1 Institutional conditions for the functioning of the Polish and Ukrainian economies

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1.1 Introduction

Today's direction and dynamics of economic development play a key role in shaping economic development, not so much traditional cost or resource factors, as qualitative ones as human capital, the innovation capacity of the economy and, above all, the quality of the institutional environment, that is, of the social, political, economic and communication processes.

Institutions in the economy reduce uncertainty by introducing patterns into everyday life. They bring to business a factor of sustainability, continuity and stability through the creation of conditions ensuring the predictability of the results of a particular set of actions and communication patterns. They become a model of human interaction (North 1990: 4). Institutions are also instruments used by individuals to maximize benefits in their efforts to increase individual prosperity and should, according to North, reduce uncertainty and background noise in communication and transaction costs (North 1992: 447–449).

Institutions can be understood not only as dominant ways of thinking, taking into account individual social conditions, individual and community functions (Veblen 1899) but also as collective activities to supervise individual activities (Commons 1934). Institutions are usually referred to as any permanent, organizational or customary condition for repetitive human behavior and human interactions (Pejovich 1995), as well as conventions and social communication. In systemic terms, institutions are evolutionarily educated standards and rules of action often transformed into a set of formal or legally binding restrictions (through legal provisions or constitutions) together with the related mechanisms of their enforcement (WEF 2015).

Institutions are usually divided into formal and informal. The state creates formal institutions by setting out forms of economic activity and economic relations by law, which must also be classified by rules for registration, affiliation and trade union activities, amongst others. It also creates a stimulus system; social impact institutions in terms of functioning institutions can be defined as effective, where the adopted principles are respected and

enforced, and inefficient, when institutional principles are not respected, as North writes:

Institutions and ideology together shape economic performance. Institutions affect economic performance by determining (along with the technology used) the cost of transacting and producing. Institutions are composed of formal rules, informal constraints, and characteristics of enforcing those constraints. While formal rules can be changed overnight by the polity, informal constraints change very slowly. Both are ultimately shaped by people's subjective perceptions of the world around them; those perceptions, in turn, determine explicit choices among formal rules and evolving informal constraints (...) Institutions are the rules of the game in a society; more formally, they are the humanly devised constraints that shape human interaction. Thus, they structure incentives in exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and, hence, is the key to understanding historical change.

(North 1992: 447)

While formal institutions are easy to create and change, informal institutions are often resistant to change. These are the usually unwritten rules of human behavior, ways of thinking and a hierarchy of values (Veblen 1899; Commons 1934; North 1992). While every person has his own system of values and behavior, the mere fact that a person is a social unit causes that, with puberty and personal development, he also adopts the characteristic attributes of the specifics of his surroundings and recognizes the accompanying norms, principles and traditions. In other words, institutions are the learning matrix of human individuals and their social groups in different forms of education. Informal institutions therefore include not only regional customs, overt behavior, historically imposed by generations of mothers and fathers, patterns of socially and politically desirable behavior, habits and cultural codes, social habits, a general way of life and customs, but also legal usages, conventions, communication systems and behaviors.

Informal institutions endure from generation to generation and are difficult to change, whereas formal institutions can be created by the state as a system of impulses to the state's desired behavior practically overnight.

Economics does not deal with matters of the functioning of the state itself, and yet institutionally the principles acquired by the state, or developed under the influence of its current and former institutions, created in a certain international environment, have an equally important impact on the functioning of the state and its economy as internal formal and informal institutions. After all, the state's habits of regulating and creating institutions depend on the adopted political system, standards, rules of action, mechanisms for the enforcement of social and economic contracts, and the quality of human capital – that is, the competence of those politicians who manage

this country. The political system of communism, which was in force in Poland and Ukraine until the end of the 1980s, created its own set of formal, legally binding restrictions and its own economic system. Its features were a lack of private property, the injunction-resolution system, central planning, all power monopolized by one political party, a totalitarian ideology, full control and supervision of society in all aspects of public and private life and finally, a propagandistic and one-way form of political communication. All economic, communication and ownership initiatives were killed in the individual person, as a separate entity. Since the 1990s the Polish and Ukrainian economies have undergone a systemic transformation. The aim was to create a country with a market economy, characterized by political and economic freedom, and the free exchange of human thoughts in the public and private sphere – a concept which still faces difficulties and creates economic and social problems.

The institutional conditions for the functioning of the Polish and Ukrainian economies are diverse, but in many ways they are similar. Both countries combine a communist heritage, system of prescriptive economy, similar forms of social communication, the privatization of institutions, the creation of principles of economic freedom and the functioning of the state. These are not identical systems. Ukraine now enjoys its own independent state for the first time in its history, while Poland's statehood has been historically shaped.

The purpose of this chapter is to identify the basic institutional characteristics, in the sense of formal and informal institutions, in Poland and Ukraine, which affect the functioning of the economy, and to delineate their specificities. It is also an introduction to this book, which, admittedly, is written by many authors, specialists in their own fields, but is an integral whole of looking at the Polish and Ukrainian economies.

1.2 Poland and Ukraine yesterday and today

Communism was the first political system which, after World War I, extracted Ukraine from the nations surrounding it (1918–1920), while Poland at that time regained its statehood after a hiatus of more than 100 years due largely to a wave of anti-communism. Ukraine failed to defend its independence against the Russian Bolsheviks, but Poland succeeded by retaining its statehood after winning the Polish-Bolshevik War (1919–1921). Although the history of both peoples has been converging for centuries and historical phenomena have occurred, sometimes resulting in direct rivalries, the institutional forms of state and society were different for Poles and Ukrainians. Even during the occupations since 1807, Poland had a substitute for independence in the form of the Duchy of Warsaw, which was transformed in 1815 into the Kingdom of Poland, formally connected by a personal union with Russia, and therefore not a sovereign state, but since 1918 Poland has been a completely self-governing country. Ukraine, on the other hand,

has been a sovereign state since 1991. The 73-year difference plays a significant role here in shaping the institutional order of the state, its economy and society. For 71 years, Ukraine had been incorporated into the Union of Socialist Soviet Republics (USSR) – a communist, totalitarian state, with a centrally planned economy, where every manifestation of an individual economic initiative was treated as anti-state activity and punished by years of imprisonment in the gulag, or even by death. In Poland from 1918 to 1939, the institutions of the market economy and of the state were formed and strengthened, while society reacquired its national customs and recovered and implemented the traditions of the Polish nobility, the Church, bourgeoisie and the peasantry, which in communist Ukraine was something utterly unimaginable. The Church was banned, manifestations of religious faith were punished by death or imprisonment in the gulags, and talking about Ukrainian traditions linked with the nobility or land-owning class was punishable by death.

