

## РОЗДІЛ 1

# ЕКОНОМІЧНА ТЕОРІЯ ТА ІСТОРІЯ ЕКОНОМІЧНОЇ ДУМКИ

UDC 33.330

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### INFLUENCE OF INSTITUTIONAL ENVIRONMENT ON PRODUCTION OF PUBLIC GOODS

The article highlights the influence of the institutional environment on the production of public goods. The concept of "institutional environment" is explored. The influence of the constituent institutional environment on the development of the education system is analyzed. It is concluded that the institutional environment is a clear and orderly set of institutions (legal, political, economic, socio-cultural) that affect on production of public goods.

**Key words:** institutional environment, public goods, education, legislation, financing.

**Formulation of the problem.** One of the important components of socio-economic development is the effective functioning of the public goods sector, which will contribute to the development of the economy and society as a whole. In connection with this, in recent times one can observe a tendency towards the growth of the role of knowledge not only in economic but also in social processes.

**Analysis of recent research and publications.** In the scientific economic literature, various aspects of the production of public goods are studied. Thus, the financing of public goods studies Dlugopolsky O. [1]. The features of reproduction of public goods in a transformational economy are studied by Zalevska-Shishak A. [2]. Theoretical and methodological peculiarities of reproduction of public goods in the market economy system, determination of directions of development of production of public goods in the domestic economic system and interaction of institutional factors and the production of public goods investigates by Kichurchak M. [3–6]. The essence of fiscal federalism as a system of distribution of powers and resources for the production of public goods is considered by Nebrat V.V. [7] and other.

**Isolation of previously unsolved parts of the general problem,** to which the article is devoted. However, the impact of the institutional environment on the production of public goods needs further research.

**Setting objectives.** The purpose of the study is to consider the influence of the institutional environment on the production of public goods on the example of education.

**Presentation of the main research material.** The process of formation of the state is accompanied by the appearance of a financial and administrative system in the respective territory, which in turn offers a list of functions of regulatory bodies, among which – meeting the public needs of the population.

Thus, Adam Smith distinguished three main tasks that the state solved: protection from external threat, protection of the legal rights of the individual from encroachment by other members of society and "the creation and maintenance of certain institutions, the creation and content of which cannot be in the interests of individuals or groups, since the profits from them will never be able to compensate the expenses of an individual or a small group, although they will often be able to reimburse their large society from the surplus, that is, the production of public goods [8].

Arthur Cecil Pigou, considers the state as the corrector of market failures. If the market for some reason does not pull the society on a Pareto-efficiency state, then for it the state does it. In this case, the state initially has both the ability to effectively "correct" the market and the targeting of such a result [9, p.196].

According to John Bordley Rawls, the functions of the state should be limited only to protection against violence, theft and fraud, and coercion should apply only to persons who violate contracts. All other functions, he believes, become an encroachment on the rights of the individual, and therefore their performance is unjustified [10, p. 127].

James Buchanan and Gordon Tullock, on the contrary, admit that the state can implement certain measures (using taxation and public spending) in order to improve the current economic situation from the Pareto-efficiency standpoint. This implies that the rights of any member of society will not be violated, which is possible only in one case: there is a rule of unanimity, that is, all decisions of the government are unanimously supported by fellow citizens [11, p. 337].

According to experts, ideally, state regulation of the economy is a pure "public goods", the consumers of which are all members of society, business entities, public organizations, etc. This "social product" becomes a public good only if it is ensured through state regulation of economic efficiency and social justice [12, p. 12].

The notion of "institutional environment" is multifaceted.

The analysis of Table 1 shows that economists consider the institutional environment as a set of fundamental political, social, legal and economic rules that define the framework conditions for the functioning and development of economic actors. All elements of the institutional environment are closely interconnected and significantly affect, in particular, the production of public goods.

According to Tymoshenko A.O., an effective institutional environment serves as the basis for sustainable economic development of the country [22].

Consider the influence of the institutional environment on the development of such a social good as education, which is guaranteed by the Constitution of Ukraine (article 53) [23].

During the years of Ukraine's independence, the Ministry of Education and Science of Ukraine, which is the main body in the system of central

