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THE INFLUENCE OF DEMONSTRATIVE FORMAL RULES ON THE DYNAMICS OF THE EFFECTIVENESS OF INSTITUTIONAL FRAMEWORKS

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Abstract:

The purpose of this article is to identify the impact of demonstrative formal rules on the dynamics of the effectiveness of institutional frameworks. The importance of forming an effective institutional framework for any country is undeniable. The presence of an effective institutional framework is a prerequisite for ensuring the successful socio-economic development of the country, on the other hand, an ineffective institutional framework can have a wide range of negative consequences, including disparities in regional development. However, the achievement of today's effectiveness of institutional frameworks cannot guarantee the proper socio-economic development of the country in the long term, because the institutional framework of any country is not unchanged, but is in a state of constant transformation due to the need to adapt the current formal rules to the new challenges facing society. Accordingly, the identification of the factors that determine the dynamics of the effectiveness of formal rules is no less important than the identification of the factors of ineffectiveness of formal rules. It is shown that one of these factors is demonstrative formal rules, that is, rules whose target effectiveness was not taken into account from the very beginning, and the only purpose of their implementation was to increase the political ratings of the initiators of their implementation. It has been proven that an effective measure to prevent the spread of demonstrative formal rules can be an increase in the general education of the population. The main advantages of the proposed measure are the low level of transaction costs and the absence of danger of manipulating public sentiment.

Key words: *demonstrative formal rules, manipulation of public sentiments, formal rules, transaction costs, regional development.*

1. Introduction

Today, society is concerned about many pressing problems that require immediate solutions. The presence of public concern shapes the agenda and forces political forces (both pro-government and opposition) to take certain steps aimed at solving the problems

that concern humanity and to implement the appropriate formal rules that should ensure the implementation of these steps. In the end, the success of the measures taken will depend on the effectiveness of these formal rules, because the presence of highly qualified specialists on the relevant problem, modern technologies and adequate amounts of funding will be of little use if the activities to eliminate a certain problem are tightly blocked by ineffective formal rules that involve a lot of complex and inconsistent bureaucratic procedures. Under the pressure from the side of the society, which is concerned about this or that problem, a large number of formal rules are developed and implemented, which are designed to prevent the occurrence of this problem or to fight against its negative consequences.

It is obvious that the old formal rules, no matter how effective they were at the previous stages of the development of society, cannot cope with the challenges of modernity, because they were developed in completely different conditions to solve other problems. Accordingly, a necessary condition for achieving the goals set by society is the implementation of successful systemic institutional reforms, the goal of which should be the introduction of new effective formal rules that meet the modern requirements of society. In other words, society must learn to live in new conditions, and this new life must be properly ordered. However, as practice shows, many of these formal rules are characterized by a certain inconsistency in the fight against the stated problem, which makes the goal of eradicating one of today's pressing problems practically unattainable.

Thus, the success of any institutional reforms depends on how fully the reasons for the ineffectiveness of the previous formal rules were identified and this experience was taken into account when developing their replacement. However, during the implementation of institutional reforms, it is also necessary to take into account the fact that institutional transformations do not end with the completion of reforms, because the institutional framework of any country is in a state of constant transformation. Therefore, identifying the factors that determine the dynamics of the effectiveness of formal rules is no less important than determining the reasons for the ineffectiveness of formal rules.

The further material of the article is structured as follows. A brief analysis of the literature is provided in Section 2. Section 3 is devoted to the issue of research methodology. Section 4 examines the role of the side effects of a democratic form of government in the formation of inconsistency of formal rules. Section 5 examines the reasons for the low level of transaction costs of adopting demonstration format rules. Section 6 discusses possible measures to prevent the spread of demonstrative formal rules. The conclusions are presented in the last section – Section 7.

2. Literature review

The problem of the effectiveness of formal rules has been in the center of attention of researchers from various fields for a long time, which is not surprising, considering the ability of formal rules to influence all spheres of economic and social life (Colombatto, 2003; Hartmann & Spruk, 2021; Kuchař, 2016; Law & Azman-Saini, 2012; Peukert, 2001; Tokumaru, 2020; Wallis, 2015; Williamson, 2009; Yay et al., 2018). So, among other things, the attention of researchers is paid to the relationship between the effectiveness of

formal rules and such phenomena as: trade (Greif, 1993; Milgrom, North & Weingast, 1990), economic performance (Glaeser et al., 2004; Winiecki, 2000), the semi-formal sector (Kamrava, 2004), collective-action problems (Olivier, 2019), securing private property (Williamson & Kerekes, 2011) and others (Desierto & Nye 2011; Park, 2021). However, despite the close attention of researchers, the question of the dynamics of the effectiveness of the institutional framework remains unresolved.