The result of World War II brought peoples closer, but the course and events during World War II widened the separation between them. The Polish-Ukrainian guerrilla wars, ethnic cleansing of civilians carried out on both sides of the border, mutual former resentments and old animosities, meant that even though both countries were in the same orbit of socialist states after 1945 under the dictatorship of the USSR, they produced neither common institutions nor informally traditional attitudes. Poland was in the group of satellite countries of the USSR, and Ukraine was an entity within the USSR itself. The Polish United Workers' Party (PUWP; Polish: *Polska Zjednoczona Partia Robotnicza*, PZPR) was a party that formed the communist system of institutions in Poland from 1945 to 1990 mainly through the implementation of the guidelines of the Communist Party of the Soviet Union (CPSU, Коммунистическая партия Советского Союза – КПСС, *Kommunistyczeskaja partija Sowjetskogo Sojuza – KPSS*), and it did not treat the oppression of the citizenry entirely seriously, and certainly less seriously than in the Communist Party of Ukraine (KPU), which functioned in a Ukraine and was completely subordinate to Russia.

In Poland, private property was tolerated to a minimal degree, small farms and even small private forests were permitted, and above all, craftsmen and artisans were allowed to carry on their trades, something which didn't appear in Ukraine before 1990. In Poland, it was also not possible to implant in the minds of the people, the concept that the state and its needs were all-important. In Poland, people continued to think for themselves, as individuals (not collectively), about their own private affairs (not state matters), with an emphasis on their private consumer matters, as an element of collective state affairs. In Ukraine, individuality was killed in the fields of social activity as well as in culture, art and language. Another, no less essential matter was the possibility of interacting with the institutions of other countries. In Poland, during communism, there were no problems with trips abroad within the Soviet Bloc of states, whereas in Ukraine, any

departure from the USSR was almost impossible. In addition, Poles, for example, when going to Bulgaria for a holiday, could always travel through Ukraine, while Ukrainians could not come to Poland. This was quite significant, because already in communist times the Poles developed an individual economic initiative on an international scale. Poles practiced this so-called border suitcase trade – they bought goods in Poland, which were not in Ukraine, sold them there for rubles, and then in Romania or Bulgaria exchanged these rubles for dollars, thus creating capital, which then allowed them to build their own homes in Poland and to undertake entrepreneurial activity on a small scale, which was permitted by the communist authorities. Ukrainians did not have such an opportunity, and from the point of view of economics, it was difficult for the Ukrainians to understand the existence of the free market, the spontaneous education of sectors of the economy on the basis of individual economic initiatives, individual choices, without any intervention, supervision or direction from the state. Today, nearly 30 years after regaining independence, the reasoning of the principles of the free market economy in Poland and Ukraine is different and barely comparable to each other, as are the informal institutions (paved principles of conduct), the functioning of economic institutions or the transactional principles of the open market. These are entrenched, homegrown ways of thinking which existed in the old system and are still present even today in the young generation.

Literature of the subject, especially Russian language literature, indicates that Ukraine's economy cannot be subjected to comparative studies from the viewpoint of the guidelines adopted by Western Europe and the liberal economies. It would appear that these measures are incomparable, because there are other institutional dependencies. It has been proposed that any research of the economies of those countries which arose after the fall of the USSR should be conducted using the paradigm applied to Asian countries, since the countries of the former-USSR, at least in their institutional behavior, are closest to their Asian counterparts (Lipov 2012). Of course, from a Polish perspective, it can be considered that perhaps there is a lot of evidence to confirm these scientific assertions and opinions, but also it may be the result of the ordinary political line of Russian or Ukrainian research.

There are two main reasons behind the writing of this book. The main aim of this chapter is to explain the institutional behavior and possible inconsistencies that the reader can find in literature on the subject, and research regarding the economies of Poland and Ukraine.

It can be said, with a high degree of probability, that writing and talking about these economies – Polish and Ukrainian – is not free from the local policies of the countries from which the authors or commentators originate. The thought processes of the research plans and categories cited are also subject to the specific customs and habits of the respective regions.

An outstanding book published in Polish on this subject has been edited by Antoszewski et al. (2010), in which Poles write about Polish affairs and

Ukrainians write about Ukrainian affairs (translated into Polish obviously); however, there is one shortcoming. The authors bilaterally take up the same problem; they write in a different scientific code and operate in a different paradigm, which causes the reader to get, on the one hand, two viewpoints of the same things – Polish and Ukrainian – which are completely incompatible and even outright disharmonious, while large fragments are utterly incomprehensible. On the other hand, perhaps the authors really do comprehend the variety of paradigms and thought habits (see: Antoszewski et al. 2010). The mere fact that the editors and authors do not even try to create a common paradigm-narrative for research of the Polish and Ukrainian economies may not be so much an error as an acknowledgment of the lack of one (common paradigm).

Regarding Russian literature, publications in the *Journal of Institutional Studies* (*Zhurnal Institutsional'nykh Issledovaniy*, Журнал Институциональных Исследований, from 2009) are noted.

The Journal's editorial board states that only an institutional paradigm can constitute the common ground for research of the economies and states of the former USSR and the Western world, and on institutional assumptions formulates the scientific mission of the research, when they say that:

Neoclassical recipes to describe economic reforms have shown a very limited effectiveness in almost all post-Soviet countries as early as the 1990s. 20th century economists began to search for a new economic paradigm that would be more relevant to the post-soviet reality and at the same time would allow them to communicate with foreign colleagues “in the same language”. Institutionalism (both “old” and “new”) has become such a new paradigm.

Wrote the *Journal of Institutional Studies*, <https://www.hjournal.ru/journals/journal-of-institutional-studies.html>, access date; 2020–01–10)

The *Journal of Institutional Studies* highlights the importance of institutional differences in the countries of the former USSR, on the one hand, and points to their institutional convergence with Asian countries, on the other. Unfortunately, there is a paucity of material concerning Ukraine in the *Journal*, and references to the institutional traditions of Poland or Western Europe, in Ukraine, are not taken into account *a priori*.

Ukrainian researchers have not developed a common platform for exchanging institutional thought with Western Europe and the world. Regional studies are usually not based on hard data, and their output rarely refers to uniform and comparable data sources. The reason, as indicated in literature, is the inability to carry out comparative studies, because in these very regions of Ukraine, different specificities of economic systems and social institutions have been created. Aggregated data by region, on the other

hand, is not subject to consistent econometric modeling (Duma 2017). It is given as effective methods of cognitive maps (Когнітивна карта, cognitive maps) which allow us to determine the distribution of the pulsation process, but do not permit research of the evolution of the process itself (Vyshnevskiy, Dementiev 2010: 41–62; Duma 2017: 176). It has been noted that when simulating the evolution of the process of actual economic systems in Ukraine, there is a problem of time consistency and data inconsistency, and pulsation processes can have different delays for different model variables (Leontev, Ford 2012: 370–400).

In general, there is a substantial amount of literature on the Polish and Ukrainian economies, which enables us to conclude that there is a growing interest in this issue, and although the topic is not new, it is nevertheless the presentation of one more research perspective which can be both interesting and noteworthy for research purposes. A gravitational outlook is proposed in this book.

