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# INSTITUTIONAL TRAPS IN BUSINESS: THE SUBJECT-OBJECT APPROACH

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## ***Annotation***

*A mechanism of formation of institutional traps in the economic system, which is based on the effect coordination, improving effect, the effect of the combination, the cultural inertia and lobbying is being described. To sum up, it should be noted that institutional trap of businesses found in the dual unity: on one hand it acts as part of the external institutional environment, and therefore economic agent acts as its object; on the other hand – economic agent directly or indirectly may expand the institutional framework for such traps, therefore speaking as its subject.*

**Keywords:** *institut, business, institutional trap, subject-object approach, evasion of tax payments, the mechanism of the corruption trap.*

The development of Ukrainian economy from the early 90s in 19th century had been accompanied by processes that aren't often correlated with the predicted results. Institutional changes often lead to the emergence and spread of unexpected economic events. Institutional trap is one of them. In Ukrainian economy the most popular institutional traps are tax evasion, corruption and the shadow economy.

Today we pay attention to institutional traps, its causes and mechanisms of their appearance, impact on the development of economic systems and ways out of them. In particular, theoretical researches of considerable scientific interest can be found in works by N. Yushchenko, E. Chausovs'ka, V. Lyashenko. In practical terms, the specificity of the manifestation of certain types of institutional pitfalls are discussed in scientific papers by I. Zaitsev, M. Nashkerska, A. Bazyliuk, S. Kovalenko, V. Popovych, A. Vashkiv, I. Mazur, A. Skrypnyk, A. Vdovychenko etc. Among foreign researchers noteworthy works were written by D. North, V. Polterovych A. Olejnikov V. Volchyk M. Skoryeva, E. Brendyelyeva and others.

The mechanism of formation of institutional traps in the economic system is the coordination effect, the effect of improving, the combination effect, the cultural inertia and lobbying. Because of these effects business structures are shown, on the one hand, as an institutional trap and as its object on the other.

Let's try to figure the aforementioned moments considering the classic types of institutional traps. The first and most common institutional trap is tax evasion. Tax evasion can be seen as a conscious illegal actions of payers aimed at tax evasion by understatement information on the income or the value of property subject to taxation, or total concealment [1, p. 587]. One of the main factors of institutional tax evasion is irrational state tax policy. At that tax evasion is more effective behavior in terms of the individual entrepreneur as well as society as a whole. High tax rates and imperfect system of tax enforcement makes business structures evade taxes, because for them it is more beneficial. The spread of this phenomenon among a large number of companies and firms significantly reduces the probability of detection, so - reduces possible losses for each defaulter. This leads to increase in evasion of tax payments. The next step in the chain of distribution of institutional trap is the emergence of an appropriate system of service tax evasion, consultants and developers of tax evasion schemes, «tax pit» fictitious business structures, etc.

The above-mentioned points are mainly related to enterprises, companies and other economic entities in terms of object institutional trap. Business structures as the subject of tax evasion in the formal and informal levels creates and improves institutional framework tax evasion.

Evasion of tax payments is one of the important factors in the emergence and spread to other institutional traps – the shadow economy and corruption. The shadow economy, as E. Feig defined it, is – «economic activity which is for any reason not mentioned in the official statistics and does not fall in gross national product» [op. by: 2, p. 21]. Domestic scientists Bazyliuk A. and S. Kovalenko explain the phenomenon of shadow economy as «the result of an imbalance between the subjects of the state with the creation and distribution of a product that has happened as a result of deregulation and violation of the basis of balance of interests, and due to the

lack or inadequacy of means effective control over the current laws» [3, p. 18]. Thus, the most common factor that gives rise to the shadow economy is excessive state regulation of economic (distribution) relations. In this context, the shadow economy appears not only and not so much the cause as the result of deformations in the formal economy, that is «the result of an imbalance between the subjects of the state with the creation and distribution of the product» [3, p. 18]. « Business People find it easier to be in the» shadow because the «cost of being legal» –subordinating the law is much higher than the «price of being illegal» – violating of the law. Thus, lower or even no transaction costs encourage businessmen to carry out the capitalization of profit in Ukraine through shady mechanisms» [4, p. 81]. This is due to high tax rates and uneven tax burden, lack of transparency and volatility of tax legislation, discrimination of economic activity and the intervention of authorities at all levels in their activities, corruption in government and state governments.

Therefore, we can say that the shadow economy is a kind of «natural» mechanisms of the economic system's adaptation to flawed economic and financial policy, which allows you to correct certain flaws and inappropriateness of the existing model of economic relations. It plays the role of «safety cushion» for businesses and residents. The informal economy adapts to the crisis quickly and for many Ukrainians is the only way to maintain an acceptable standard of living. As for business the retreat into the shadows to reduce costs is a natural reaction to increased tax pressure, the worsening economic situation in the country and the loss of trust in government.

According to the Law of Ukraine «On Combating Corruption» corruption is the «activity that refers to persons authorized to perform state functions, aimed at illegal use of their powers to obtain material goods, services, privileges or other benefits» [5]. As the phenomenon of economic and anti-corruption arising in the implementation of shadow economic relations between officials and other stakeholders (including entrepreneurs) to satisfy personal interests by the commercialization of public goods and values [6, p. 70]. As D. North said in his

thesis: «If the state has the power of coercion, the people that run it will use that power to their advantage at the expense of the rest of society» [7, p. 80].

The mechanism of the corruption trap very similar to the above. Under the conditions of inadequate legislation, poor government policy, high income differentiation corrupt system temporarily may be more cost effective compared to non corruptional. Constantly improving, it takes the hierarchical structure, combined with other institutional traps. Corrupt system, originating outside legal institutions can help to reduce transaction costs in the contractual relationship, provided that government intervention leads to negative externalities. Thus, for example, «expenses caused by delays, breach delay, red tape and slow ruling» can be reduced by means of a bribe as «accelerating operation» [8, p. 476]. This is logical, not only «got gotten gains, but all profits partly by power rather than efficiency» [8, p. 51]. In this context, the company serves as the object of corruption. The value for the power of the company is becoming more significant – power «often affects the level of profits powerful than cheap labor, new technology or rational economic calculation. Business organizations in all matters – from the battles for budget assignation to the formation of the bureaucratic hierarchy – are increasingly guided by the imperatives of power. The rapid multiplication of conflicts around the promotion of products and services around recruitment, relocation of factories, introduction of new machinery or products around transfer pricing requirements, reporting, cost accounting and determination of financial reporting standards» [8, p. 52] – all this is not a complete list of those aspects when deciding which through corruption schemes the company presents itself as the subject of corruption. Ultimately, this situation provides even greater stability to the corrupt system, and then – the deterioration of the institutional balance.

Summing up, it should be noted that institutional trap of businesses found in the dual unity: on one hand it acts as part of the external institutional environment, and therefore economic agent acts as its object; on the other hand – economic agent directly or indirectly may expand the institutional framework for such traps, therefore speaking as its subject.

## Lituratione

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