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INSTITUTIONAL GENESIS OF KLEPTOCRATIC ECONOMY AND ITS FORMATION IN UKRAINE

Purpose. To analyze the kleptocratic economy as an institutional arrangement that is focused on the key function of generating sources of income for the ruling pseudo-elite by introducing corrupt non-market transaction costs for firms and households, which are based on administrative, bureaucratic and political violence.

Methodology. In the proposed scientific research, we distinguish three types of research methods: firstly, inherent in cognition as a whole (general logical) methods such as analysis, synthesis, abstraction, generalization, induction, deduction, analogy; secondly, general scientific, primarily empirical, research methods, namely observation, description, measurement; thirdly, the theoretical methods of cognition used by the economic science, in particular: idealization, formalization; the axiomatic method for constructing theoretical knowledge; a hypothetical-deductive method for constructing and developing theoretical knowledge.

Findings. The socio-economic structure of Ukraine is analyzed from the point of view of the factors that are determined by the impact of formal and informal institutions in kleptocratic economy and affect corruption risks. Recommendations are provided for modernization of the institutional environment in Ukraine in the context of the modern methodological paradigm of searching for points of contact within the interaction of government, business and society.

Originality. The proposed study carried out a comprehensive analysis of the institutional environment of the Ukrainian economy, which provides convincing grounds to characterize it as kleptocratic, and such where the fundamental modernization proposed in the work has yet to be implemented, accounting for the European integration prospects. In contrast to previously proposed studies, the presented approach focuses on the correlation between key performance indicators of institutions, GDP per capita, and corruption indices in Ukraine and in the studied countries of the European Union.

Practical value. The research results can be used by specialized experts when forming the institutional requirements for creating an effective system for preventing corruption.

Keywords: *institutional economy, kleptocratic economy, corruption, institutional environment*

Introduction. Thirty years after Ukraine entered the transformational period of transition from an administrative-command economy to a market economy, a comprehensive analysis of its institutional environment provides compelling grounds to characterize it as kleptocratic [1] in which fundamental modernization has yet to be carried out taking into account European integration prospects. It should also be noted that measuring the impact of the kleptocratic regime on economic development is very problematic, and the heterogeneity of the economic dynamics of the countries of global economy in terms of kleptocratic factors implies that the proposed analysis requires integration with institutional issues and the dynamics of institutional changes.

Kleptocratic economy, as an institutional arrangement, is focused on a key function that is associated with obtaining wealth by the ruling elite by introducing non-market transaction costs for firms and households, which are based on administrative, bureaucratic and political violence [2]. To this end, kleptocratic states create systems of public administration that provide the authorities with opportunities for rent-seeking behavior, which hinders the functioning of the real sector of the economy and encourages financial speculative one. Under such circumstances, transaction costs are reoriented towards administrative intervention in the market mechanism. Although, from the point of view of institutional economy, it is transaction costs that should oblige business entities to increase the efficiency of business decisions, clearly specify property rights, increase the level of certainty regarding the rules and norms of economic behavior, and not distort the sys-

tem of motives for economic activity [3, 4]. As a result, on the one hand, there is an ineffective distribution of resources and slow economic growth (recession) in the analyzed country, and on the other hand, a redistribution of income in favor of the ruling elite and its excessive enrichment, which harms the well-being of the majority of the population.

Literature review. In view of the above problems, a promising technique for the proposed study is the method for assessing the extent to which historical events of the past have long-term institutional consequences Charap and Harm (1999), Thompson [5], North, Wallis and Weingast (2009), Filipchuk [6], for example, the further trend of the global economy after the collapse of the Soviet Union. At the same time, the main obstacle for the designated perspective analysis is the boundary between the theory of the essence and causes of the kleptocratic economy and possible alternative course of socio-economic events in a particular country or region, D. North (1990). The solution to this issue will allow developing a systemic understanding of the fact how economy will react to the necessary changes in the socio-economic process and, hence, resist kleptocratic factors. This will also provide an opportunity to provide the economy with advisory resources to the required extent, attract significant investments and introduce desirable innovative technologies.

At the same time, we focus on the fact that the scientists analyzing the corruption macro-segment and, in particular, representatives of the institutional economy sharpen their research interest in the following fact: counteracting kleptocratic (corruption) factors is one of the key aspects of economic growth according to O. Williamson (1985), J. Lambsdorff (2007), S. Rose-Ackerman (2006), J. Economakis, et al.

(2010), B. Bloom (2014), H.-J. Lauth (2000). This is due to the fact that many problems of economic development are the result of existing barriers in such segments of institutional environment as: innovative technologies, property rights, labor force and entrepreneurship, as well as the result of ineffective policies that distort prices and incentives. Such institutions and corrupt inaction of the state power exist exclusively, or even primarily, not due to the lack of understanding of the necessary economic policy on the part of the state bureaucracy. Typically, in a kleptocratic economy, politicians initiate or support policies that allow them to stay in power for as long as possible and create conditions for personal enrichment (Ryzhenko and Halahan [7], Frantsuz [8], Prykhodko and Oksin [9], Gossel [10], and others). And they lobby for a policy that will allow them to compete with political opponents, and which, in turn, can authorize more effective institutional initiatives.

These problems were studied and covered on the examples of Ukraine (Nitsenko [3]), South Africa (Gossel, [10]), Bangladesh (Corruption Perceptions Index, 2019 [11]), etc.