Many institutional documents from the first period of systemic transformation have been published in Poland (Gomułka 2013; Gomułka, Kowalik 2011), as well as a general look at post-communism in Poland (Staniszakis 2001). With regard to the Ukrainian economy, this type of literature is still lacking. However, scientific literature concerning the Polish transformation has been written in “waves”. The majority of works were published between 1997 and 2000 and then 2011–2013; that is, the theme of the Polish transformation returns approximately every ten years to the area of interest of Polish academic research. No such pattern of “waves” has occurred regarding Ukraine. Foreign publications are usually the aftermath of literature and research published in Poland and Ukraine and are written mainly in English by Poles and Ukrainians, which also means that they are, in the majority, concurrent with Polish and Ukrainian views on this systemic transformation (Smalej 2016; Dolińska 2019; Fałkowski, Kurek 2019; Holubiak 2019; Kaźmierska 2019). A special issue of the “Qualitative Sociology Review” Vol 15 (2019) was published to commemorate the 30th anniversary of the transformation in Poland.

Studies of regional development in Poland, using quantitative methods, are quite well documented in the literature of the subject (see: Wisła, Tokarski 2016; Pastuszka, Tokarski 2017; Szczepaniak, Tokarski 2018), while in Ukraine, attention is called to the instability of the application of mathematical and econometric models regarding the various regions of Ukraine. The unstable and fluid character of these regions is given as a barrier to mathematical and economic models; hence, the cognitive map model is proposed.

L. V. Duma writes directly:

The character of dynamics, pace and proportions of socio-economic indicators in Ukraine are largely under the influence of non-stationary conditions of operation. Some signs of non-stationary structure are

unstable macroeconomic processes in time, the difficulty of formalizing their dynamics, an uncertain future etc. Ignoring these features along with a lack of statistical data renders it impossible to make an evaluation, analysis and forecasting of the dynamics of these macroeconomic processes by classical methods. Therefore, this study aims at reviewing the nature and characteristics of the simulation for analyzing and forecasting the socio-economic development of the country. The results of the study have shown that the basis of such simulations are diagrams, a causality - cognitive map and study of the problem on the basis of a cognitive map is through the distribution of the pulsed process. The authors have also analyzed a number of modern simulation (cognitive) models of regional development proposed in the research literature that demonstrate the use of this tool as the modeling of the dynamics of macroeconomic indicators and indicators of the local economic and social development of the region (...) Applying pulse models can predict the development of specific situations in certain regions and make substantiated recommendations on measures of economic and social policy.

(Duma 2017: 78)

The proposed and implemented gravitational model in the book can be useful for researching the various regions of Ukraine, and for conducting comparative studies.

1.3 The subject of this research and its specificity: Poland–Ukraine

Ukraine, as an independent state, was established on July 16, 1990, when the Supreme Council of the Ukrainian Socialist Soviet Republic (USSR) adopted a Declaration on State Sovereignty (Декларація про державний суверенітет України). Ukraine became a successor to the USSR, which was part of the Union of Socialist Soviet Republics (USSR) from 1919 to 1991. As part of the USSR, the Ukrainian SSR, alongside the Belarusian SSR and the Russian SSR, was one of three Soviet republics that were a legal entity according to international law, were co-founders of the United Nations and a member of most UN specialized organizations (Osmańczyk 1982; Wiszka 2007).

Polish statehood has a long history. The first historically confirmed date describing the history of Poland is 966, when Poland was baptized and became a Christian state. In 1025, the Kingdom of Poland was established. In 1569, the Republic of Both Nations (Polish Commonwealth) was established, which was one of the largest and most populous countries on the map of 16th- and 17th-century Europe. The Republic ceased to exist as a result of the Third Partition of Poland, in 1795, when its territory was divided between Prussia, Russia and Austria. Poland regained its independence in

1918, immediately after World War I. After World War II, from 1945 to 1989, it functioned as a satellite state of the USSR under the name of the Polish People's Republic (Polish: Polska Rzeczpospolita Ludowa, PRL).

The period of communism analyzed in both countries – Poland and Ukraine – was a command-control economy with a socialist doctrine but in Poland for a considerably shorter period (since 1946) and in a much more mild form than in the USSR, while this system lasted in Ukraine for 25 more years (from 1921 to 1991) and in a more repressive form.

Unlike its Polish counterpart, modern Ukrainian statehood began to take shape at the end of the 1980s. The 20th century, within the framework of the political and economic system of the USSR, was characterized by full market control of the economy and of public life. However, Ukraine as a universally recognized name first appeared in the Middle Ages and signified the borderlands of various geographical regions. By the end of the 16th century, the term “ukraine” was not official and only meant the “borderline” (“boundary line”, “state frontier”) of individual lands under the control of different countries. The official name “Ukraine” was first used in 1590 in the title of the Sejm (Polish parliament) Constitution of the Republic (Konopczyński 1999: 211).

The Ukrainian SSR had quite a lot of freedom within the Soviet Union itself compared to other soviet republics, such as Tajikistan, Georgia and Moldova, but much less than Poland, during the timeframe of the operation of the PRL (Polish People's Republic). The processes of institutional change in Poland and Ukraine took place at the same time, but with a different intensity, and went in different directions. In Ukraine in 1989, the social organization of the People's Movement of Ukraine (Народний Рух Українці), formed by Ukrainian writers and dissidents, transformed into a political party with an independence program and in the elections of 1989 scored 9.4%, thereby occupying second place in the local one-chamber parliament, the Supreme Council of Ukraine (Верховна Рада Українці), gaining a total of about 50 seats. The LRU received the highest support in the regions of western Ukraine bordering on Poland. New forms of the state's institutional system were created by communist activists in weak opposition to Ukrainian writers and dissidents. In the new formula of the nascent Ukrainian state, old communist activists introduced modernized forms of old and proven institutions from the soviet era; however, rejecting forms of total state control, the substantive power of communicating the principles of the functioning of a free state and its economy among Ukrainian writers and journalists was not significant.

In Poland, the transformation of the regime began after 1981, when under pressure from a wave of strikes and social protests, martial law was declared, after which the regime was eliminated and the Round Table meetings took place and elections were held in June 1989. As in Ukraine, Polish dissidents, journalists and writers were in opposition against the old communist institutions. However, the main role in political change and negotiations was

played by the trade union “Solidarity”, whose members were industrial workers and had a convincing instrument known, since the 1980s, as the general strike whereby they were able to paralyze the country and stop all production in state-run factories. It would be difficult to compare the power of the opposition in Poland and Ukraine.