3. Methodology

The purpose of this article is to identify the impact of demonstrative formal rules on the dynamics of the effectiveness of institutional frameworks. To achieve the main goal of the study, the following research questions were formulated: what is the reason for the inconsistency of demonstrative formal rules? How stable are demonstrative formal rules? What measures can be taken to prevent the spread of demonstrative formal rules?

The tools of neo-institutional economic theory were used to identify the reasons for the formation of demonstration formal rules. The need to use the toolkit of neo-institutional economic theory is dictated by the ability of neo-institutional economic theory to expand the use of methods of neo-classical economic theory to research problems that were not previously the subject of economic theory research. Thanks to this, the application of the tools of neo-institutional economic theory allows not only to analyze the consequences of the adoption of ineffective formal rules for the economy and society, but also to identify the reasons for their ineffectiveness and to determine the factors that contributed to their implementation. To analyze the effectiveness of demonstration formal rules and assess their sustainability, the toolkit of the theory of transaction costs was applied.

The presented data can be used to develop measures to increase the target effectiveness of the current formal rules, reduce the risk of forming demonstration formal rules in the future, and ensure positive dynamics of the effectiveness of the current formal rules.

4. The inconsistency of formal rules and the side effects of a democratic form of government

Some formal rules implemented at the initiative of pro-government or opposition political forces, with the aim of preventing or combating this or that actual problem, are characterized by significant inconsistency, in the sense that the corresponding formal rules are often aimed at solving only certain minor aspects of the problem while completely ignoring its key aspects, without solving which the corresponding problem will never be solved.

The reasons for such inconsistencies in solving current problems can be many different factors, such as: lack of experience of the authors of the relevant formal rules in solving this problem; its insufficient research; miscalculations by the authors of formal rules or a purposeful effort to remove the activities of representatives of certain interested groups from the effect of these formal rules.

Any of these factors may cause the implementation of a corresponding formal rule to fail to achieve the set goal, that is, these formal rules will be characterized by a high level of target inefficiency. However, the main reason for the inconsistency in solving any issue is the side effects of the democratic form of government.

First, the reason for inconsistencies in the solution of any issue is that the development and implementation of relevant formal rules is a complex and confusing political process involving representatives of many political forces and interest groups. In many cases, the implementation of this or that formal rule affects the interests of representatives of several interested groups, each of which would seek the implementation of its own version of this formal rule, which corresponds as much as possible to their personal interests. As a result, such formal rules are the result of a series of compromises, concessions and bargaining on the part of representatives of the political forces involved in this process, which has an extremely negative effect on their effectiveness. In fact, compromise formal rules that have been implemented as a result of political struggle may be less effective than any of the alternative formal rules proposed by political forces before the start of the debate.

Second, even in the absence of political opponents, there is no guarantee that the formal rule characterized by the highest level of efficiency will be chosen from among all possible alternative formal rules. This situation is due to the fact that for a representative of any political force holding an elected position, the main priority is to gain the support of the majority of voters for re-election in the next elections. One of the possible means for a politician to increase his popularity is to demonstrate to the electorate that he is concerned about the same problems that concern the majority of society and to demonstrate certain steps that can convince the electorate of the readiness and ability of this politician to solve this problem.

At first glance, it seems that in order to implement such plans, the relevant politician needs to demonstrate real success in the fight against the chosen problem. However, it can have the opposite effect. This is due to the following reasons.