Table 1

## The essence of the notion of "institutional environment" in various sources

The essence of the concept	Source / author
The institutional environment is a set of political, economic, social and legal norms (rules) governing economic and political activities	L. Davis, D. North [13, p. 133]
The institutional environment is rules of the game that define the context in which there is economic activity	Oliver E. Williamson [14]
The institutional environment is formal and informal rules of conduct and interaction subjects of economic and social processes on the macro and on the micro level	Rao P. K. [15, p. 4]
Institutional environment - political, economic and socio-cultural institutions	Witold J. Henisz and Andrew Delios [16]
Institutional environment - legal trust; trust in politics; adequacy and predictability of resources; Institutional environment – rule credibility; policy credibility; and resource adequacy and predictability.	Nick Manning, Ranjana Mukherjee, Omer Gokcekus [17]
The institutional environment includes regulatory, cognitive and regulatory aspects. The institutional environment comprises the regulative, the cognitive, and the normative dimensions.	Rajesh Kumar, Verner Worm [18]
The institutional environment, called "national innovation systems", provides for the development and use of new technologies and innovations to support the competitiveness of the economy, the transition from industrial society to post-industrial (informational).	Innovative Ukraine 2020: National Report [19, p. 23]
The institutional environment (economic constitution, institutional structure of the economy, institutional framework) - the characteristics of the external environment that are significant for economic activity, set of values, formal and informal norms that affect the ratio of incentives in the activity and cause the achievement of minimum agreement between people.	A. Oleinik [20]
The institutional environment encompasses a set of fundamental financial, political, social and legal rules and organizations that define the form of a social order, and through formal and informal constraints (rules of law, rules, regulations, and voluntarily accepted norms of conduct, customs) regulate the behavior of economic entities, therefore influence the development of the economic system of society.	Vlasova T.R., Tsyganchuk O.V. [21]

Source: compiled by author based on [13–21]

bodies of executive power, ensures the formation and implementation of state policy in the spheres of education and science, scientific, scientific and technological and innovation activities, technology transfer 10 heads have changed [24; 25].

On average, each head of the aforementioned ministry has 2 years 6 months working for a position. The highest term of the post of Minister of Education was occupied: Kremen Vasil Grigorovich, Doctor of Philosophy, professor, Academician of the National Academy of Sciences of Ukraine (NAS of Ukraine) and the National Academy of Pedagogical Sciences of Ukraine (NAPS of Ukraine) – 5 years 2 months, Presently the President of the National Academy of Pedagogical Sciences of Ukraine – Zgurovsky Mikhaïlo Zakharovich, Doctor of Engineering, professor, Academician of NASU and NAPSU – 4 years 3 months, now the rector of the National Technical University of Ukraine "Kyiv Polytechnic Institute".

In the Odessa region, changes occurred in the territorial division of education management, whose main function is to ensure the implementation of state policy in the field of education and science on the territory of the region, to create conditions within its authority for the implementation of equal rights of Ukrainian citizens to education [26].

The territorial education unit of the Department changed its name seven times in connection with liquidation, reorganization and renaming, and passed the path from the management of education to the Odessa Regional governmental Administration to the Department of Education and Science of the Odessa Regional governmental Administration.

Thus, in April 1992, the Department of Public Education of the Odessa Regional Executive Committee was renamed the Education Department of the Odessa Regional the governmental administration, which became the successor of the Department of Public Education of the Odessa Regional Executive Committee. In 1994, by the decision of the Regional Council of People's Deputies of July 8, 1994, the Education Department of the Odessa

Regional governmental Administration became the director of the formation of the Odessa Regional Executive Committee.

In 1995, according to the decision of the Regional Council of People's Deputies of the Education Directorate, the regional executive committee was liquidated and by the order of the head of the Odessa Regional governmental Administration dated 17.10.1995, No. 138 / k-95, the Education Department of the Odessa Regional governmental Administration was formed.

In 2001, the Education Department of the Odessa Regional governmental Administration was renamed into the Department of Education and Science of the Odessa Regional governmental Administration. For the first time scientific institutions of Odessa region join the network. In 2005, the Department of Education and Science of the Odessa Regional governmental Administration liquidated and formed the Department of Education and Scientific Activity of the Odessa Regional governmental Administration. The Odessa Regional governmental Administration became the successor of the Department of Education and Science.

In 2010, according to the order of the head of the Odessa regional governmental administration dated June 11, 2010 No. 357 / A-2010 "On the structure of the Odessa regional governmental administration", the Department of Education and Research of the Odessa Regional governmental Administration was renamed into the Department of Education and Science of the Odessa Regional governmental Administration, which is the successor of the Department of Education and Research of the Odessa Regional governmental Administration.

In 2013, the Department of Education and Science of the Odessa Regional governmental Administration was renamed the Department of Education and Science of the Odessa Regional governmental Administration [27].

It should be noted that since 1992, 10 heads of the territorial division of education management have changed. At the same time, for the period from

Table 2

## Dynamics of financing of education by the Consolidated budget of Ukraine in 2012-2016

Consolidated data	Years				
	2012	2013	2014	2015	2016
Consolidated Budget expenditures, thsd. UAH	496310962,8	505843809,6	523125697,8	679871400,4	835 832 050,1
including educational expenditures, thsd. UAH	101561441,6	105538701,6	100109534,0	114193492,2	129437705,8
% to expenditures	20,5	20,8	19,1	16,8	15,5
% to GDP	7,62	7,62	6,9	6,39	5,72

Source: compiled by the author for [39, 40]

September 2015 to July 2017, 4 head of the Department of Education and Science of the Odessa Regional governmental Administration have changed.

