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## THE INFLUENCE OF INFORMAL INSTITUTIONS ON EFFICIENCY OF THE STATE AGRARIAN POLICY

*The article considers the problem of the influence of informal norms of behaviour of economic agents, distorting the market and public regulatory instruments and thus changing business environment, on the quality of formal institutes and state agrarian policy effectiveness. It is proposed to adjust the government policy approaches in the agrarian sector from using the non-market mechanisms of direct support of agrarian producers to the creation of institutional framework enhancing the development of the agrarian sector through the application of clear and targeted program-oriented activities.*

*Keywords:* agrarian policy; institutional trap; corruption; informal institutions.

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## ВПЛИВ НЕФОРМАЛЬНИХ ІНСТИТУТІВ НА ЕФЕКТИВНІСТЬ ДЕРЖАВНОЇ АГРАРНОЇ ПОЛІТИКИ

*У статті розглянуто проблему впливу неформальних норм поведінки економічних агентів, що спотворюють ринкові і державні важелі впливу, тим самим змінюючи умови господарювання, на якість формальних інститутів та ефективність державної аграрної політики. Запропоновано скоригувати підходи державної політики в аграрній сфері від застосування неринкових механізмів прямої підтримки агровиробників до створення інституціональних умов розвитку аграрного сектору з використанням чітких і цілеспрямованих програмно-цілевих заходів.*

*Ключові слова:* аграрна політика; інституціональна пастка; корупція; неформальні інститути.

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## ВЛИЯНИЕ НЕФОРМАЛЬНЫХ ИНСТИТУТОВ НА ЭФФЕКТИВНОСТЬ ГОСУДАРСТВЕННОЙ ПОЛИТИКИ

*В статье рассмотрена проблема влияния неформальных норм поведения экономических агентов, искажающих рыночные и государственные рычаги влияния, тем самым меняющих условия хозяйственной деятельности, на качество формальных институтов и эффективность государственной аграрной политики. Предложено скорректировать подходы государственной политики в аграрной сфере от применения нерыночных механизмов прямой поддержки агропроизводителей до создания институциональных условий развития аграрного сектора с использованием четких и целенаправленных программно-целевых мероприятий*

*Ключевые слова:* аграрная политика; институциональная ловушка; коррупция; неформальные институты.

**Problem statement.** The task of working out an effective state agrarian policy of innovative development which complies with the WTO requirements, requires integrated approaches: from the system of legal acts and methodological advances in the implementation of effective market price mechanisms, prior to the application of Antimonopoly control and financial regulation, elaboration and implementation of a long-term strategy of agrarian sector development in Ukraine. However, the overall change in economic policy in the agrarian sector depends not only on the mecha-

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nisms of the state influence, because formal institutions are imposed by state authorities quite often in conflict with the informal norms of economic agents behavior, so contemporary agrarian policy as a process aimed at achieving the compliance with the ever-growing needs of society, requires joint efforts of government, civil society and farmers in the formation of institutional structures that will meet the interests of all stakeholders and simultaneously will have innovative orientation.

**Recent research and publications analysis.** Contemporary problems of effective state agrarian policy development in the context of the WTO Agreement on agriculture have been studied by: K. Anderson and W. Martin (2006), D. Orden, D. Blandford and T. Josling (2011), F. Smith (2009) and others. National agrarian policy development in the international context has been considered by V.J. Ambrosova and V.M. Onego (2009), V.I. Boyko and O.A. Kozak (2010), S.A. Muzychenko and S.M. Podzigun (2011) and others. All these works focus on the activities of formal institutions and their impact on agrarian policy. However, the effect of informal institutions on the efficiency of state agrarian policy has been hardly considered and thus requires further research.

**The purpose of the study** is the theoretical and methodological research of the influence of informal institutions on state agrarian policy; identification of negative factors that significantly affect the level of competitiveness of the agrarian sector of Ukraine.

**Key research findings.** The main problems of Ukraine's economy as in previous years are low quality institutions in which Ukrainian business is becoming less innovative, high levels of corruption that promotes economic lobbying, merging of big business with the state and the market power of some oligarchic elite and high transaction costs. V. Volchik and I. Berezhnoy (2007) determining the formula of the institutions quality made the assumption on a direct relationship between the quality of institutions and the levels of indicators of human and social capital, and the inverse dependence on the indicator that characterizes the activities of special interest groups (under which they understand the totality of agents, characterized by the coincidence of economic interests, or the production of a joint collective good):

$$QI = \frac{h \times s}{g^2}, \quad (1)$$

where  $QI$  – the quality of institutions;  $h$  – the index of human capital;  $s$  – the indicator of social capital;  $g$  – the index that measures the activities of special groups (narrow) interests. Scientists say that rooting in society of groups with special interests that are trying to innovate by obtaining private rents, makes it impossible even the potential establishment or implementation of effective market-based (economic) institutions. The presence of special interest groups that through the mechanisms of lobbying influence the decision-making process of public institutions, distorts the market and government influence on the economy and changes business environment (redistribution of property rights, income rights for specific activities, tax incentives, quotas, licenses, government contracts etc.). Their increase will certainly have a negative impact on the quality of institutions (effective institutions are subject of devolution) that, in turn, is reflected in the indicators of economic development of the society. And as noted by M. Levin and G. Satarov (2014) monopoly power of the

bureaucracy and the rapid growth of corruption, just as inevitably lead to widespread establishment of administrative rent at all levels and in all branches of government and local authorities.