In both countries, in general, all the transformations commenced in the 1990s and were focused on the creation of a free market, civil society and democratization. The redevelopment of the state has covered almost all spheres of social life, including systemic transformation (implementation of parliamentary institutions and procedures), economic transformation (creation of a free market based on private property), social transformation (social change, acceptance of new rules of social life), as well as privatization in Ukraine, and privatization and reprivatization in Poland. In Ukraine, this transformation had no “shock therapy”, but in Poland, due to the huge debt of the state and the requirements of financial institutions associated with the so-called London and Paris clubs, this period took on some of the characteristics of “shock therapy”, resulting in a high-speed transformation.

Ukraine adopted a new Constitution (Конституція України) on June 28, 1996, Poland on April 2, 1997. Ukraine has established a presidential-parliamentary system of government (Constitution of Ukraine 1996) and a welfare state-oriented economy (Constitution of Ukraine 1996: Article 13). Poland, on the other hand, has adopted a welfare state-oriented market economy by enshrining in Article 10(2) of Regulation (EC) No 1250/2003 and article 20 of the Polish Constitution of 7 April 1997, that the welfare state-market economy is based on freedom of economic activity, private property and solidarity, dialogue and cooperation of social partners, and these pillars forms the basis of the economic system of the Republic of Poland (Constitution of the Republic of Poland, Article 20). Constitutional records coincide, but for the functioning of the state and society, the welfare state-oriented economy (Ukraine) and the welfare state-market economy based on the freedom of economic activity (Poland) gave rise to the creation of completely different institutions and behavior during this economic transformation; this situation has lasted for nearly three decades, with significantly different economic results.

Literature on the subject points out that the Constitution of Ukraine was written very broadly, and the exercising of the rights arising thereof was to a great extent impossible. In both countries, all political forces with a particularly large-scale involvement of the media participated in writing the constitution. These parties were post-communist in origin, whereas in Poland the Solidarity workers’ movement, whose symbol was Lech Walesa, elected him as the first president of an independent Poland (1990–1995). In Poland, Lech Walesa was an authority, a leading opposition politician during the communist period, co-founder and first chairman of the Independent Self-governing Trade Union “Solidarity” (Polish: *Niezależny Samorządny Związek Zawodowy “Solidarność”*), and winner of the Nobel

Peace Prize in 1983, with strong national and foreign support. As president, Walesa effectively blocked any moves by those who nurtured nostalgia for communism, and had full public support. Ukraine did not possess such a leader. The first President of Ukraine was Leonid Kravchuk (Леонід Кравчук) (1991–1994), who helped maintain communism in the USSR during the soviet period. From 1958, he was a member of the CPSU (Communist Party of the Soviet Union). He had worked in the communist party's department of propaganda since the 1980s. In the 20th century he was a member of the Central Committee of the Communist Party of Ukraine. From 1988 to 1990 he served as head of the propaganda department and II secretary of the Central Committee, in 1989 he became a deputy member, and in 1990 he was a member of the Political Bureau of the Central Committee of the Communist Party of Ukraine. As president, he did not modify political customs which had been for him, *de rigueur*. While Walesa broke all formal and informal institutions which had arisen in communist Poland, in Ukraine Leonid Kravchuk (Леонід Кравчук) attempted to preserve these institutions by any means possible. This was significant since the constitutions in both Poland and Ukraine delineated the authority of the highest state officials in a broad manner, without establishing the specific limits of these powers, which in later years resulted in an overlapping not only of jurisdictions and political friction between the president, parliament and federal government but also of the courts and local government administration units in both Poland and Ukraine. In Poland, regional self-government was encouraged, whereas in Ukraine, attempts were undertaken to stifle this local self-government.

The processes of narrowing and expanding competence were ameliorated in Ukraine throughout this period (from 1990 to 2019), but especially in the amendment of the constitution, developed by President Leonid Kuchma and adopted in 2004 with insufficient votes of MPs in parliament (294 voted for, with a required minimum of 300), alternating the adoption of the system from one which was on the parliamentary-presidential border to an “oligarchization” of power, while in Poland this became especially evident only in 2014–2020, when the Law and Justice (Polish: Prawo i Sprawiedliwość) party expropriated the competence of a majority of the institutions of the state and transformed them into organs of (their) political party, without taking into consideration the rule of law, minimal electoral thresholds or the credibility which the voters held in parliament

In Ukraine, it was difficult to implement the provisions in the Constitution whereby Ukraine was to be a democratic state with a rule of law, in which society has an extensive social safety net; however, in Poland it has become difficult to maintain those provisions imposing an obligation of social solidarity. In Poland, social solidarity materialized regarding groups of extreme poverty with the 500+ package for large families, and the 13 monthly pension payments, which tackled the problem of income inequality, only in principle, since 2016.

Poland has been part of the European Union since May 1, 2004, under the Accession Treaty signed on April 16, 2003. In addition, the agreement between Ukraine and the European Union establishing a more profound and comprehensive free trade area (DCFTA), which is the most important and largest part of the Association Agreement between Ukraine and the EU, was signed in June 2014, and entered into force on January 1, 2016. Under the agreement, Ukraine has pledged to secure the free movement of capital and create a level playing field for companies from EU countries, which has de facto led to the break-up of free trade agreements with Russia and the Commonwealth of Independent States (CIS) (ros. Содружество Независимых Государств).

In 2013, Ukraine's attempt to strengthen ties with the EU led to a Russian-Ukrainian trade and energy war. Ukraine has not yet become a member of the European Union, and the withdrawal of public authorities from an accession treaty to the EU in 2013 led to the tragic events known as the Euromaidan (Ukrainian: Євромайдан), which began in Kyiv on November 21, 2013. The reason for the Euromaidan was precisely the failure to sign the Association agreement between Ukraine and the European Union by President Viktor Yanukovych, who served from 2010 to 2014 and after the Euromaidan, was forced to flee to Russia.

Today's institutional circumstances of the functioning of the Ukrainian economy are mainly due to its historical dependence, habits and social customs and the well-worn practices of exerting state power. For Ukraine today, the most important factor is the loss of territorial unity and the state's communication network, infrastructure and the breakdown of energy networks and other sectors of the economy, as well as the transfer of technology.

As regards the functioning of administrative units in Ukraine, Article 10(1) of Regulation (EC) No 1250/1999 shall be adopted in accordance with the procedure laid down in Article 132 of the Constitution which defines the territorial structure of the state based on the principles of unity and territorial integrity, composed of: The Autonomous Republic of Crimea (Ukrainian: Автономна Республіка Крим), oblasti (області), districts (райони), cities (міста), districts in cities (райони в містах), rural areas (селища) and villages (села) (Official interpretation of Article 133 of the Constitution). The cities of Kyiv and Sevastopol have been awarded a special status, as will be referred to later in this chapter. The military conflict in eastern Ukraine between pro-Russian separatists from eastern Ukraine, supported by the Russian Federation and forces loyal to the legitimate authorities of Ukraine. Led to new administrative map. The conflict led to self-proclamation of The Donetsk People's Republic (DPR or DNR; Russian: Донецкая Народная Республика) and The Luhansk People's Republic (alternatively spelled as Luhansk People's Republic; Ukrainian: Луганська Народна Республіка), thereby severing political and economic relations with Ukraine for Russia, and also to Russia's annexation of Crimea by using her armed forces in 2014.