Firstly, in many cases, in order to achieve the set goal, society has to make sacrifices for which it is morally unprepared. Each member of society, even an activist advocating for the use of immediate measures to overcome any actual problem, determines a certain price that he is ready to pay in order to achieve the desired result. If extremely effective but unpopular formal rules are introduced, it can cause discontent in society, which will eventually turn into a loss of voter votes for the politician-initiator of these institutional changes. It is for this reason that politicians try to avoid making unpopular decisions, especially on the eve of elections. For example, one of the causes of environmental pollution is the disposal of completely functional computer and household appliances due to their moral obsolescence. On the one hand, this is facilitated by an aggressive advertising company used by computer and home appliance manufacturers. However, the real reason for this behavior of consumers is their reluctance to give up buying new gadgets for the sake of saving the environment, despite the constant increase in the level of public concern about environmental problems. Therefore, the introduction of formal rules limiting the speed with which consumers replace outdated computer and household appliances can cause outrage not only among ordinary citizens, but also a

significant part of Eco activists. At the same time, society may welcome the introduction of demonstrative formal rules that limit the use of other goods, which cause consumers to be less attached to them. Therefore, in many countries, in order to demonstrate to society their concern for environmental problems, political forces implement demonstrative formal rules that prohibit the use of plastic bags and completely ignore more dangerous sources of environmental pollution.

Secondly, overcoming many of today's pressing problems is impossible without the introduction of formal rules, the norms of which contradict the interests of influential interest groups. However, for politicians, a conflict with influential interest groups is extremely dangerous, because the latter may refuse to support the relevant political force, the initiator of the implementation of the relevant formal rules, or even start a campaign to discredit this political force, which can put an end to the political careers of many representatives of this political force. Therefore, trying to simultaneously avoid conflict with influential interest groups and to gain a reputation, in the eyes of voters, as a fighter with a relevant problem, representatives of political forces may try to introduce certain demonstrative formal rules that are formally aimed at overcoming one of the problems that are in the center of public attention. However, in reality, they are aimed at eliminating the secondary causes of the corresponding problem. Such demonstrative formal rules, despite their inconsistency and, as a result, the inability to achieve the stated goal, have every chance of being implemented, because they correspond to the interests of the political forces that initiated their implementation.

Therefore, the main goal of a politician who, thanks to the demonstration of solidarity with society regarding the need to overcome the most urgent problems of today, is trying to be re-elected for the next term, is to implement such formal rules that are aimed at overcoming the stated problem, but do not affect the interests of any of the influential interested groups, even if for this purpose the least effective of all the available options of the corresponding formal rules must be chosen.

5. Reasons for the target ineffectiveness of demonstrative formal rules and their high stability

Thus, whatever the purpose for which formal rules are introduced, the ineffectiveness of formal rules of any type – target ineffectiveness, transactional ineffectiveness, or ethical ineffectiveness – is either the result of miscalculations made by the initiators of the implementation of the formal rules, as in the case of prohibitionist legislation, or the result of the conscious actions of certain interested groups, which try to create more comfortable conditions for themselves due to the introduction of ineffective formal rules.

However, there is a separate category of formal rules – demonstrative formal rules – whose target effectiveness was not taken into account by the initiators of their implementation from the very beginning. The main reason for the implementation of demonstrative formal rules is not the desire to settle this or that issue or help a particular interested group to achieve a certain goal, but the desire of the political force, which acts as the initiator of the implementation of a certain demonstrative formal rule, to increase its

rating by demonstrating to the voters its concern about actual problems that worry a significant part of society. By taking the initiative to implement this or that demonstrative formal rule, a political force can create a positive image for itself as a fighter with a corresponding problem and increase the number of votes that will be given to this political force in the next elections.

Unconcerned with the ability of the proposed demonstrative formal rules to achieve their stated goal, i.e. their target effectiveness, the initiators of the implementation of the relevant formal rules will still carefully avoid implementing demonstrative formal rules with transactional and ethical ineffectiveness. After all, voters can directly experience the negative consequences of implementing transactionally and ethically ineffective formal rules: the increase in the level of transaction costs of bureaucratic procedures and the inconsistency of formal rules with their moral and ethical views, and punish the initiators of their implementation by giving their votes to other political forces in the next elections. The target ineffectiveness of formal rules is much less noticeable to the average voter, which is facilitated by modern highly specialized education: the voter simply does not have enough knowledge to assess the ability of formal rules to achieve the goal in the field outside his specialization.

