REGULATION OF INSTITUTIONAL CHANGES IN THE SOCIAL SECTOR OF THE NATIONAL ECONOMY: CONCEPTUAL APPROACH

**Introduction.** The development of the national economy under the modern conditions is increasingly determined by the potential both of the commercial sector and also of the social sector development level since a number of economic policy tasks concern this sector. Issues of economic and social inequality are increasingly being explored in terms of their impact on economic growth in a long run. The complexity of implementing state regulation of the social sector to ensure inclusive growth raises a number of problems, because policies need to be coherent and institutional arrangements are effectively implemented.

**Aim and tasks.** The purpose of the study is to substantiate a conceptual approach to institutional transformations regulating of the social sector of the national economy, based on the principles of inclusive economic growth.

**Results.** According to the institutional changes theory, the formation of a coherent strategy regarding the state regulation of institutional changes in the social sector of the national economy requires consideration of the dependence on the previous way of development. So, the structure that is being formed requires both vertical (with basic institutions) and horizontal (with institutions formed within the social sector) coordination. Development of two mentioned types of interactions should be aligned with the strategy of state regulation of the social sector of the national economy - market-coherent and socially-coherent and gives the opportunity to achieve both social and economic (commercial) results, to balance the measures aimed at these interactions.

**Conclusions.** Within the framework of the problem of creation of an effective system of state regulation solution for ensuring inclusive growth within the proposed approach, the necessity of stakeholder interaction development, creation of an institutional and economic environment for the development of market-coherent and socially-coherent interactions considering achievement of economic growth with simultaneous achievement of social goals is ensured. Strategic direction of state regulation of institutional changes in the social sector of the national economy can be considered a gradual shift from the institutions of income redistribution to participation institutions (education, infrastructure, etc.). Education development is one of the priorities, as research findings indicate that the problem of access to education is a significant factor in inequality.

**Keywords:** state regulation, national economy, social sector, inclusive growth, institutional change.
РЕГУЛЮВАННЯ ІНСТИТУЦІЙНИХ ЗМІН У СОЦІАЛЬНОМУ СЕКТОРІ НАЦІОНАЛЬНОЇ ЕКОНОМІКИ: КОНЦЕПТУАЛЬНИЙ ПІДХІД

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Вступ. Розвиток національної економіки у сучасних умовах все більше визначається потенціалом не лише комерційного сектора, а й рівнем розвитку соціального сектора, оскільки низка завдань економічної політики стосуються саме цього сектора. Питання соціальної нерівності актуалізуються з позиції їх впливу на довгострокове економічне зростання. Складність реалізації державного регулювання соціального сектора для забезпечення інклюзивного зростання потребує формування політики, яка має бути узгодженою, а інституційні механізми ефективно впроваджені.

Мета і завдання. Метою дослідження є обґрунтування концептуального підходу до регулювання інституційних трансформацій соціального сектора національної економіки, що базується на принципах інклюзивного економічного зростання.

Результати. Формування цілісної стратегії державного регулювання інституційних змін соціального сектора національної економіки вимагає урахування залежності від попереднього шляху розвитку, тобто структура вимагає як вертикального (з базовими інститутами), так і горизонтального (з інститутами, сформованими в межах соціального сектора) узгодження. Виокремлення двох типів взаємодій, на розвиток яких і має бути спрямована стратегія державного регулювання соціального сектора національної економіки – ринково-когерентних та суспільно-когерентних дає можливість таргетувати вплив для досягнення як соціального, так і економічного результату, збалансувати заходи, спрямовані ці взаємодії.

Висновки. У рамках вирішення проблеми створення ефективної системи державного регулювання для забезпечення інклюзивного зростання в межах запропонованого підходу обґрунтовано необхідність розвитку взаємодії стейкхолдерів, створення інституційно-економічного середовища, в якому через розвиток ринково-когерентних та суспільно-когерентних взаємодій забезпечується досягнення економічного зростання із одночасним досягненням соціальних цілей. Стратегічним напрямом державного регулювання інституційних змін соціального сектора національної економіки можна вважати поступове зміщення від інститутів перерозподілу доходів до інститутів співучасті. Реалізація політики інклюзивного зростання потребує узгодження структурної та макроекономічної політики, зокрема через поєднання бюджетних коштів та приватного капіталу у реалізації соціальних інвестицій, стимулювання інвестицій у людський розвиток. Саме розвиток освіти є одним зі приоритетів, оскільки результати дослідження свідчать про те, що проблема доступу до освіти є суттєвим фактором нерівності.