Formally, the territory of Ukraine is still divided into 24 circuits (Ukr. Область, Oblast), separated cities (Kyiv and Sevastopol) and one autonomous republic (Autonomous Republic of Crimea); in row II, Ukraine is divided into 490 districts (ukr. Район, rayon) and 185 cities separated from the districts (u. місто обласного значення – misto oblasnoho znachennia). In March 2014, Sevastopol and the Autonomous Republic of Crimea were unilaterally incorporated into Russia under a provision of the Verkhovnaya Rada Avtonomnoy Respubliki Krym (Postanovleniye ot 17 marta 2014 goda № 1745–6/14 O nezavisimosti Kryma); (Verkhovnaya Council avtonomnoy Respubliki Crimea, Postanovleniye ot 17 marta 2014 goda No 1745–6/14 About the Autonomy of Crimea). However, in Ukraine and in the international community, these regions are still considered to be a part of Ukraine. It is worth pointing out that Crimea was transferred to Ukraine by Russia in 1954 (Order of the USSR of 26.04.1954 O peredache crimea oblasti and sostava RSFSR v sostav Ukrainskoy SSR).

The districts in Ukraine are divided into councils: rural (two types: селищна рада – selishchna rada and сільська рада – sil'ska rada), and district and urban councils.

In Poland, the country's new territorial division was carried out on January 1, 1999, on the basis of a three-stage establishment of local authorities (regions, counties and municipalities (powiats)). Level I units are composed of 16 provinces, Level II units 380 districts and Level III units 2477 municipalities.

The general principles of the functioning of local authorities enshrined in the Constitution were developed in Ukraine by the Law of 24 April 1997, which repeats many provisions of Ukraine's ratified European Charter of Territorial Self-government from November 1996. In Poland, in turn, only part of the local and regional tasks are carried out by governmental agencies, which directly (hierarchically) are subject to the Council of Ministers, the Prime Minister or individual ministers. Today, in an increasingly centralized Poland, only that part of the administrative tasks, which is not of national importance, is carried out by the local government.

While territorial units are easily comparable in Poland, in Ukraine it is considerably more difficult. The dynamics, pace and proportions of Ukraine's economic indicators are largely influenced by unstable conditions for the functioning of regions and the market, which renders an analysis and proper forecasting of the dynamics of macroeconomic processes for Ukraine by classical methods, and especially in some regions, impossible (Duma 2017: 174). Even without the fear of separatist regions, literature on the subject draws attention to the functioning of the following five different regional systems (five classes of regions) in Ukraine based on modeling principles:

- 1 subsidized by the State with an internal potential for targeted changes;
- 2 chronically depressive, virtually devoid of economic potential;

- 3 developed, export-oriented;
- 4 isolated, mainly based on import substitution strategies;
- 5 shadow (тіньові), whose development is determined by factors not controlled by the structures of state power (see Duma 2017: 174–178).

In Ukraine, it is recommended to explore the economy in terms of survival, profit, earnings per share, return on investment (total or shareholders), volume of sales, growth (in sales, number of employees, capital employed or profit), efficiency, productivity (i.e., output per unit of some input), market position, product quality, product leadership, employee attitudes, employee morale and job satisfaction, accident rates, absenteeism and labor turnover, posture (i.e., ability to adapt to changing circumstances), social responsibility, and the most important points are:

- 1 profitability;
- 2 market position;
- 3 productivity
- 4 product leadership
- 5 personnel development
- 6 employee attitudes
- 7 public responsibility
- 8 balance between long-run and short-run goals

(see: Emmanuel et al. 1990: 33–34; Duma 2017).

The entire area of post-Soviet countries is characterized by subsidized regions, chronically depressive and shadow regions, forgotten by state authorities, or which conduct economic development independently of formal authorities, or are subordinated to large clans of the oligarchies. Duma and Dement'yev write that the state government in Ukraine is incapable of directly influencing the institutions, the size of investments, social programs, the size of the money supply or tax rates and tax collection, in general, in each and every region (Dement'yev, Vyshnevskiy 2010; Duma 2017: 174).

In the case of subsidized regions, there is a decrease in production and an increase in external development factors; however, they are unable to fill the budget. Spending is increasing and industrial production is insignificant, while social programs are also inefficient.

In chronically depressed regions, there is a lack of practical economic potential. Production is low and the standard of living is also low, leading to the need to build external development factors, not always targeted to the interior of the country, but often outside its borders (Russia, Belarus, Poland, Turkey).

In crisis-affected regions, physical growth in production does not lead to an acceleration of technological progress.

External sources of development are weakening with increased production costs, tax rates and macroeconomic risks, and this, in turn, promotes

an increase in shadow structures. Investment is declining in shadow regions, and the region's fiscal budget is a facade. A general feature in Ukraine is that companies do not have sufficient resources for innovation and development, and business spending on research and development is comparable, if not worse, than state spending, for activities regarding the maintenance of political parties Dement'yev, Vishnevskiy 2010: 82). A more extensive explication of this problem is contained in Chapter 2.

In Poland, European Union support programs function in the regions, based on a subsidization of the sustainable development of the poorest regions of the European Union.

1.4 Powerful institutions: oligarchy and network

In the transforming economies of Poland and Ukraine, exceptionally powerful informal and formal institutions arose – informal, because they have never formally demonstrated their structure or principles of action or the values they are guided by, and formal, because they could usually be identified by name recognition, as the names of these companies oftentimes were combined with the names of politicians or businessmen. In Poland, these groups are not uniformly defined, whereas in Ukraine they are usually referred to by the name of their oligarchy or clan.

Oligarchies, as institutionally informal groups, were established on the basis of those who formally served in the soviet military or police, who worked “under cover” or with the quiet participation of politicians and the newly established security services, and they are characterized by an instrumental treatment of the state and society, and therefore a criminalization of the public sphere. In connection with these institutions, there were also institutional features of political corruption connected with these organizations, which fostered a lack of respect for the law, an erosion of social values and, most importantly, an undermining of social trust in political power from the public as a whole. The institutions described above were most exposed during the period of privatization and (re)privatization, which in Ukraine was conducted in one of the worst manners conceivable, the so-called mass privatization (coupon), which in terms of social justice was terrible, as it, on the one hand, allowed state property to be gradually expropriated by the former communist authorities, the former police and military (the KGB in Ukraine) and, on the other hand, permitted those criminal spheres associated with them to penetrate the state apparatus (Kolodii 2010; Nikulin 2012; Dolbneva 2019). In Poland, privatization was a priority for state policy, but no comprehensive solution to the problem of reprivatization was undertaken. Since the fall of the PRL (Polish Peoples' Republic), reprivatization has been carried out on the basis of administrative decisions and judgments. However, this applies only to cases where the acquisition of property was unlawful (e.g., lack of a legal basis or crossing the nationalization limits). In Poland, this has resulted in numerous social conflicts and a resort to

extra-legal recovery methods, as well as to the unlawful acquisition of real estate. Poland remains the only country of the former Soviet bloc that has not systematically settled the subject of compensation for private property confiscated by the communist system. Often, huge estates find their way into “unknown” hands. Social injustice is facilitated by the lack of clearly written provisions in the criminal codes in both Poland and Ukraine, and in particular regarding bribery (divesting), that is, the acceptance of material benefits in connection with someone’s fulfilling his public function or discrepancies concerning privatization (reprivatization).

