertelsmann Transformation Index for Ukraine from 2003 to 2018 comprises the political transformation index, economic transformation index, transformation management index, and status index. Each of the indices is based on the estimation of sub-indices which reflect the quality of reforms, sequencing, and transparency. The status index evaluates the quality of democracy, a market economy, and political management.

Bertelsmann Transformation Index aggregates the results into two indices: the status index evaluates the state of political and economic transformation, the management index assesses the quality of governance. Political transformation evaluates the quality of democracy.

Political instability is increasing, while trust in democratic institutions is falling. Economic transformation index estimates the market economy.

The management index assesses the quality performance overestimated period.

The graph of the interdependence of gross domestic product per capita (GDP) from political transformation index, economic transformation index, transformation management index, and status index demonstrates a linear relationship between variables in the index form. It should be noted that these data do not provide comprehensive information on the success of the political and economic transformation. GDP calculated as percentage change in the relationship to the previous year. Percentage GDP changes show an absence correlation with analyzed indices for the period of 2003-2018. Multiple regression analysis confirms the absence of any correlation between variables. The regression analysis of times serious is very problematic because of the appearance of spurious regression.

To continue the analysis of system transformation in Ukraine we estimate the hypothesis that a country's stability defined via political stability affects economic growth. The assessment of political factors' impact on economic development will be estimated. The data of Democracy Barometer and Heritage Foundation for the period 1991 to 2014 are used (Democratic Barometer, 2018; Miller et al, 2019). The available data are based on the theoretical concept of democracy, which permits measuring a country's quality of democracy for a given point in time (Democracy Barometer, 2018). Quality of democracy estimates via various indicators of freedom, control, equality, and their subcomponents.

The theoretical framework of the empirical analysis is based on the hypothetical equation:

$$GDP_t = F(CJS_t, EF_t, GS_t, CG_t, DB_t, Largpavo_t, Votediff_t) \quad (1)$$

The following variables are available and are considered where

GDP_t – Gross Domestic Product per capita (current US \$) in period t;

CJS_t – Confidence in Justice System is a share of citizens with confidence in the legal system in period t (number of citizens);

EF_t – Economic Freedom Index is overall score of four broad parameters: rule of law, government size, regulatory efficiency, and open markets (number);

GS_t – Government Stability is stability of government; a cabinet is seen as stable if it is able to stay in government during the whole legislation in period t (number);

CG_t – Confidence in Government is the share of citizens with high confidence in the government. in period t (percentage);

DB_t – Behavioral Dialogue is a share of citizens which do not endorse behavior and attitudes that are directed against the democratic society in period t (percentage);

$Largpavo_t$ is margin of electoral concentration of votes; $Comp = 100\% - p_{strongest}$, where $p_{strongest}$ = percentage of votes obtained by strongest party (percentage);

$Votediff_t$ is 100-Difference between largest and second largest lower house party in % of all votes (percentage).

The variable confidence in justice system defines via rule of law. Government stability estimates as subcomponent of government resources.

Confidence in government, behavioral dialogue government resources are indicators of the public support subcomponent, and component government resources.

Vulnerability (competitiveness of elections) describes via subcomponents closeness of electoral outcomes indicators $Largpavo$ and $Votediff$. Index of Economic Freedom based on 12 quantitative and qualitative factors, grouped into four broad categories rule of law (property rights, government integrity, judicial effectiveness); government size (government spending, tax burden, fiscal health); regulatory efficiency (business freedom, labor freedom, monetary freedom); open markets (trade freedom, investment freedom, financial freedom).

The variables are available and considered where index t runs over all the times periods considered (years) from 1991-2014. The Stata 12.1 Software for Statistics 2011 used for estimations. The results of the estimation of the alternative models showed not significant results.

The final model can be seen from the equation 1.

$$GDP = 22,05 + 5,41CJ + 0,38GS - 8,99CG + 2,19LARGVAPO \quad (1)$$

(57,02) (2,57) (0,22) (2,15) (0,69)
 * ** ** ***

$$R^2 = 0,90; \text{ adjusted } R^2 = 0,88$$

Significance level was estimated at 5 %. Should be noted the relatively high level of R^2 and adjusted R^2 in all estimated models.

Interpreting the result demonstrates that GDP changes were reflected on fluctuations of variable values of confidence in government and government stability given the changes in the political situation in the country in the period 1991-2017.