According to a study, the Kleptocracy Archives project “kleptocratic style” is most common in Russia, Ukraine, Egypt, Pakistan, Sudan, Kazakhstan and other countries. The same data are confirmed by Transparency International surveys for 2019 [11], (Table 1).

Interestingly, from 2013 to 2018, the corruption index was constantly growing and only in 2019 decreased to 30 pp. (out of 100 possible), ie reached the level of 2017. Among all neighboring countries, Ukraine ranks penultimate after Russia.

In 2017, Ernst & Young recognized Ukraine as one of the most corrupt countries in the world [12].

Unsolved aspects of the problem. At the same time, some of the significant problems of corruption, as one of the main factors in the functioning of the kleptocratic economy, require a more detailed analysis, taking into account the institutional factors of their emergence, the specific features of socio-economic development in various countries, particularly, in Ukraine and the dynamics of current changes in the global institutional environment. Also, the problem field of this study is the system of public administration, which provides oligarchs and state bureaucracy with opportunities for rent-seeking behavior. This significantly impedes functioning of the real sector of economy and encourages corruption and financial and speculative motives for the behavior of subjects, both in government and control bodies and in business.

Methods. It must be admitted that corruption, as the foundation of a kleptocratic economy, is quite widespread in the world. In some countries in Africa and South America, such as Nigeria or Colombia, as well as in the countries of the former Soviet Union, the proceeds from corruption are likely to account for a significant share of the gross national product. Corrupt facts from time to time also receive publicity in developed countries, in particular, the most common are improper government spending on military orders or the use of private funds for election campaign. However, economic research on corruption today is quite of local nature. As a rule, they focus on the institutional “principal – agent” model, which analyzes the relationship between the highest levels of government of-

ficials (the principal), and the agent – official who receives corruption rent from business entities interested in certain bureaucratic preferences.

Therefore, the method of the proposed research is a comprehensive analysis of corruption factors, which are characterized as backbone, for the analyzed countries, including Ukraine.

The methodology of the proposed research focuses on the scientific approach to Lauth’s (2000) analysis of the kleptocratic institutional environment, where formal and informal institutions do not confront each other, but are in a state of a kind of symbiosis. The latter is characterized by the fact that institutions that supposedly guarantee the rule of law, while maintaining a formal shell, are either destroyed from within, or, even, transformed into the opposite. The influence of just such “subversive institutions” is, in most cases, responsible for negative effects in economic activity.

We also considered some aspects of the research by Dwiputri, Arsyad and Pradiptyo [13], which was conducted on the mutual influence between corruption and income inequality and used in this study.

At the same time, we emphasize that along with a detailed analysis of the entire spectrum of formal and informal norms operating in countries, it is also necessary to study their impact on the potential of economic development, as well as to identify those circumstances that focus specifically on the kleptocratic adaptation of formal institutions to the “requirements” of informal ones. As a result, the proposed structure of the analysis involves the identification and specification of kleptocratic factors in the country’s economy, clarification of the possibilities of their counteraction, elimination of the main causes and potentials of weakening the corruption system, designation of the prospects for the relevant economic policy, as well as the definition of proposals to ensure the independence of the legislative and judicial authorities from executive control, as well as ways to improve the activities of the legal system as a whole (Lambsdorff, 2007). This is a fundamental task for Ukraine’s full-fledged entry into the European Union. In addition, these factors, without a doubt, initiate economic growth and are the foundation of socio-economic stability in the country and constant growth of household welfare.

Results. Institutional interpretation kleptocratic economy. The basis of kleptocratic economy, in the broad understanding of the term under study, is corruption, which is defined as the abuse of state power for personal gain (Campos and Pradhan, 2007). The term “personal gain” means the appropriation of money or valuable assets, the acquisition of opportunities to increase power or increase in social status, receiving promises of future benefits or benefits for relatives and friends. The latter is also designated by the terms “favoritism” and “nepotism”. In turn, the term “abuse” refers to behavior that differs from formal responsibilities and is conditioned by a public office (elected or appointed), as opposed to informal rules, which are predetermined by social expectations or generally accepted codes of conduct.

In the countries with a low level of corruption, civil servants perform professional functions, taking into account their own moral motivations, ideological incentives, without warn-

Table 1

The level of corruption in some countries in 2019

| Indicator | Units of measurement | Australia | United Kingdom | Poland | USA | China | Brazil | Egypt | Kazakhstan | Pakistan | Ukraine | Russia | Sudan | Somalia |
|------------------------|----------------------|-----------|----------------|--------|-----|-------|--------|-------|------------|----------|---------|--------|-------|---------|
| Corruption index | ind. i. | 77 | 77 | 58 | 69 | 81 | 35 | 35 | 34 | 32 | 30 | 28 | 16 | 9 |
| The rank of corruption | place | 12 | 15 | 43 | 24 | 41 | 108 | 110 | 114 | 122 | 129 | 144 | 175 | 180 |

ings in the plane of unlawful punishment or corruption pressure. As for the institutions that formalize such behavior, we emphasize at least five following aspects: firstly, the principle that states that the relevant arguments for making bureaucratic decisions should not be related to personal relationships; secondly, the possibility of achieving equality in the provision of bureaucratic services to economic agents; thirdly, the participation of civil society in the government decision-making process; fourthly, “transparent” procedures in the field of bureaucratic decision-making, which limit the subjective unjustified actions of officials; fifthly, competition among civil servants in the provision of bureaucratic services.