In both Poland and Ukraine, groups related to the ambiguity of reprivatization have been created (Miszewski 2001; Nikulin 2012; Dolbneva 2019). From the level of ordinary awareness of the “oligarch” is someone who possesses a lot of capital, obtained in a manner which is not in accordance with the law, and has considerable political influence. The spoils are allocated among a chosen circle of people close to those in power, who act only in their own interests with the support of organized groups of people, of which they are the rulers. In Ukraine, groups of this type are referred to as clan-oligarchical, and relations formed in these groups are patronal-clientele. In this manner, both informal groups and officially registered associations, parties and even unions and parliamentary factions may be established. Oligarchy also appears where a specific financial and industrial group controls entire manufacturing industries together with the decision-making process of the state; that is, it becomes a financial-industrial-political group (Dolzhenkov 2000, 2002). In Poland, one refers rather to a group of network links. In both Poland and Ukraine, overt organized, special interest groups are of little importance (see: Lisnichuk 2002). There are, however, many types of pressure groups that operate in the shadows, and the four types of possible dysfunctional consequences from the activities of such pressure groups are (1) social protectionism (i.e., the tendency of groups to demand the preservation of positions and rights); (2) stagnations in management when government actions and initiatives are blocked; (3) denying collective discipline (i.e., when each group seeks to shift the burden of national expenditure to other groups); (4) changes in the balance of power, where the equality of power between different regions can be overturned, since each pressure group provides an unequal means of influence (Balabayeva 2015: 221).

The main areas of influence of these forces on governments are:

- influence on the government and making political decisions for them,
- influence on parties that control power and on their political decisions,
- influence on public opinion, influencing those in power and their political decisions (mainly by concentrating the mass media in their hands) (Teleshun, Reyterovych 2008).

The principles arising from state policy on restructuring the economy were and are still unclear in Poland and Ukraine, in particular those entrusted

specifically for this purpose by politicians and relegated by politicians to agencies which in many cases have been allotted the powers of ministries. Numerous agencies have also received supervision regarding important processes for the economy. The multiplicity of such institutions and the transparency of legal regulations on the principles of their functioning allow us to pose a legitimate question even about their ordinary economic rationality, especially since they are quasi-market institutions operating in a live economic framework on an equal basis with the other participants of the market game, and partly supported by staff and financed by certain state structures or by an oligarchy or by a network. In the context of the current role of the state in the economic system, it seems essential to bear in mind that state officials who are directors of state-owned enterprises and, as may be assumed, are police/intelligence officers, and not necessarily from the highest level of power, would ever initiate a process of self-expropriation (Zalewa 2008: 114–115). The empowerment of the former communist elites is an institutionalized political process that over time has evolved into the empowerment of political elites in Poland regardless of political provenance (Jarosz 2004: 44), and in Ukraine according to regional clans and a trans-regional oligarchy (Szapowalenko 2010).

Countries have been created within a country with a network structure, whereby a group of people connected by a common interest, having a common purpose, be they a party or social and business links, are a fundamental element of the network (Staniszki 2001: 94). The activities of these structures are also influenced by the highest authorities in the state (the president, for example, approves a specific person as chairman of the board of a large company, although his impact on the economic life of the country in terms of the system is constitutionally of minor significance). It seems, writes Zaza, that for the effectiveness of the economic system it is not important which party dominates the business-political system. More important is the progressive encapsulation of systems that foster the patronage-client system, with the patron having certain goods or leverage, and the customer is an entity who desires to obtain a profit through a specific transaction. It was in this way that the institution of political and economic clientele was created in Poland and Ukraine. The public interest, in theory, is supposed to be protected by the state. Thanks to state functionaries however, the state has been replaced by the sum of the interests of the members of a given structure – that is, oligarchy, clan, etc. (Gadowska 2002; Zalewa 2008: 117–118) – which strongly distorts the functioning of the political and economic mechanisms of democracy and the free market. The main conflicts and problems of individual groups of the network and oligarchical-clan are concentrated around those who will be the first to master a given segment (market) that will take over its character and how it is organized, all the while with shrinking resources at the disposal of the networks, oligarchies and clans.

There has also been a rather limited political participation and legitimization for at least ten years, by both Poles (Sobkowiak 2008) and Ukrainians

(Bortnikow 2010), which is caused by a lack of social faith in the functioning of democracy and a negative attitude towards politicians in general. In Poland, in the only national poll of this type, conducted in 2003, 74% of those surveyed said that politicians are dishonest, 76% that they were not credible and 82% that politicians cared only about their own interests, constitute a unified clique (network), linked to many common interests and were engaged in “various types of economic scandals” (44%) (CBOS 2003). A similar type of survey has yet to be carried out in Ukraine. It can only be assumed that the above-mentioned indicators are similar or even higher in Ukraine. In both Poland and Ukraine, the elections of the highest authorities are only the ritual of a new, emerging arrangement from a network of associations and of clan-oligarchic structures. Based on arbitrariness, an asymmetry of economic magnitude was established in Ukraine, which means that there is a surplus of power among some people and economic structures and a lack of power in others (Dement'yev, Vishnevskiy 2010: 89), which also interferes with the influx of foreign investment (Nosova 2012: 14–20). In Poland, these problems are perhaps not quite as magnified, but they are of a similar nature.

The period of the Orange Revolution (2004–2010) in Ukraine is described as “the initial stage of an anti-oligarchical struggle to preserve the direction of democratic development” (Kolodii 2010: 35). During this period, there was an institutional expansion of civil liberties, but there was also a continuing crisis of political power that had institutional characteristics. The effectiveness of institutional functioning (institutional performance) was diminishing, the indeterminacy of the powers and responsibility of these institutions had also increased, while citizens had a sense of a lack of real power and of the volatility of developments. The political life was overwhelmed with chaos and permeated with elements of anarchy, and on the other hand, with neo-patrimonial relations and the aspirations of influential political and business leaders to usurp power. In both Poland and Ukraine, manipulative democracy is growing to a greater extent than before, and there is no one fighting for true democracy (Kolodii 2010: 35). It may be affirmed that one of the causes of this situation is the passive attitude of society. In Ukraine, for example, protests during the Orange Revolution (in 2004), Euromaidan (in 2013), or the numerous protests in Poland (from 2015 to 2020) mobilized many people, but the vast majority of citizens approached them and the values they represented, as something foreign which, only introduced unnecessary chaos in the state. Poles felt the mechanisms of manipulative democracy in 2015–2019, under the rule of the Law and Justice party, a national-conservative, Christian and right-wing populist political organization in Poland. During this period, the neo-patrimonial relations and aspirations of influential leaders in politics, to usurp power, were intensified in Poland. The opposition was weak and fragmented, while that element of society which was protesting heretofore was exhausted. Nearly 50% of Polish society supported the authoritarian actions of the Law and Justice party,

and thus expresses a need to retreat from the principles of democracy. In both countries, institutions of irresponsible social pluralism and the institutions affirming an undemocratic regime were established (Carothers 1999: 160–170; Carothers Th., de Gramont, D. 2013; Carothers, O'Donohue 2019).