The procedure for the implementation of demonstrative formal rules is facilitated by the fact that regardless of which political force proposed the implementation of the corresponding formal rule (be it representatives of the opposition or the ruling party) its political opponents will not create obstacles to the implementation of these formal rules. After all, any demonstrative formal rule is declared as a means of overcoming one of the many problems of modern times that cause concern in society. Under these circumstances, efforts to prevent the implementation of a demonstrative formal rule proposed by political opponents may be negatively perceived by society and result in a loss of voter support.

In addition, the initiators of the implementation of demonstrative formal rules usually do not develop the corresponding formal rules from scratch but copy similar formal rules that have already been implemented in other, preferably more developed, countries. This allows initiators of institutional changes to save on the development of formal rules and minimizes the level of transaction costs of implementing demonstrative formal rules. The development by political opponents of their own alternative formal rules, which may turn out to be potentially more effective, requires significant transaction costs, which, from the point of view of a political force whose only task is to win elections, may be unjustified. Therefore, if a separate political force takes the initiative to implement a certain demonstrative formal rule, then the rest of the political forces, in most cases, either support this initiative or are neutral.

From the side of society, demonstrative formal rules also do not cause any resistance either during their implementation or after their implementation. Because, as was shown earlier, the initiators of the implementation of demonstrative formal rules carefully avoid formal rules with transactional and ethical inefficiency. Accordingly, most demonstrative formal rules are characterized only by targeted inefficiency and do not create immediate inconvenience for most members of society.

It is extremely difficult to reveal to an average member of society the inability of demonstrative formal rules to achieve the declared goal, that is, their targeted ineffectiveness. In most cases, identifying the target ineffectiveness of demonstrative formal rules does not require deep knowledge of the relevant issue (the contradictions and inconsistencies of many demonstrative formal rules lie on the surface), it does require members of society to have a broad worldview, which is a problem in the conditions of the spread of the practice of highly specialized education. As a result, due to the lack of general education of the population and excessive specialization of education, highly qualified engineers are unable to assess the target ineffectiveness of demonstrative formal rules regulating the sale of medicinal products, and an experienced doctor, in turn, is practically unable to determine the real effectiveness of demonstrative formal rules prohibiting the use polyethylene bags. As a result, the average voter, if the problem that concerns him lies outside his professional competence, simply demands from the authorities decisive steps to overcome the respective problem.

Therefore, society actively supports the implementation of most of demonstrative formal rules. After all, in the eyes of society, demonstrative formal rules are not a threat to the effectiveness of the existing institutional framework, but a tool for overcoming one or another problem of today. In addition, if the proposed demonstrative formal rules have already been implemented by other more successful countries, this creates the illusion of their effectiveness and provides additional support from the public.

The factors discussed above determine the low level of transaction costs of implementing demonstrative formal rules, which explains the ease with which the latter can be implemented.

The transaction costs of canceling demonstrative formal rules (provided there is no spread of the practice of manipulating public sentiment around the relevant issue (Abramov, 2018)) will also remain low. This is because once the demonstrative formal rules have been implemented, there is no group left interested in their preservation.

Moreover, even the former initiators of the implementation of demonstrative formal rules will not oppose attempts to cancel previously implemented demonstrative formal rules. Because, the main goal of implementing demonstrative formal rules – increasing popularity among voters – has already been achieved, and for the political force that initiated the implementation of the relevant formal rules, there is no point in making any efforts to preserve them.

The society's reaction to the possible cancellation of demonstrative formal rules will also be quite restrained. After all, although demonstrative formal rules due to the lack of ethical and transactional inefficiency will never encourage society to actively advocate their abolition, but over time, when it becomes obvious that the corresponding demonstrative formal rules did not live up to expectations, society will lose interest in them and will not oppose their abolition. Thus, demonstrative formal rules can be canceled as easily as implemented, that is, demonstrative formal rules will be characterized by the symmetry of the transaction costs of change.

Another characteristic feature of demonstrative formal rules is their high level of stability (Abramov, 2012). Such an unusual combination of inefficiency, symmetry of change costs and high level of stability of demonstrative formal rules is due to the fact that

of all possible types of inefficiency of formal rules, demonstrative formal rules can be characterized exclusively by inefficiency of the target type, neither increasing the level of transaction costs of bureaucratic procedures, nor contradicting moral and ethical views none of the existing interest groups. As a result, demonstrative formal rules do not cause any of the existing groups a persistent desire to cancel them.