In turn, such a definition of corruption is more institutionalized – it is a system of socio-economic relations, which is destructive in relation to the declared formal institutions and is characterized by the use of official powers to obtain material and (or) non-material benefits (Geveling, 2001). There are different types, kinds and forms of corruption. At the same time, the most dangerous for the sustainable development of the country is its economic component, which is characterized as the illegal use of official opportunities by civil servants for the specification of property rights for personal selfish purposes. For example, a bribe for granting a business permit or expediting customs clearance can be qualified as misappropriation of assets officially owned by the state. Obviously, the bureaucratic services provided by the government should be carried out not to enrich the official, but to provide opportunities for economic entities to carry out economic activities as efficiently as possible. However, licenses, permits, quotas – anything that is necessary to comply with formally written codes of conduct, direct and restrict business activities – can be used by government officials at their discretion to receive bribes.

In general, corruption leads to disruptions in the functioning of either the corresponding spheres, or, without exception, each sphere of public administration. In this case, it is of decisive importance that individual officials or entire subdivisions in the provision of state bureaucratic services serve their own selfish interests, and not public interests and needs. In the standard “principal – agent” model, the stress factor of information asymmetry is identified as the key cause of corruption in the bureaucratic procedure. When the highest level of bureaucratic power functions as a principal, then it sets the appropriate rules and prescribes specific tasks for agents – lower-level officials. In turn, officials are identified as intermediaries between the central government and counterparties – households and firms. Under such circumstances, the official (agent) implements the instructions of the powerful subject (principal), interacting with an individual or a company. The principal sets the framework conditions, relying on which the agent, for the appropriate remuneration, acts in the interests of the client within the framework of the bureaucratic powers assigned by the principal. Thus, corruption limits the contractual space for agents and makes it impossible for them to participate in non-corrupt relations for the following reasons: bureaucratic decisions cannot be stereotyped, the agent always has more information than the principal [14]. In the system of state power, the above outlines such a situation that the officials who have state power and the right to dispose of resources, while actively enriching themselves, realizing their selfish interests (Dimant, 2013).

But in order to use power resources in this way, it is necessary to seize and retain power by creating an appropriate political regime, again, using corruption opportunities. Therefore, the final form of corruption is “state capture” (Hellman and Schankerman, 2003), in which state power is privatized by the ruling political and economic groups, and power-coercive powers, and types of administrative resources are directed to capture: natural resources and land, the main financial flows, public and private property, as well as the most influential media. In a “captured” state, political and economic corruption becomes systemic, it becomes the basis for the country’s func-

tioning, displaces competition and promotes the formation of monopolies.

The proposed analysis, in turn, requires more in-depth research into the historical study on the causes and institutional foundations of corruption and the so-called phenomenon of the “crisis of corruption” (Kuzovkov, 2010). The crisis of corruption is defined as a large-scale economic, demographic, social turning point due to the concentration of the kleptocratic quasi-elite of economic and political power. The hallmarks of this crisis in the country are the rapid growth of property inequality, the slowdown or cessation of economic growth, the exacerbation of social tension in society, chaos and spontaneous mass riots in the country.

Systemically, corruption crises occur in the following sequence. At the initial stage, there is a concentration of wealth and property in insignificant kleptocratic quasi-elite, and at the same time, social explosiveness in society is exacerbated. When the concentration of wealth and monopolization of the economy reaches its peak, a deep socio-economic crisis begins; there is a total flight of assets from the real sector of the economy and their flow into the shadow and financial-speculative one, an excessive drop in the living standard of the population to all-embracing poverty. In almost all known historical events, internecine wars were the likely outcome of a kleptocratic socio-economic crisis. The latter, as a rule, was accompanied by the murderous cruelty of the impoverished population towards the rich, their physical destruction, robberies and marauding.

It is clear that the complete or partial destruction of the former political elite during the internecine merciless clashes and the violent redistribution of wealth in the country led to the elimination of only the apparent cause of the social conflict and contributed to a certain economic recovery only in the short term. However, a simple redistribution of property is not capable, in principle, of eliminating the institutional factors of accelerated and unfair enrichment based on the corruption structure of society. Therefore, after a while, a new cycle of the corruption crisis begins and repeats itself.

Stages of the genesis of the kleptocratic economy in Ukraine: from the Russian Empire to gaining independence. It should be emphasized that those European countries that institutionally limited the corrupt arbitrariness of the authorities and bureaucracy, depoliticized legal and economic institutions, took real measures to democratize society and created conditions for developing entrepreneurship and accelerating technological progress, in fact were able to eliminate the “institutional corruption trap”. At the same time, in the plane of the analyzed problematics, we sententiously focus on two historical types of further evolution of countries, which during the 19th–early 20th centuries revealed a significant opposition to the kleptocratic economy. Thus, England is an example of socio-economic transformations on the basis of civil consent in society; in turn, in the Russian Empire, there was a violent seizure of power followed by a civil war, and further repression and social confrontation, in the end, led to the establishment of a totalitarian regime [15].

The latter fact undoubtedly indicates that the more the forces that strive for progressive institutional changes are suppressed, the more likely in the future, power will be seized by a destructive dictatorship that is able to establish a totalitarian system. In the Russian Empire, contrary to other European countries that had carried out the necessary institutional reforms after the Napoleonic wars, authoritarianism was preserved. As a result, there was absence of a democratic parliament and government, a biased judicial system, brutal police terror, difficulties for businesses in accessing markets. In general, the kleptocratic organization of the economic system led, ultimately, to the seizure of power by the Bolsheviks (De Soto, 1989).