Legislative assistance mainly consisted of programs for expanding the capacity of legislators and legislative staff, physical infrastructure improvement and support for watchdog NGOs and the media (Carothers 1999, 177–187). Expanding the capacity of legislators and legislative staffers involved training on the essence of democratic governance and its methods. Support for infrastructure, such as libraries and office equipment, is also necessary. Assistance for NGOs and the media ensures their watchdog function to encourage transparency and accountability in legislative bodies (Ichihara 2017). Such an infrastructure has not been created in Ukraine.

In Ukraine, separatism took over the Crimea and eastern Ukraine on April 6, 2014, when the so-called Donetsk People's Republic (Донецкая Народная Республика) was proclaimed, and on April 27, 2014, the self-proclaimed Luhansk People's Republic (Луганская Народная Республика) was created, while in Poland “separatism” appears via an “internal” isolation from the problems of the state and society, an “internal exile”, which has become especially evident in the last ten years.

Both Poland and Ukraine have adopted formal institutional arrangements, which are largely at odds with informal institutions, that is, social customs, habits or established principles of social coexistence. What is important for one nation and less important for another was not discussed when establishing constitutional or state regulations, which resulted in large social groups being systematically excluded from the decision-making process. In Ukraine, there were national and linguistic minorities, as well as less educated workers' and peasant masses, whereas in Poland, there were the poorly educated and heavily religious social masses of small towns and villages. Today, it turns out that in both countries, the voice of the excluded is beginning to play an increasingly important role, causing among “internal refugees” a general erosion of trust in the institutions of the state, on the one hand, and nationalism and real and “internal” separatism, on the other.

It should be noted that in Poland and Ukraine, the network and oligarchical-state system are relatively stable. Parliamentary and local government elections make certain reshufflings within the system, while the various structures are interested in its continuance, regardless of the political outcome. The weakness of state institutions leads to, amongst others, a growing interest in the networks of formal and informal ties and links, which thereby become one of the main resources of the transformative institutions of the economies of both those countries mentioned here.

With regard to Poland, Z. Krasnodębski writes that

the greatest threat to democracy, to our freedom and our prosperity flows not from the underclass of the III Republic, but from its cultural,

political and economic center, not from the bottom, but from the very top, from the post-communist and partially from the post-Solidarity network of “oldboys”.

(Krasnodebski 2003)

P. Zalewa writes that

the non-market nature of the Polish economic system promotes the maintenance of individual network nodes.... In Poland, too many areas of economic life depend on the “kindness” on all levels of government officials and too much of the state’s money is used to finance specific elements of the state network.

(Zalewa 2008: 123–124)

Transparency International which publishes the “Corruption Perceptions Index” points out that in both Poland and Ukraine, social acceptance of political corruption is high (Ukraine Score 32/100; Rank 120/180, Poland Score 60/100; Rank 36/180 in 2018) (<https://www.transparency.org/cpi2018>).

Poland and Ukraine are not countries with a free market economy. There is quite a lot of economic freedom, but there is also, at the same time, a considerable lack of economic freedom. In Poland and Ukraine, the state, to a high degree, controls the market and its components to a great extent and imposes a framework for economic activities on the individual.

The legal and tax systems are not transparent, and the checks on taxpayers and penalties imposed on them often have a political basis. The most striking fact of the Polish and Ukrainian economies are the ambiguous legal and tax rules regarding the form and scope of economic activity. Regulations are contradictory, and sometimes the huge penalties imposed by the state on the taxpayer are the result of an individual interpretation of the law. The taxpayer is helpless in the face of the heartless state-fiscal machine, which oftentimes functions under the political dictatorship of party leaders or of officials who occupy a certain position in the state bureaucracy, and often don’t act in the public interest, but rather in their own interest or in that of the network (clan) to which they belong. Both in Ukraine and Poland, the tax code is often created under the auspices of a particular taxpayer, oligarchy or other member of the network; however, this law does in fact become universally applicable. Often after meeting the needs of oligarchs and networks, certain laws are withdrawn or become dead letters, but they may be brought back to life if and when another oligarch or member of the network requires them. In Poland and Ukraine an institution called “legal privacy” exists. This is where a universally binding law is created for the private needs of those in power, or of people linked with them. Economic courts are not independent, and the taxpayer feels defenseless in face of the state apparatus. The institution of distrust in courts and state authorities, as well as the volatility and contradiction of the legislation passed, does not

allow for long-term business strategies, without increasing transaction costs (including the price of corruption) (see: Kondratowicz 2013).

In 2019, Poland directly violated the standards of the European Union, which is a condition for Poland's membership in the organization, concerning the independence of the judiciary, including the economic judiciary. In the Finsberg Report (1990), the independence of the courts is indicated as an important and fundamental guarantee of the protection of civil rights and obligations.

In recent years, the aspirations of political parties to express their own worldview and imposing a lifestyle on society have been growing in Poland and Ukraine, and the intensity and scope of the political discussions is little related to the decision-making political policies in this regard. The "weltanschauung" of the Polish political elite of the Law and Justice party is authoritarian-conservative, based on the worldview of the conservative Catholic Church in Poland (prohibition of abortion, even after rape, prohibition of civil partnerships, legal and systemic protection for priest-pedophiles and common criminals associated with the Catholic Church). In Ukraine, the worldview is still ethnocentrist-nationalist and statist, in accordance with the principle of the "state above all".

The Economist Intelligence Unit's Democracy Index 2018 lists Poland among countries with a "flawed democracy", but Poland, according to the index, is only slightly above the threshold designating a group of countries called "hybrid regimes", while Ukraine is in the "hybrid regime" group, just slightly below the limit separating "flawed democracy" countries, where Poland is (Democracy Index 2018, <https://www.eiu.com/topic/democracy-index>, access date: 2020-01-10). The disparity in the index between the two countries is not statistically significant enough to recognize this difference as a lack of a possibility to compare Poland with Ukraine (Ukraine (5.69) in 2018, Poland (6.67) in 2018), at the border between these groups 6.00, for our research, nevertheless, this discrepancy should not be borne in mind. Douglas North points out that ideology not only plays an essential role in political choices (North 1990) but is also a key to those individual choices that affect economic performance. Individual perceptions concerning the fairness and justice of the rules of the game obviously affect performance (North 1992: 479).