Ключові слова: державне регулювання, національна економіка, соціальний сектор, інклюзивне зростання, інституційні зміни.
Introduction. The development of the national economy in modern conditions is increasingly defined by the potential not only of the commercial sector but also of the social sector development level, since many tasks of economic policy concern this sector. The economic and social inequality issues are increasingly being investigated in terms of their impact on long-term economic growth. Thus, an analysis conducted for 31 OECD countries confirms that the inability of the poorest population to provide qualitative education for their children is one of the main factors influencing the increase of income inequality and slowdown productivity growth. Today, it concerns the increase of the so-called digital inequality (lack of operating skills in a digital technology environment). If in 2014, 95% of adults in Denmark, Ireland, Luxembourg and Norway had Internet access, then in Mexico - less than a half [1]. In addition, in developed countries, 55% of the workforce is experiencing serious difficulties in implementing their employment opportunities provided by the OECD's digital economy [1].

In this context, the task of the structural, macroeconomic and financial, international cooperation policies is to introduce reforms to ensure inclusive growth while promoting qualitative job creation and equity [2]. As it is stated in a report [1], the complexity of implementing inclusive growth causes important challenges regarding governance since policy fragmentation needs to be reduced and institutional mechanisms to be integrated to develop coherent policy packages and to implement them more effectively.

Today, the lack of an appropriate analytical framework makes the decision-makers of the national economy, in particular the social sector, unable to assess the consequences of such decisions. It gives no way to increase growth rates and to create inclusive benefits, especially in conditions of low labour productivity, which is peculiar of the Ukrainian economy. While there is no high-quality institutional environment in the context of globalization, technological and information changes, it is difficult to achieve positive growth rates, financial stability, and to reduce economic and social inequality, and inclusive growth.

Thus, the urgent need is to form a conceptual approach to regulate changes in the social sector of the national economy influenced by external factors (globalization, digitization, financialisation), that corresponds the principles of inclusive economic growth.

Analysis of the recent research and publications. Implementation of inclusive growth as a conceptual basis to form the policy of the national economy regulation requires understanding the factors that cause inclusive growth policy results.

Ianovichin E. and Lundstrom S. [3] describe inclusive growth primarily as an equal opportunity for access to the labour market and resources. Anand R. et al. [4] considers inclusive growth from the standpoint of pace and structure of economic growth as interrelated features that are evaluated together. The World Bank [5] focuses on growth rates (economic growth rates) since they are observed as a source of absolute poverty reduction. At the same time, it is extremely important to recognize such components as productivity, which can contribute to the growth of wages, reduction of economic inequality, the equality of abilities; the effectiveness of regulation, which should be aimed at creating a supportive environment for business and households.

While studying inclusive growth issues Karimov A., [6, p. 133], focuses on the role of the state in the economic development and growth processes, emphasizing the importance of state regulation. He observes the regulation effectiveness as a result of efforts of the market, civil society and government. At the heart of sustainable development, poverty reduction requires an effective economic policy, including the macroeconomic stability promotion, well-developed human capital. This approach is consistent with Ramos R. and Almeida R. [7].

Pontara N., Times V. [8] study the inclusive growth from the standpoint of human capital growth; Rodriguez-Pose, A., Tselios, V. [9] focus on the rapprochement of countries in terms of social well-being in the inclusive growth process. One of the basic contradictions that arise during the implementation of inclusive growth policy is the dimension contradiction. Its essence consists in the fact that despite declaring a wide range of factors that represent growth, the main statistical measurer is the
indicator in the system of national accounts – GDP, which only reflects the aggregate number of goods, works and services produced in the national economy. However, if growth is identified at the level of individual citizens or households, the estimates are clearly shifted to a living standard, including income, employment opportunities, security and quality of life.

Thus, the World Economic Forum [10] proposed the Inclusive Growth and Development Index (IDI), based on 3 components: growth and development (GDP per capita, labour productivity, employment rate and life expectancy); involvement and intergenerational equity (average household income, Gini coefficient, poverty rate; sustainable management of natural and financial resources (share of GNI savings, share of public debt in GDP, ratio of dependent population to working-age population, intensity of greenhouse gases into the atmosphere).