Since socialism is based on the institutionalized hostility of the authorities to citizens in the form of compulsory pre-

scriptions and orders, often directed against human dignity, it leads to the replacement of the traditional concept of law with the “law”, constructed from numerous administrative orders, commands and instructions that in detail predetermine behavior of each person. Thus, with the degradation of socialism, laws, in the traditional sense, cease to be a guide to action, and this role is appropriated by the power commands and orders of the ruling pseudo-elite. At the same time, the sphere of practical application of the law is gradually reduced even to those everyday life realities to which the ruling regime has “implanted” an ideological status.

Moreover, the most dangerous thing is that the kleptocratic ruling elite itself, from the very beginning of its reign, interprets formal requirements quite arbitrarily and pursues its own corrupt interests. This conclusion is confirmed by the following illustrative example.

In 1920, the Soviet government made a decision on the so-called “locomotive order”, when a state order was placed in Sweden for the production of 1000 locomotives. At the same time, we focus on the fact that the enterprise with which an agreement was concluded under government guarantees, prior to this agreement, produced no more than 40 steam locomotives per year and required several years to expand its production base. Despite this, the Soviet government immediately after the signing of the relevant documents gave the “semi-fictional” enterprise an advance payment of 15 million gold rubles, and in general the railway order was estimated at 200 million rubles in gold (more than a quarter of the country’s gold reserves). This amount would have been enough to reconstruct locomotive factories in Bolshevik Russia, or, at the prices of that time, to buy almost 10 poods of bread for each starving person. At the same time, in Soviet Russia itself, 1 200 steam locomotives and 40 000 freight cars were idle. It is also noteworthy that the locomotives were ordered at the price that was at least twice the market average.

It must be recognized that in Soviet-type economies, which include Ukraine within the chronological period of 1918–1991, there is clearly a fundamental conflict between effective property rights required to reduce transaction costs and economic growth, and a functioning asset specification system. It is the ruling elite and its bureaucratic and police apparatus that receive higher wages, have additional benefits in the conditions of the “Soviet-type economy”, and the “symbols” of the social status of the bureaucratic power are primarily financed from the state budget. At the same time, the so-called “special provision” of the highest party, Soviet, military and intellectual nomenclature with scarce goods and services is a noticeable part of their privileges, which were initiated after the seizure of power by the Bolsheviks and continued to improve as the Soviet state was being formed.

At the same time, in assessing the financial content of the Soviet elite, there is a circumstance that is decisive for further research on the administrative-command kleptocratic economy. Soviet officials did not have private property and existed only at the expense of state support. Moreover, with the loss of the bureaucratic position in the power hierarchy, social status and material privileges were completely eliminated. It was precisely the unreliability of the rights of the nomenclature in the sphere of possessing the achieved material well-being that gave rise to “Gorbachev’s pseudo-market reforms”, which primarily had the key goal of establishing the right of private property for the nomenclature and separating personal property from state property. At the same time, the party and state elite pursued the key goal of privatizing the sources of their material well-being and obtaining the possibility of specifying the right to inherit accumulated assets.

Therefore, in the process of reforms in the Khrushchev, Brezhnev periods of office, as well as in the second half of the 1980s, there is an active growth of horizontal bureaucratic ties and the building of informal contacts in the structure of the administrative-bureaucratic and economic system of power. At

that time, there were spreading non-financial, and to a certain extent, financial varieties of encouraging the corruption efforts of one or another official, the expansion of the kleptocratic interaction of business executives with the bureaucracy that controlled the distribution of scarce resources. This led to the fact that as early as in 1970s, there were revealed the circumstances that led to the emergence of the “Soviet shadow economy” with its social and property differentiation of society.

After the proclamation of Gorbachev’s perestroika in the USSR, including in Ukraine, not so much supporters of communist ideology remained in power as the party-bureaucratic apparatus with its own selfish convictions. At the same time, in the former Soviet republics, the elite that retained their power had neither motives nor vested interests to create an alternative to the past communist ideology and the existing management structure in the form of establishing a real market strategy and a corresponding state management system. Therefore, the old nomenclature that came to power was oriented to the political regime, which provided opportunities for the realization of its rent-oriented selfish interests.

All of the above forms the “economy of scarcity” (Kornai, 1980), which is subsequently transformed into a kleptocratic one, whose root foundation is a hierarchical system of distribution of resources and assets in accordance with the social and bureaucratic status of the subjects of the economic and political process. Under such circumstances, the rights and freedoms associated with meeting the effective demand of households and enterprises are usurped, starting from the highest level, by the bureaucratic and administrative system. The latter, in fact, is both a product and a guardian of socio-economic relations in a kleptocratic economy of scarcity. And it is the selfish interests of the pseudo-elite that provide a powerful incentive to form “coalitions in power”. At the same time, certain periods of political and social stability, the absence of social upheavals and economic shocks contribute to the emergence of new groups with kleptocratic motives and the strengthening of existing ones. This kleptocratic structure of the economy encourages those in power to produce selective incentives and identify new combinations of corrupt benefits based on “institutional sclerosis” (Olson, 1982).