In both Poland and Ukraine, difficulties are observed in the implementation of state-proposed institutional attitudes, but on the other hand there is less and less economic freedom, greater taxation of economic activities, difficulties with the bureaucracy and corruption. All these factors have an impact on regional development.

The institutional conditions of Poland and Ukraine should be looked at from different points of view and according to a variety of scales. In principle, it can be considered that these are areas which are alien to each other, and disproportionate to homogeneously accepted research paradigms. Russian- and Ukrainian-speaking authors, like Japan's Masahiko Aoki

and Carothers, point out the complementary conditionality of corporate, political and social governance in Asian states, and those countries created after the fall of the USSR and their relationship with the features of their respective national cultures (Aoki 2002; Bessonova 2006; Lipov 2012; Carothers, Th., O'Donohue 2019). However, the research mainly deals with Kazakhstan and Russia, but not with Ukraine. With regard to Ukraine, it indicates that it has a multivariant structure of an institutional order of socio-political and corporate governance. There is one type of institutional structure in eastern Ukraine, another in the central part of the country and yet another in western Ukraine. It is even accepted that, indeed, this multivariant structure may have been the basis of the separatist movements, resulting from the fear of an unknown institutional order, put forward by the European Union or in the absence of EU acceptance, the institutional conditions of the Asian-post-Soviet structure in the countries formed after the fall of the USSR.

It can be concluded that three institutional and organizational cultures – acceptable, observed and implemented – clash in Poland and Ukraine. An acceptable order is the old post-Soviet order in the process of transformation and the quest for a new order. An observed order is an order which should be pursued but it has not been implemented. It could be an order of the new member states of the EU or an order of authoritarian states such as Russia, Belarus, etc. Once this order has been implemented, this is the kind that penetrates into the system in a regulated form, for example, the association treaties with the EU, or on the basis of institutional solutions developed by other countries, such as in the case of Poland, by Turkey or Hungary, and in the instance of Ukraine, by Russia. It should be noted that the system of Soviet countries has been in place, at least since the 1980s, and the desirability of the culture of the organizational order of the countries of Southeast Asia has appealingly permeated other countries, is attractively intersects, and on the other hand the culture of the social economy and institutional governance characteristic of the transaction culture of post-Ottoman states (mainly Turkey, Azerbaijan in the context of the order found in Iraq and Iran), and the least understandable in the post-Soviet countries, including Ukraine, is the so-called “European order”, which, in fact, has been examined, only since the 1990s within the confines of its synergies. In many respects, after all, in Ukraine and Poland, this order is still more declaratory than implemented.

The source of this contradiction lies in the very human way of thinking – abstract, symbolic and above all in the diverse and multivariant perception of the world. In Poland and Ukraine, only people who have lived and worked for several years in other countries can accept this multivariant world, but these people also create the broad depths of differences between those who perceive the world solely on the basis of old, traditional values (in Poland clericalism and networks, in Ukraine a welfare state and oligarchy) and the newly acquired features of individualism versus those of collectivism.

As part of these institutional circumstances, habits, and socially worn out values, mankind is developing rational-logical thinking and creating its own cognitive alternative. Ultimately, priorities which have been established institutionally can only arise at a stage when society has attained an economic and political modernization, and the completion of this process may take several generations. It does not occur overnight. These are long-term processes, against which there is also strong social resistance. There is no, as M. Friedman and F. Hayek have already demonstrated, economic freedom without political and social freedom, and the latter must be liberated in man (Friedman 1962, 1993, 2002; Friedman, Friedman 1985; Hayek 1939, 1944, 1960). It is just as difficult to exchange worn out thinking and behavior for thinking and behavior which are institutionally desirable. This confrontation reflects the principle of unity in the struggle of opposites. Characteristic features of institutional behavior are the reactions and interactions, stimuli and conditional reactions – when some gain strength, others lose theirs. In terms of political and economic freedoms, A. Nowosad writes that the lines of political and economic freedom in Europe are negatively tilted towards the east of Europe (Nowosad 2016: 166–168).

The dialectic of alternative relationships (individualism/collectivism) or the principles of social orientation within the framework of the structural complementarity of socio-economic systems implies the existence of a certain state-gear social orientation, which can be called institutional. In such large, culturally and systemically multifaceted and, above all, young countries like modern Ukraine or Poland, this targeted social orientation is lacking something, as evidenced by a social and economic separatism, which in Kyiv led to the Maidan values, in the Donbas to separatism and civil war, and in Poland to “internal exile”, that is, to a society becoming separated from state affairs. Both countries are in the process of transformation, but that does not mean that they are headed in the same or even a similar direction. In Poland, there is a distinct retreat from the western values cherished in recent years towards a more well-known authoritarian (which does not mean for the better) direction; however, Ukraine seeks to return to a western direction while at the same time recognizing that western values are considered to be unachievable.

1.5 Summary

The nature of the inclusion in the institutional system of factors affecting the composition of institutional elements and their interaction, as well as the choice of the level of analysis of institutional complementarity, suggests an allocation of endogenous and exogenous complementarity of economic systems. Endogenic complementarity reflects the interaction of institutions in an institutional system, subsystem, institution and exogenous – the quality of the institutional system’s interaction in an external environment, the elements of which may be both other institutional systems as well as

non-institutional economic phenomena that affect the functioning of the whole system. A key role in them is played by the system's social, political, material, technological and environmental conditions.

Freedom House in 2019 ranked both Poland and Ukraine as free electoral democracies, but not as liberal ones. Poland was rated at 84/100, which ranks it among countries such as Argentina, Panama, Mongolia, and Ghana. In 2018, Poland had six points of freedom less than Hungary (70) and the least among all European Union countries, and its new institutional solutions are moving towards remedies already known among the countries formed after the fall of the USSR: Ukraine (60), Kazakhstan (22) Russia (20). In Poland and Ukraine, the old system of thinking still exists, in a sense. O. Inshakov and D. Frolov opine that where the essence of the institution is not so much that of change, but a perpetuation of a way of doing things, is where a way of thinking emanates from. This is the level of relationship between form and function. The specificity of the institutional form is determined by its assigned function. In turn, the function depends on the institutional form (Kidrina 2001: 57–73; Inshakov, Frolov 2010: 67; Lipov 2012: 26–40). The presence of a functional gap is the starting point for the creation of a new institution and a new way of communicating institutional, political and economic governance. Fundamental institutions in system-transforming economies are, on the one hand, new and not known and, on the other, deep, historically stable and constantly reproducing social relationships. Not only they ensure the integration of different types of societies, but they also create their diversity. The function of the institution is the regulation of basic social subsystems, increasingly used for a channeled ideology, politics and the economy, both on a national and regional scale.