The group of indices proposed by UNDP [11] contains (1) indices related to income; 2) indices not related to income; 3) indices of growth and economic opportunities expansion; 4) infrastructure indices; 5) social equality for equal access to economic opportunities; 6) access to social infrastructure services; 7) gender equality; 8) the system of social guarantees; 9) effective public administration and public institutions, which confirms, firstly, the complexity to measure inclusive growth, and secondly, the need for a wide range of regulatory effects to achieve the desired results.

OECD approach [11-14] regarding the economic development regulation is also broadside to support a set of indices (Four groups of indices: 1) growth and fair distribution of benefits from growth (7 indices) 2) Inclusive, well-functioning markets (7 indices); 3) Equal opportunities and fundamentals of future prosperity (7 indices); 4) regulation).

Despite the widespread presentation of approaches to the operationalization of state regulation policy, the conceptual basis of its development and implementation remains insufficiently clear, in particular regarding the regulation of changes in the social sector.

This conceptual approach has to take into account a number of objective contradictions, in particular, the pre-emptive nature of development in comparison with regulatory actions caused by the rate of technological development, demographic problems, globalization, as well as the contradictions between market and state methods of influence. It raises the question, whether it is possible to create market mechanisms for expanding social participation in the new environment, should the system of influence through social payments remain? Therefore, the conceptual framework of state regulation must determine the degree of "social adjustment" of the current model of economic growth in order to achieve the set goals in the context of both objective constraints and the influence of subjective factors. In addition, trends that are common to many countries that indicate a change in the place and role of the social sector in the national economy (labour market transformation, employment structures, etc.) must be taken into account. The Europe 2020 Development Strategy foresees the common goal of inclusive growth for European countries [15]. The Asian region also incorporates relevant objectives into the development strategy [16], and the inclusive growth commission set up elaborates on the challenges related to it [17].

It is also an obvious need to develop an analytical framework that would provide the basis for assessing the impact of appropriate solutions, both to increase economic growth and to create inclusive benefits, especially in the context of low productivity that is peculiar for Ukraine's economy.

**Aim and tasks.** The aim of this article is to substantiate a conceptual approach to regulating the institutional transformations of the social sector in the national economy, based on the principles of inclusive economic growth.

**Results.** The analysis of social and economic problems at the present stage, and their representation by the expert and scientific environment let us summarize the reasons which form the base for the transformations of national economies in many countries. They led to the need to change the traditional model of economic growth for inclusive one:

- transformation of the labour market as a result of technology development, deepening of digitalization processes. As a result, during a long time, there has been a gap between demand and supply for certain professions, and consequently, income inequality;
changes in the labour relations sphere as a result of labour markets liberalization. According to OECD estimations, during the 2010s, the share of self-employed and part-time workers in the total employment structure of OECD Member States was about one-third. The financial crisis has led to problems with income levels and increased inequality even in developed countries. It also gives reason to expect an increase in differentiation in the income of the various sections in OECD society [1];

- the imperfection of tax mechanisms in income redistribution, which increased the economic inequality and caused the growth of the debt burden on the budgets of different countries;

- transformation of mechanisms regarding social protection of the population, which caused higher stratification of income, lack of ability of the least protected categories of the population to invest in education for their own development, health care, etc;

- negative financial consequences for the population of the least-paid categories (rising debt-to-assets ratio, low level of lending).

According to the theory of institutional changes, a coherent strategy regarding state regulation of institutional changes in the social sector of the national economy requires consideration of the dependence on the previous development way. It means that the formed structure requires both vertical (with basic institutions) and horizontal (with institutions formed within the social sector) coordination.

While forming the policy, one should clearly identify the features of the inclusive growth A development strategy, particularly:

1. Close links between all areas and elements of development policy, i.e. inclusive growth, are achieved through a combination of economic, social, environmental and institutional factors.

2. Inequality, i.e. the economic instability, observed in many countries as a consequence of the income inequality, which is growing faster than private equity in global terms, is in the focus of changing approaches to form the economic growth model.

3. Priority to deploy the institutional component especially the social institutions. The research findings confirm the significant impact of institutions on economic growth.

Therefore, the institutional environment should become the main object of regulatory impact, since it is the quality of institutions that causes inequality in its various manifestations. These issues cannot be resolved without appropriate institutional changes in each country's economy. A general conceptual vision is presented in fig. 1.