This conclusion is confirmed by the following transformational events in the USSR. When the authoritarian state was destroyed, the vertical and horizontal interconnections of the bureaucratic-economic administrative apparatus in the USSR were far from being weakened, but, on the contrary, were intensified. The surviving “interest groups” continued to defend corruption motives, selfishly distribute budgets, “lock themselves in” rent flows, create “schemes” for personal enrichment, which, naturally, hampered the country’s economic development and “washed away” resources from the real sector of the economy. After the end of the Stalinist terror with the beginning of the rule of N. Khrushchev, the process of merging corruption ties within the administrative-bureaucratic and economic systems, and the “interest groups” began, which created the possibility of dictating their “rules of the game” to the leaders of the state. After the final elimination of the administrative-command economy during the “late Gorbachev” period and beyond, the institutions of party-administrative restrictions also lost their normative significance. In the post-perestroika USSR, neither the state nor broad party-state coalitions of the highest level were able to restrain the corrupt intentions of kleptocratic groups.

To summarize all of the above, let us give a detailed scope of such institutional factors of the kleptocratic economy as: the first, political investments should bring financial dividends to the pro-government “pseudo-elites” in the form of corruption rent; the second – political investments of the pro-government “pseudo-elites” are perceived by business and households as their own democratic expression of will; the third is the almost complete absence of anti-corruption institutions in the field of judicial and law enforcement, namely: guarantees,

in particular, the independence of judicial institutions from the executive authorities, restrictions and prohibitions, for example, on illegal interference in judicial and law enforcement activities.

Thus, the inability of institutionally weak societies, including Ukraine, to contain the kleptocratic motives of the pseudo-elite is of paramount importance in terms of economic development. Moreover, this inability is largely due to the “failures of the state”, when it is impossible to ensure allocation efficiency and conformity of the distribution policy to the accepted ideas of justice in society, leading to socio-economic and political crises. Therefore, the post-socialist countries insistently demanded civilian control over the holders of state and economic power. It is necessary to agree that the genesis of the kleptocratic economy in Ukraine has led to the absence of institutional constraints for politicians and elites, activated the willingness of various kleptocratic interest groups to fight for power and allowed them to use the kleptocratic potential that initiated a large-scale socio-economic crisis.

Kleptocratic economy in Ukraine: to-date analysis and comparative characteristics. First of all, let us emphasize that the realization of problems in the transformational post-Soviet countries, including in Ukraine, in the context of the Washington Consensus, in general, did not contribute to an increase in the efficiency of the functioning of economies and to minimization of corruption risks. Freedom of management, not limited by the framework of formal rules clearly defined and adapted to a specific institutional environment, often leads to rent-seeking and redistributive behavior that is not aimed at innovation and production efficiency. Weakly protected property rights, unsatisfactory state of contract law and the legal system in general, provide ample opportunities for the implementation of shadow schemes, the growth of the shadow sector, which distorts the motives of the behavior of companies and households and is a key cause of problems in the social sphere. The unsystematic adoption of laws with their constant adjustment and ambiguity of interpretation increases the level of uncertainty in the algorithm of making business decisions and significantly increases transaction costs.

In fact, along with the above, under the conditions of the Ukrainian kleptocratic economy, within the period from 1994 to 2008, an unspoken social contract was implemented between the emerging oligarchic structures and the country's population, the essence of which was as follows. Privatization, carried out in an extremely difficult economic, financial, political environment and in the situation of the beginning of institutional reforms during the creation of the legal basis of the market foundation of the economy, led to the emergence of oligarchs [16].

At the same time, oligarchs usurped the proposed strategies for the country's development (for example, the budget process), which were worked out in the interests of the “pseudo-elite” and tended to satisfy the oligarchs' business interests. Along with that, illegal activity in the entrepreneurial sphere was stimulated, and success in business was determined by the personal corruption ties of businessmen with government officials in law enforcement agencies and the judicial system. Particularly disastrous for the country was the fact that the appointment to positions, both in the state and business sectors, took place on the basis of the oligarchs' own business interests and in the context of aggravation of the informal institution of “nepotism”, but not on qualification requirements.

In this situation, the institutional environment is degrading, the specification of property rights is unreliable and vague, business is being criminalized through distorted incentives, also due to general disregard for the requirements of formal institutions in the judicial system, prosecutorial supervision, advocacy, activities of law enforcement agencies and state bodies. Corruption of government officials forces businesses to distort financial statements, slows down the inflow of foreign investment significantly, impedes the country's socio-economic

growth and, in general, undermines trust in government and legal institutions.

The latter is confirmed by the precedent from such segment of the Ukrainian economy as bus transportation. In general, the services of the bus transportation market in Ukraine (urban, suburban and intercity) are estimated by experts at almost \$3.7 billion, while Ukraine's GDP in 2019 amounted to only \$150 billion. In this case we note that 80 % of the specified amount, serves the shadow sector of the economy. In addition to the above, we add that in reality, in Ukraine, the analyzed market is oriented towards the African model, for which the profit of companies is above all, and not the interests of passengers. In this market, transport carriers, as a rule, work illegally, and they are “guarded” by law enforcement agencies, which, according to their official status, on the contrary, must oppose illegal transportation.

In connection with the given example, the question arises about the possibilities and necessity of the transition of the Ukrainian market of passenger transportation from the African model to the generally accepted one in Europe. However, this is not happening, despite serious problems with criminal elements and the demands of civil society. The answer to this question, without a doubt, lies in the plane of opportunistic behavior and selfish interests of security forces representatives and government institutions that control the illegal market of passenger transportation.

On the whole, the general principle bringing us to the point of bifurcation of the analyzed process of institutional opposition to the kleptocratic economy is that radical political interventions in the socio-economic situation will undoubtedly provoke a response from those who see a threat to further selfish obtaining of economic or political rent. There is also possible a kind of behavior within the framework of which the participants in the political process, primarily the elites, consider new options for increasing their rental rates. At the same time, the main problem of the analysis is that the groups and separate influential persons who were political rivals in the past will be able to mobilize and respond to potential changes in the institutional environment, by various behavioral modifications, up to the agreement of former political opponents.