There were changes in educational legislation. Thus, during the period of Ukraine's independence, the Basic Law of Ukraine "On Education" dated May 23, 1991 No. 1060-XII, which expired in 2017, had 47 editions of the document. The Law of Ukraine "About Vocational Education" of 10.02.1998 No. 103/98-VR has 17 editions of the document; Law of Ukraine "About General Secondary Education" dated May 13, 1999 No. 651-XIV-24 editors; Law of Ukraine "About Extracurricular Education" dated June 22, 2000 No. 1841-III – 18 editions; Law of Ukraine "About Preschool Education" dated July 11, 2001 No. 2628-III – 22 editions; The Law of Ukraine "About Higher Education" dated January 17, 2002 No. 2984-III, which expired in 2014 – 20 editions; The current Law of Ukraine "About Higher Education" of 01.07.2014 № 1556-VII already has 22 editions [28-34]. In addition, a working group was set up to prepare a comprehensive draft Law of Ukraine "About Amendments to the Law of Ukraine "About Higher Education" [35].

One example of a non-system approach in education may be the transition to a 12-year education system. In pursuance of Articles 12.15 and 31 of the Law of Ukraine "On Education" (1991), the Resolution of the Cabinet of Ministers of Ukraine dated November 16, 2000 No. 1717 introduced the transfer of general education institutions to a new content, structure and 12-year term for students who began to study in the first class in three stages:

- the first stage since September 1, 2001 – general educational institutions of the 1st degree;
- the second stage since September 1, 2005 – general educational institutions of the II degree;
- the third stage from September 1, 2010 – general educational institutions of the 3rd degree.

The decree approved the State standard of primary general education, provided appropriate measures, in particular, updating the content of general secondary education, in accordance with the new structure of secondary schools, to develop curricula and programs for general education institutions of different types, etc. [36].

At the same time, in 2010, the Verkhovna Rada of Ukraine returned to the 11-year system of education. According to experts, introducing a 12-year-old into a national education, it was planned that extended school education would allow to receive specialized training on various subjects, specialized

education, to master one more foreign language, and most importantly – to open the way for Ukrainian students to European education. At the same time, no additional funding was provided, new school programs were not developed, in particular for the 12th grade, which was supposed to be a specialization class, no network of the profile high school was prepared, the problem of the absence of the 2012 issue was not solved [37]. And by the Resolution of the Cabinet of Ministers of Ukraine dated April 20, 2011, No. 462, a new State Standard of Elementary General Education was approved.

The new Law of Ukraine "About Education", adopted in 2017, returns a 12-year system of education. Full secondary education has three levels of education: initial education of four years; basic secondary education lasting five years; profile secondary education lasting three years [38].

Analysis of Table 2 shows that the volume of expenditures of the Consolidated Budget of Ukraine for 2012-2016 on education in UAH equivalent has increased from 101561441,6 thsd.UAH in 2012 up to 129437705,8 thsd.UAH in 2016 by 27876264.2 thsd. UAH (+ 21.5%).

In the structure of expenditures of the Consolidated Budget of Ukraine, during this period, the income on education is reduced from 20.5% in 2012 to 15.5% in 2016, i.e. by 5%. The GDP expenditure indicator for education also decreases by 7.62% in 2012 to 5.72% in 2016, i.e. by 1.9%.

**Conclusions from the conducted research.** Thus, the institutional environment is a clear and orderly set of institutions (legal, political, economic and socio-cultural) that affect the processes of production of public goods.

For its part, the state should support a certain level of production of public goods, to ensure that their quality meets the minimum demands of society. As an institution of power, the state always assumes the production of those goods that directly affects national security, the integrity of the state, the single economic space. The production of these public goods from the point of view of the state is of paramount importance.

The development of the national education system shows that in the years of independence in Ukraine, the legislative framework for its functioning has been formed. At the same time, according to experts, the development of the education system in Ukraine was not sufficiently systemic and complex, which did not contribute to the formation of a coherent state policy in this area [41].

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### ВПЛИВ ІНСТИТУЦІЙНОГО СЕРЕДОВИЩА НА ВИРОБНИЦТВО СУСПІЛЬНИХ БЛАГ

**Резюме**

У статті висвітлено вплив інституційного середовища на виробництво суспільних благ. Досліджено поняття «інституційне середовище». Проаналізовано вплив складових інституційного середовища на розвиток системи освіти. Зроблено висновок, що інституційне середовище – це чіткий упорядкований набір інститутів (правових, політичних, економічних, соціокультурних), що впливають на виробництво суспільних благ.

**Ключові слова:** інституційне середовище, суспільні блага, освіта, законодавство, фінансування.

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### ВЛИЯНИЕ ИНСТИТУЦИОНАЛЬНОЙ СРЕДЫ НА ПРОИЗВОДСТВО ОБЩЕСТВЕННЫХ БЛАГ

**Резюме**

В статье освещается влияние институциональной среды на производство общественных благ. Исследовано понятие «институциональная среда». Проанализировано влияние составляющих институциональной среды на развитие системы образования. Сделан вывод, что институциональная среда – это четкий упорядоченный набор институтов (правовых, политических, экономических, социокультурных), которые влияют на производство общественных благ.

**Ключевые слова:** институциональная среда, общественные блага, образование, законодательство, финансирование.