As can be seen from the above, the prerequisites for the formation of demonstrative formal rules are:

- absence of powerful interested groups, whose interests are violated as a result of the implementation of a demonstrative formal rule;
- the presence of public concern about a certain problem, which has not reached a level sufficient for the spread of the practice of manipulating public sentiments;
- low level of costs of implementation of demonstrative formal rules;
- lack of proper level of general education of average members of society.

Only if these conditions are met, the political force initiating the implementation of the demonstrative formal rule can expect to increase its popularity among future voters without running the risk of encountering strong opposition from certain interested groups.

6. Measures to prevent the spread of demonstrative formal rules

The indisputable and most obvious negative consequence of the spread of the practice of implementing demonstrative formal rules is the inability to achieve the declared goal, due to a significant level of target inefficiency and, as a result, a decrease in the overall effectiveness of the current institutional framework of the country. Indeed, due to the desire of the political force that initiated their implementation to avoid opposition from the side of influential interest groups, demonstrative formal rules will focus on combating secondary aspects of the problem. As a result, the problem to which the relevant demonstrative formal rules were aimed will remain unsolved.

However, the ability of demonstrative formal rules to negatively affect the long-term dynamics of the effectiveness of the current institutional framework carries a much greater danger for the socio-economic development of society. As noted above, the politician-initiator of the implementation of demonstrative formal rules tries to increase the popularity of his political power by demonstrating certain steps that should convince society of his readiness to fight those problems that are in the center of society's attention. Accordingly, the main goal of demonstrative formal rules is not to overcome this or that problem, but to convince society of this. Thanks to this, a false sense of solving this problem is created in society, which leads to a decrease in the degree of public concern, and therefore to the absence of a request from the side of society to find effective measures to combat the relevant problem. The restoration of public attention to this problem will occur only after a sufficiently long period of time, when it becomes finally clear that the introduced formal rules are ineffective and unable to overcome the relevant problem and need immediate replacement. Thus, the spread of the practice of implementing demonstrative formal rules, creating the illusion of the necessary institutional transformations, becomes the cause of the negative dynamics of the effectiveness of the current formal rules and the slowing down of the pace of reforms.

In view of the above, it is obvious that the key condition contributing to the emergence and spread of demonstrative formal rules is the lack of an adequate level of general education of ordinary members of society. It is precisely because of the lack of general education that ordinary citizens find it very difficult, and sometimes even impossible, to assess the ability of formal rules proposed by politicians to achieve the stated goal. Using this, politicians-initiators of the implementation of this or that formal rule can convince society of its effectiveness, hiding its weaknesses or the existence of more effective, but unacceptable for political force, alternatives. So, for example, it is obvious to everyone that an incandescent bulb consumes much more electricity than an LED lamp, so replacing incandescent bulbs will reduce the amount of electricity used and reduce the CO₂ emissions. However, other examples of electricity wastage are much less obvious and understandable for voters. So, suffice it to say that few people in society can estimate (and even fewer can see a problem with it) the total amount of electricity consumption by mining farms.

In addition to the exploitation of a lack of knowledge to hide certain information by politicians resorting to the introduction of demonstrative formal rules, the presence of a certain bias of average members of society towards certain technologies or industries can be exploited. Thus, in modern society there is a spread of not even a prejudiced attitude towards chemistry, but the formation of real chemophobia: society is hostile to the location of chemical industry enterprises in their regions and tries to avoid using many types of products of this industry. It even reaches the point of absurdity when individual consumers use citric acid in their everyday life without hesitation, but panic when they see the food additive E330 (the same citric acid) on the label among other ingredients. In such cases, an ineffective but aimed at eliminating the most threatening, from the point of view of society, aspect of the problem, a demonstrative formal rule will be favorably accepted by society.

In both considered cases, society cannot adequately assess the true effectiveness of the proposed formal rules, which opens too many opportunities for dishonest politicians to implement various demonstrative formal rules with impunity.

The main factor causing the lack of general education in society is the features of the modern education system. The modern education system pays close attention to ensuring high-quality training of future specialists, which is due to the requirements of the labor market. At the same time, the same labor market requires a reduction in the cost of training specialists, which is achieved by narrowing the training profile and reducing «extra» educational disciplines – that is, those disciplines that are not related to the future professional activity of the future specialist. As a result, we have a society in which the average citizen has little understanding of problems that are not directly related to his profession, even if these problems cause him significant concern.