Under such conditions, none of the so-called anti-corruption measures can eliminate corruption as a systemic phenomenon. So, since the proclamation of Independence, a sufficient number of institutions with anti-corruption tasks have emerged in Ukraine in recent years, the creation of which was one of the main requirements of the European Union regarding a visa-free regime with Ukraine, namely: National Anti-Corruption Bureau (NABU), National Agency for the Prevention of Corruption (NAPC), Specialized Anti-corruption Prosecutor's office (SAP), Supreme Anti-Corruption Court (SAC), National Agency of Ukraine for the identification, search and management of the assets received from corruption and other crimes (ARMA), State Bureau of Investigation (SBI). Prior to the implantation of the previously designated institutions in the anti-corruption activities, such power structures as the Security Service of Ukraine (department “K”) and the National Police have been already functioning in Ukraine.

However, as evidenced by the realities of Ukraine, in the fight against corruption, almost no significant result has been achieved, and the named anti-corruption institutions did not justify their creation. According to the Corruption Perceptions Index rating, in 2019 Ukraine received 30 points and took the 126th place among 180 countries and territories (in 2018 Ukraine took the 120th place having 32 points).

What was noted from the point of view of institutional analysis is explained by the fact that the kleptocratic regime, in principle, focuses only on the selfish interests of officials and allows spreading of corruption factors only with the account of the restrictions set by them themselves. There is no doubt that such kleptocratic system is “opaque” and unattractive for investments. Although it can work quite efficiently and for a long

period of time, in order to satisfy a limited number of corruptly elected investors.

To add some details to the above, we will analyze the correlation, taking into account the dynamics of the institutionalization process, in Ukraine, some post-socialist countries of Central and South-Eastern Europe, and Western Europe, which are the members of the European Union. At the same time, let us consider the correlation between the selected determinants of the GDP per capita indicator, the final rating of institutions and the incidence of corruption. To do this, we will use the information and analytical data of the annual report of the World Economic Forum on the global competitiveness of countries [17], which assesses the economic environment of the countries of the world and their ability to achieve sustainable economic growth (Tables 2–5).

The final result obtained allows us to conclude that there is a sufficiently strong connection between the indicators under consideration:

- the correlation of GDP per capita US \$ and Incidence of corruption in some Western European EU countries (R^2 in Fig. 1) is 0.8076;

Table 2

GDP per capita US\$, Incidence of corruption in some countries of Western Europe (EU)

| Country | GDP per capita US\$ | Incidence of corruption |
|-------------|---------------------|-------------------------|
| Belgium | 46 724.3 | 75.0 |
| Denmark | 60 692.4 | 88.0 |
| Finland | 49 845.0 | 85.0 |
| France | 42 877.6 | 72.0 |
| Germany | 48 264.0 | 80.0 |
| Greece | 20 407.9 | 45.0 |
| Italy | 34 260.3 | 52.0 |
| Netherlands | 53 106.4 | 82.0 |
| Portugal | 23 186.3 | 64.0 |
| Spain | 30 697.3 | 58.0 |
| Sweden | 53 873.4 | 85.0 |

Table 3

GDP per capita US\$, Incidence of corruption in Ukraine and some post-socialist countries of Central and South-Eastern Europe

| Country | GDP per capita US\$ | Incidence of corruption |
|-----------------|---------------------|-------------------------|
| Bulgaria | 9267.4 | 42.0 |
| Czech Republic | 22 850.3 | 59.0 |
| Hungary | 15 923.8 | 46.0 |
| Latvia | 18 032.0 | 58.0 |
| Lithuania | 19 143.4 | 59.0 |
| Montenegro | 8651.7 | 45.0 |
| North Macedonia | 6100.2 | 37.0 |
| Poland | 15 430.9 | 60.0 |
| Romania | 12 285.2 | 47.0 |
| Slovak Republic | 19 581.6 | 50.0 |
| Slovenia | 26 234.3 | 60.0 |
| Ukraine | 2963.5 | 32.0 |

Table 4

GDP per capita US\$, Institutions in some countries of Western Europe (EU)

| Country | GDP per capita US\$ | Institutions |
|-------------|---------------------|--------------|
| Belgium | 46 724.3 | 69.5 |
| Denmark | 60 692.4 | 77.4 |
| Finland | 49 845.0 | 80.2 |
| France | 42 877.6 | 78.8 |
| Germany | 48 264.0 | 81.8 |
| Greece | 20 407.9 | 50.5 |
| Italy | 34 260.3 | 71.5 |
| Netherlands | 53 106.4 | 82.4 |
| Portugal | 23 186.3 | 64.5 |
| Spain | 30 697.3 | 75.3 |
| Sweden | 53 873.4 | 81.2 |

Table 5

GDP per capita US\$, Institutions in Ukraine and some post-socialist countries of Central and South-Eastern Europe

| Country | GDP per capita US\$ | Institutions |
|-----------------|---------------------|--------------|
| Bulgaria | 9267.4 | 56.8 |
| Czech Republic | 22 850.3 | 60.9 |
| Hungary | 15 923.8 | 55.7 |
| Latvia | 18 032.0 | 59.3 |
| Lithuania | 19 143.4 | 63.3 |
| Montenegro | 8651.7 | 57.3 |
| North Macedonia | 6100.2 | 50.7 |
| Poland | 15 430.9 | 56.4 |
| Romania | 12 285.2 | 58.1 |
| Slovak Republic | 19 581.6 | 56.3 |
| Slovenia | 26 234.3 | 63.4 |
| Ukraine | 2963.5 | 47.9 |