The analytical component, which is the basis for multidimensionality as the fundamental for the inclusive economic growth concept, is formed due to the results of the National economy Social Sector development research, based on the statistics regarding the national accounts and other components of the national system of statistics. The institutional quality index of the social sector (IQSS) proposed by us in previous studies [18] forms the basis for comprehensive assessments of the government regulation effectiveness at the macroeconomic level. Further development of this component requires improvement of statistical systems, social performance evaluation systems, long-term social impact, which should become a separate direction to implement the strategy of state regulation of the economy.

The operational component, represented by the level of individual agents’ functioning (Fig. 1), describes the system of interactions that are formed between different institutional units of the national economy, including subjects of the social sector (households, general government, non-profit organizations, participants in financial market and other representatives of the commercial sector, associations, social enterprises). Within this component, we propose to distinguish two types of interactions, the development of which should be directed by the state regulation strategy of the social sector in the national economy:

1) market-coherent interactions, which are based mainly on market forms and mechanisms involving the actors of the commercial sector as full-fledged stakeholders;

2) socially coherent interactions, based mainly on non-market forms and mechanisms, the main stakeholders in which are the actors of the social sector.

The result of both interactions is the achievement of social and economic (commercial) effect but in different proportions.
Fig. 1. Conceptual principles of state regulation strategy regarding the institutional changes of the social sector in the national economy

Source: it is developed by the author.

The policy of state regulation of institutional changes in the social sector of the national economy should be balanced with regard to the implementation of measures aimed at the first and the second type of interaction. We propose the following regulatory areas that will provide the balance of these two interactions development:

– maximum support of the market mechanisms development to ensure the efficient use of resources, to regulate the access increasing processes to finance for social sector entities of the national economy;

– involvement of the private capital to finance social needs;

– relationship with civil society institutions;

– information and consulting support of the social sector participants in Ukraine, including the promotion of the social service market development in Ukraine.

We propose to control the access increasing processes to financing for social sector entities in the national economy in two ways: to promote the development of social investment (mainly at the national level) and to stimulate the introduction of innovative financial instruments for the domestic financial sector.

Social investment, which provides a high degree of involvement of businesses and civil society organizations to implement social programs and activities, is a means to move away from redistribution policy to incentive policy. First of all, social investment lets realize human capital development function. Therefore, at the present stage, a state that cares about its own strategic perspectives should consider social investment not just as a type of investment activity, but as an inherent element of an effective system for promoting inclusive growth.

Social investment is understood quite broadly, namely, as investing in people. These investments imply that the policy is aimed at developing people's skills and abilities to participate fully in work and social life.
The main policy areas include education, qualitative health care, childcare, study, job search assistance and rehabilitation.

In order to activate this type of investment in Ukraine, we propose to use a wide range of social investment financing types, including not quite traditional ones for Ukraine, which will allow connecting different stakeholders (state, corporate sector, individual investors) (grant financing, debt). self-financing, conditional self-funding and mixed funding, community development funding through relevant institutions.

Conclusions. If there is a positive economic growth, a number of problems related to inequality and living standard levels will exist, and it led to the search for approaches to form policies for social and economic development regulation. These approaches are based on unconventional economic policy objectives, the formation of another system to measures economic progress - assessing the level of country’s economic progress and its population living standards; non-economic measures - accessibility (resources, education, etc.) and quality (health, education, jobs), and taking these estimates into account when making decisions.

In order to solve this problem, the article proposes a conceptual approach to state regulation of institutional changes in the social sector of the national economy, which is based on inclusive growth principles. Within this approach, the necessity to develop stakeholder interaction, to create an institutional and economic environment where the achievement of economic growth with simultaneous achievement of social goals is provided through the development of market-coherent and socially-coherent interactions. The strategic area for state regulation of institutional changes in the social sector of the national economy can be considered a gradual shift from the income redistribution institutions to institutions of participation.

The implementation of inclusive growth policy requires coordination of structural and macroeconomic policies, in particular through the combination of budgetary funds and private capital in the implementation of social investments, stimulating investment in human development (education, infrastructure, etc.). Development of education is one of the priorities, as the results of the research show that the problem of access to education is a significant factor of inequality.

REFERENCES