In these circumstances, voters, evaluating the reform program proposed by a candidate for one of the elected positions, must rely on the limited knowledge at their disposal, or fill in the gaps in their education from other, in many cases, unreliable, questionable sources. In today's world, such sources are mass media or social networks. The main problem in this case is that, in many cases, a journalist or blogger covering a certain topical issue also lacks relevant knowledge in this field. As a result, a dubious

«recipe» for solving this problem may become popular in society, which does not allow success, but does not affect the interests of influential groups, and is attractive to politicians as a basis for a demonstrative formal rule.

Thus, in accordance with the above-mentioned reasons for society's inability to assess the real effectiveness of demonstrative formal rules proposed by politicians, two main measures can be proposed to prevent the emergence and spread of demonstrative formal rules: reforming the education system in order to ensure an adequate level of general education for the majority of society members (Abramov, 2022) and control over the spread of biased and inaccurate information.

As already noted above, the modern highly specialized education system deprives the average member of society of the opportunity, even approximately, to evaluate the level of effectiveness of the proposed formal rules and the expediency of their application. Reforming the education system, with the aim of broadening the worldview of future specialists, will allow the latter to be more critical of easy and painless «recipes» for overcoming current problems and, accordingly, will deprive of support politicians who are trying to achieve what they want through the use of demonstrative formal rules. Thanks to this, the efforts of political forces to increase their popularity in society through the introduction of demonstrative formal rules will have the opposite effect for them. As a result, their motivation to irresponsibly introduce demonstrative formal rules will decrease.

If the lack of general education does not allow society to evaluate the effectiveness of demonstrative formal rules, then the formation of a biased attitude to certain problems thanks to mass media and social networks can significantly simplify the process of introducing demonstrative formal rules for irresponsible political forces. Due to the opinion formed in advance in the society, regarding the «recipes» for overcoming a certain actual problem, political forces do not need to convince the society of the feasibility of introducing the appropriate demonstrative formal rules, because the society itself will insist on the official confirmation of the «recipes» in the formal rules for overcoming the relevant problem. The main danger of applying this measure is the danger of its transformation into an instrument of suppression of freedom of speech and pressure on the opposition media. In view of the mentioned drawback, the application of control over the spread of biased and unreliable information as a measure to prevent the emergence and spread of demonstrative formal rules has limited application and cannot be applied in countries with unstable democracy and weak institutions of civil society.

It should also be noted that the proposed measures can be effective only at the beginning of the practice of implementation of demonstrative formal rules and cannot correct the situation after these formal rules have already been introduced. This is explained by the fact that the proposed methods are characterized by significant inertia, in other words, the time required for their implementation – the time required for training a new generation of specialists with a broad worldview – is much greater than the life cycle of any demonstrative formal rule – the time between implementation of demonstrative formal rule and finding out in practice its inability to achieve the declared goal.

Thus, an effective measure to prevent the spread of demonstrative formal rules can be an increase in the general education of the population. After all, due to its ignorance about the problems that should be regulated by demonstrative formal rules,

society is unable to adequately assess the feasibility of their implementation, which is one of the reasons for the spread of demonstrative formal rules.

7. Conclusions

Thus, we can reach the following conclusions.

First, demonstrative formal rules are implemented with the aim of increasing the popularity of the political force-initiator of their implementation and are characterized by a high level of target inefficiency, the latter is due to the fact that, not being concerned about the ability of demonstrative formal rules to achieve the set goal, the initiators of their implementation try to avoid public dissatisfaction due to an increase in the level transaction costs of bureaucratic procedures or inconsistency of the requirements of demonstrative formal rules with the moral and ethical views of society.

Secondly, the emergence and spread of demonstrative formal rules pose the greatest danger to the dynamics of the effectiveness of existing formal rules and the success of institutional reforms: by creating the illusion of solving one of today's pressing problems, demonstrative formal rules reduce the level of public concern and eliminate the demand for more effective formal rules.

Thirdly, effective prevention of the emergence and spread of the practice of implementing demonstrative formal rules is impossible without eliminating the deficit of general education of society — the main factor that allows the political force-initiator of the implementation of demonstrative formal rules to create the appearance of combating problems that disturb society.

8. References

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