In this sense, the agrarian sector of Ukraine is not an exception and it also has formed special interest groups, largely motivated by potential rent from political, bureaucratic, or market power, and thus they form oligarchic and monopolistic groups to be further involved in resources redistribution. In real economic situations at the global market with its mass production, a large part of agro-economic activities are coordinated not only by the market and the state, but also by companies' internal interactions, in which the leading role belongs to senior management. According to A. Chandler (1977), "the visible hand of management replaced the invisible hand of market forces as in A. Smith". Large associations, having not only resources and organizational abilities much greater than their smaller competitors, and therefore market power, as seen in neoliberalism, is not only a convenient way to avoid state regulation, taxation and control of national democratic institutions, but this also means the ability to apply selectively the principles of liberalism in some elements (for example, social security or environmental conservation), as well as the ability of creating new centers of power, the formation of future market rules at the global level.

However, at the first place among the factors that distort the state agrarian policy, as in the Soviet period, remains the administrative rents and corruption as the most negative consequences that not only lead to decrease of professionalism of the administrative apparatus and catalyzes the traditional forms of corruption, but also destroys the legitimacy of state authority in the eyes of general public.

V. Polterovich (1999) calls corruption an example of "inefficient equilibrium". The more common it is, the less will be the probability of punishment for each individual corruption case, which in turn leads to increase of the extent of corruption. This effect is called the effect coordination adherent to many institutional traps. Further consolidation of inefficient norms of behavior goes under three modalities:

1. Corruption is developing, the result is the corruption of higher hierarchy, also developing the technology of bribery (the learning effect).
2. Inefficient norm is embedded in the system of other norms and interacts with them. So, corruption is associated with tax evasion and legislation lobbying.
3. Corruption is so common and expected that its rejection is perceived as a violation of generally accepted procedures (the mechanism of cultural inertia) (Polterovich, 1999: 39).

Corruption is mainly a privilege of the affluent segments of population and higher financial standing is usually associated with increasing levels of tolerance and, consequently, higher probability of corrupt behavior. To eradicate it is extremely difficult due to the fact that the Ukrainians are not ready to abandon bribery as a social form, rooted in public conscience as a traditional material form of interaction. Therefore, even partially agreeing with the view that "grass-roots forms of corruption may not be part of general corruption, it is a reaction to the corruption of tops, an attempt to protect rights and beliefs on justice" (Barsukova and Lebedeva, 2014: 127), we still consider it necessary to note that in the end, because of the involvement in corruption of most members of society, it self-organizes leading the society be in the state of "inefficient equilibrium", that is an institutional trap.

Accordingly, all economic agents respond to informal institutions basing on ineffective norms of behaviour. The majority of agrarian enterprises already adapted to the market conditions of doing business and have adapted to contemporary institutional conditions of the agrarian sector development. The imperfection of the institutional structure of Ukrainian economy is considered by separate groups as the possibility for the misuse of budget funds for personal gain. "Elite make a choice in favor of the preservation of economically inefficient but politically safe institutes of capturing economic rent" (Polishchuk, 2013: 44), thereby provoking a conflict between the public interest, which is based on open access to public goods (property rights protection, rule of law, fair economic and political competition etc.) and the interests of power elites, based on the benefits, accessible to only a limited number of privileged persons. Fear of change and the likelihood that they will be replaced are the key reasons why elites do not want to initiate innovative changes and can even block economic development (Acemoglu and Robinson, 2006). Moreover, according to T. Gaidai (2014: 168) "rent-oriented behavior of economic elites lead to inhibition, and therefore to lagging behind in the development of research facilities, education, lack of development of innovation infrastructure. It also repels foreign investors from developed countries, for whom quality, stability and transparency of institutional environment are indisputable values". Inhibition of reforms, and sometimes their open sabotage clearly indicate the institutional weakness of the system that serves the interests of certain social groups, incorrigibility when withdrawing funds from the economic turnover, distracting budget from cost-effective innovative projects and all of this has negative impact on the level and quality of state agrarian policy and economic welfare of the country as a whole.

**Conclusions.** The greatest threat for agribusiness development (and not only for this sector), is the systemic relationship between corruption and targeted rental orientation, which leads to rooting in economic activity of erroneous (incorrect from the point of view of society development) models of economic behavior which stimulate the formation of stable informal economic institutions.

There is an urgent need to reform the practices of the state policy in the agrarian sector from the use of non-market mechanisms of direct support for agrarian producers to creating the institutional conditions for the development of the agrarian sector basing on public-private partnership with clear and focused program-targeted measures. Changes of the state policy in the agrarian sector in the first place require changing the economic model of behaviour of the majority of agrarian subjects and the ideology of the agrarian business: from getting rich quick through ruthless exploitation of natural and human resources to sustainable economic development based on preservation and reproduction.

We believe that public policy should focus on improving the infrastructure of the agrarian sector, enhancing the efficiency of production by shifting state support from direct funding to funding mechanisms based on repayment, priority of cooperation and self-regulation in agrarian activities.

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