- the correlation of GDP per capita US \$ and Incidence of corruption in some post-socialist countries of Central and South-Eastern Europe (R^2 in Fig. 2) is 0.8136;

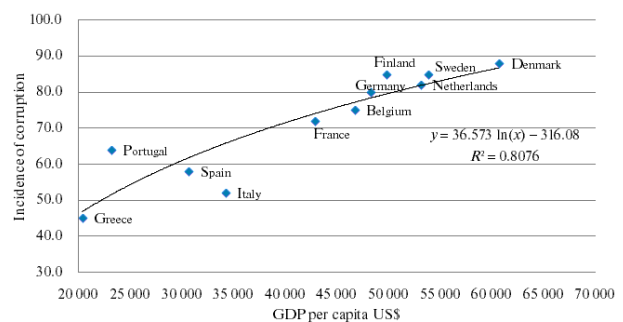


Fig. 1. Graphical representation of the correlation of GDP per capita US\$, and Incidence of corruption in some countries of Western Europe (EU)

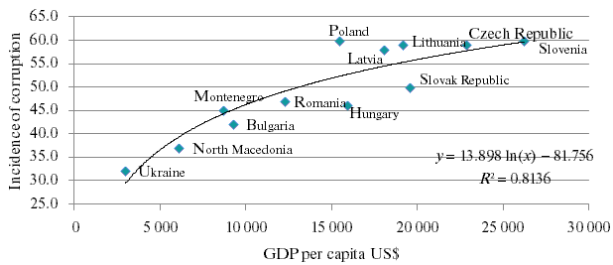


Fig. 2. Graphical representation of the correlation of GDP per capita US\$, and Incidence of corruption in some post-socialist countries of Central and South-Eastern Europe

- the correlation of GDP per capita US \$ and Institutions in some Western European EU countries (R^2 in Fig. 3) is 0.7196;

- the correlation of GDP per capita US \$ and Institutions in Ukraine and some post-socialist countries of Central and South-Eastern Europe (R^2 in Fig. 4) is 0.7602.

The foregoing allows us to draw the following conclusion. Theoretical analysis and empirical data indicate that the dynamics of GDP per capita is determined by the quality of the institutional environment and varies significantly depending on the effectiveness of institutions' functioning. A number of studies, including the one proposed, confirm a statistically significant relationship between the quality of institutions, the corruption index and economic development (GDP per capita) of the analyzed countries. At the same time, it can be argued that the quality of the institutional environment, being measured by an integrated indicator of institutional factors, the main of which is anti-corruption, is a key precondition for sustainable economic development and GDP growth dynamics, both in Western Europe and in those that joined the EU after collapse of the USSR, the former socialist countries of CEE. At the same time, we emphasize that stable and efficient institutions lower the uncertainty in the political and economic organization of society, reduce macroeconomic volatility, decrease transaction costs, and thereby promote investment and innovation (Jankauskas & Seputiene, 2009). In turn, for the countries – members of the European Union, both in

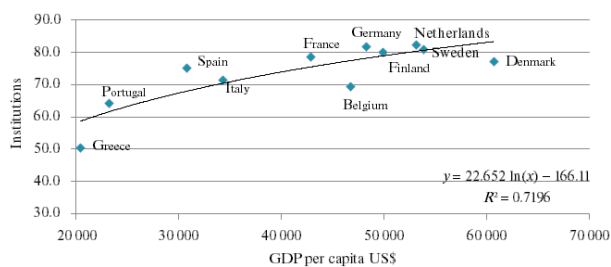


Fig. 3. Graphical representation of the correlation of GDP per capita US\$, and Institutions in some countries of Western Europe (EU)

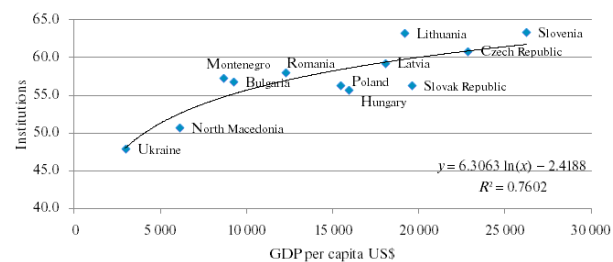


Fig. 4. Graphical representation of the correlation of GDP per capita US\$, and Institutions in Ukraine and some post-socialist countries of Central and South-Eastern Europe

Western Europe and in the countries of Central and South-Eastern Europe, – the rule of law is a fundamental factor of economic growth, and for the post-Soviet countries, including Ukraine, a priority for social-economic transformation is the fight against corruption. It is the successful reforms in the sphere of “launching” countermeasures in relation to the kleptocratic economy that determine the success or failure of the state in economic development and, above all, in institutional reconstruction.

It must be emphasized that the institutions inherited from the past are part of the initial conditions when people are faced with a choice of alternative norms of behavior. In turn, “institutional legacy” assumes that past institutions do not disappear when firms and households face changing circumstances, but provide the basis on which the change will be built. In this case, we understand “dependence on the previous path” as the impact of past institutions on the direction of transformations. Past institutions, as well as the evolution they have followed, limit the choice of institutional players.