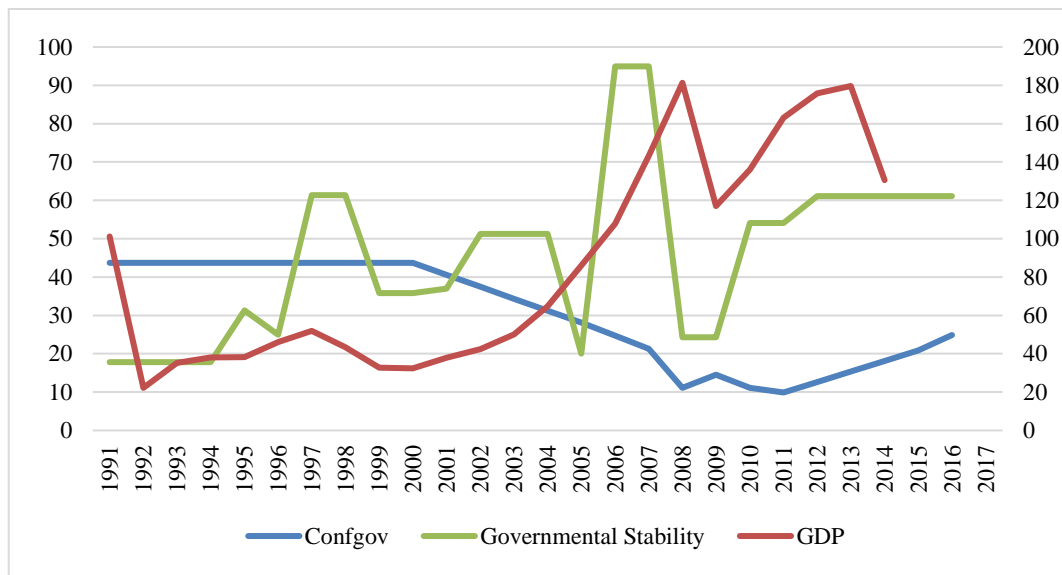


Figure 1. The relationship of GDP, confidence in government and government stability in Ukraine in 1991-2017

The assessment of the model reflects two downward shifts on government stability curve in 2005 and 2008. The first shift explained by the period of the orange revolution in late November 2004 – January 2005. Second move was a reflection of the consequences of the global financial crisis 2008-2009. Significant increase in government stability marks the period of democratic reforms in 2005 – 2008. After this period, the negative consequences of the global financial crisis for the Ukrainian economy can be seen at the downturn part of the government stability curve. The political and economic changes the election of the new President, new Parliament (Verhovna Rada), adoption of new laws, empowerment of workers at the local level are shown at the upswing part of the government stability curve. In general, changes in the government stability curve show the economic and political reforms' progress and some deviations from their implementation in some periods.

Following further estimations, we continue analyzing the fluctuations of the confidence in the government curve. The confidence in government was quite high until 2000. We could see the lower part of the curve until 2011, which reflects political and economic changes in the country. The tendency of decreasing trust to the government explains during the period of the Orange revolution in Ukraine. The window for fundamental reforms may not have closed in Ukraine, but it has narrowed considerably amid political resistance to against corruption reforms and a series of attacks on civil society and the media. For the first time since the 2014 revolution, Ukraine's Democracy Score declined this year. In the other four countries, informal leaders operating outside of or on the edges of accountable institutions increasingly dominate their underdeveloped political systems. (Freedom House Report, 2018).

The estimations result prove the necessity of widespread reform in the formation of democratic institutions at the state and local levels. The effective economic order means concurrence of personal and public outcomes of economic activity. The legal guarantees of economic agents provided by the effective operation of an integrated institutional system in

society. The analysis of miscellaneous theories indicates the necessity of comprehensive research approach.

4. Result and discussion

The paper provides the supporting science needed to develop and execute policies, as well as offering persuasive evidence to policy-makers of the potential national and corporate benefits of these policies. The system transformation is the complex process where mechanical coping and change institutions do not provide quantitative changes, and need development of formal rules and informal institutions and consciousness, including mentality. The analysis of transformation demonstrates significant differences in the conditions, procedures, and results in the transformation process in Ukraine. The estimation results confirm the necessity of widespread political and economic reforms in the direction of democratic state formation. This process should create new institutions and renovate old ones, as well as include various groups of population in all regions.

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