Therefore, the following information necessitates a more detailed analysis. If institutional reforms do not provide the expected economic results (GDP per capita growth, decrease in the level of social-economic inequality in society, development of innovative industries, and so on), then the shortcomings of their implementation correlate not with the theory of reforms, but with those responsible for its implementation. Therefore, academic scientists recommend changing the team of reformers and “restarting” of the new stage of reforms. At the same time, the crisis situation in society can be resolved only through the restructuring of political institutions, and this requires a compromise between the key “players” of the institutional environment. In this regard, the following assumption requires further research, in terms of its validity and credibility. If the formal institutional framework for countering the kleptocratic economy does not function to the required extent in society, if there are no institutions that should perform the function of minimizing corruption factors, then is it possible to form such power coalitions that will be able to solve the institutional crisis through violence? However, the experience of Chile during the Pinochet era is very contradictory and ambiguous.

Conclusions. Thus, such factors as the government’s disposal of an effective control apparatus; a small number of the corrupt pseudo-elite in power; unity and cohesion of the civil society, which allows for the rapid dissemination of information about the facts of bribery are able to minimize corruption factors significantly. We will add to this list the ability of the authorities to punish those officials who are charged with bribery even in a kleptocratic economy. At the same time, we emphasize that the general situation in the state worsens significantly if the kleptocratic ruler is so weak that they cannot eliminate corrupt officials in the regions or even in the formally controlled government. Under such circumstances, the country’s economy is guided by the model of “independent monopolists” with its corruption schemes and destructive consequences for the country’s economy.

The above is explained by the presence of the following two types of social order inherent in economic development. The “open access” order is characterized by economic development, democracy, rich and dynamic civil society with numerous organizations and an extensive system of impersonal social relations that include the rule of law and reliable protection of property rights. In turn, the public order of “limited access”, on the contrary, is characterized by slow economic growth, a small number of public organizations, heterogeneity of social relations based on the principle of personal privileges, limited competition, selective enforcement of laws, insecurity of property rights and the tendency of kleptocratic groups to create corruption rents. As a result, society is completely immersed in a non-competitive economy, chaos and violence, while the illegal economy is gaining strength.

Therefore, in order to eliminate the corruption foundation of the kleptocratic economy, given its historical evolution, it is, first of all, necessary to eliminate institutional obstacles that prevent the unification of the legal and shadow sectors of the economy and ensure their institutional formalization. This requires the introduction of effective methods for restraining the power elite in order to limit corruption abuses by the government, the dominant coalition close to it with special privileges and the bureaucratic apparatus. This will allow for the formation of an institutional structure in which firms and households have clearly specified property rights, as well as the possibility to protect contractual rights provided for by formal institutions. Special attention should also be paid to the methods for controlling state information policy by civil society and methods for adopting laws, that is, the institutional foundation that guarantees openness of information about the actions of government institutions.

In doing so, it is important to consider two positions. First, the state should format such “rules of the game” for business and society that do not provoke their violation by firms and households. Second, the absence of any alternative to the implementation of sanctions is much more important than the punishment for failure to comply with the prescriptions of formal institutions. That is, in this case, we highlight the inevitability of punishment, despite the informal, often corrupt, relationships between representatives of government institutions and business entities, when formal institutional restrictions are replaced by informal ones. Therefore, compliance with one of the fundamental institutions of a competitive economy – equality before the law – is a necessary condition for the formation and adjustment of the institutional environment, which is able to minimize corruption factors and counteract the kleptocratic economy.

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Інституційний генезис клептократичної економіки та її становлення в Україні

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Мета. Аналіз клептократичної економіки як інституційного устрою, що зорієнтоване на ключову функцію отримання джерел доходів правлячою псевдоелітою шляхом упровадження корупційних неринкових трансакційних витрат для фірм і домогосподарств, підґрунтям яких є адміністративно-бюрократичне й політичне насильство.

Методика. У пропонованому науковому дослідженні вирізняємо три типи методів дослідження: по-перше, притаманні пізнанню в цілому (загально логічні) методи, такі як: аналіз, синтез, абстрагування, узагальнення, індукція, дедукція, аналогія; по-друге, загальнонаукові, у першу чергу емпіричні методи дослідження, а саме: спостереження, опис, вимірювання; по-третє, теоретичні методи пізнання, що використовуються економічною наукою, зокрема: ідеалізації; формалізації; аксіоматичний метод побудови теоретичного знання; гіпотетично-дедуктивний метод побудови й розвитку теоретичного знання.

Результати. Проаналізована соціально-економічна конструкція України з точки зору факторів, що зумовлені впливом формальних і неформальних інститутів у клептократичній економіці та впливають на корупційні ризики. Надані рекомендації з модернізації інституційного середовища в Україні в контексті сучасної методологічної парадигми пошуку точок дотику взаємодії влади, бізнесу й суспільства.

Наукова новизна. У пропонованому дослідженні здійснено комплексний аналіз інституційного середовища української економіки, що надає переконливі підстави характеризувати її як клептократичну, і в якій ще належить здійснити запропоновані в роботі фундаментальні модернізації з урахуванням євроінтеграційних перспектив. На відміну від раніше запропонованих досліджень, представлений підхід фокусується на кореляційному взаємозв'язку між показниками якості інститутів, ВВП на душу населення, індексами корупції в Україні та у досліджуваних країнах Європейського Союзу.

Практична значимість. Результати дослідження можуть бути використані профільними експертами при формуванні інституційних вимог для створення дієвої системи щодо запобігання корупції.

Ключові слова: інституційна економіка, клептократична економіка, корупція, інституційне середовище

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