

Ukraine's Socioeconomic Development in the Environment of Contemporary Global Threats*

MICHAŁ G. WOŹNIAK¹

ABSTRACT. Currently, economic entities' patterns of thinking and acting are affected by a new type of competition which seeks synergy effects in the combined use of various innovations. The functioning of this mechanism is facilitated by global liberalization and the universal character of IT and telecommunication technologies. In this context, attention should be given to the issue of the dominating interests of transnational corporations, as well as the threat of the chaotic, disproportional, enclave-based and unstable development which excludes entire social groups from participation in modernisation processes. These threats are faced, in a specific and unique manner, by Ukraine. The author's reasoning is based on the assumption that the original drivers of development are derived from multi-level human existence marked by the dual rational and emotional and cognitively, informationally and emotionally restrained psyche. This assumption is a basis for developing an 8-sphere analytical model for socioeconomic development processes. The model enables the author to identify the main causes and indications of global development threats. In this context, the paper aims to identify the values, which condition the development of an information society based on global liberalisation, and the drivers of this process and possible threats – especially those having an impact on the future of Ukraine. The paper analyses Ukraine's internal development threats, especially endogenic and structural factors. In the concluding remarks, the author proposes several solutions aimed to ensure Ukraine's sustainable development.

KEYWORDS. Integrated development, holistic modernization of human capital, global threats, endogenic and structural factors of economic development.

Introduction

In my research approach I seek the original drivers of development in the multi-level human existence marked by the dual rational and emotional, cognitively, informationally and emotionally restrained psyche. This assumption leads to the conclusion that development results from the activities of social actors, determined by specific values and norms. Sustainable development would not be possible without an axiology which respects self-responsibility, intra- and inter-generation equity, economic feasibility and justified social inequalities. However, the scope of development is limited and changed (not inevitably) by an ecosystem as a result of new technologies. The nature of development and its trends are driven by dominating economic and social groups.

Currently, economic entities' patterns of thinking and acting are affected by a new type of competition which seeks synergy effects in the

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¹ **Michał G. Woźniak** – PhD, Head of the Applied Economics Department, Krakow University of Economics, Poland. Sphere of scientific interest: economic growth, social inequality, economic and social integration, human capital, integration development. E-mail: wozniakg@uek.krakow.pl.

combined use of various innovations². The functioning of this mechanism is facilitated by global liberalization and the universal character of IT and telecommunication technologies. In this context, attention should be given to the issue of the dominating interests of transnational corporations, as well as the threat of the chaotic, disproportional, enclave-based and unstable development which excludes entire social groups from participation in modernisation processes. These threats are faced, in a specific and unique manner, by Ukraine.

My paper aims to identify the values which condition the development of an information society based on global liberalisation, and the drivers of this process and possible threats— especially those having an impact on the future of Ukraine. In this context, I also refer to Ukraine's endogenic and structural development threats. In my concluding remarks I offer some suggestions concerning the measures to be taken by Ukraine to embark on the policy of sustainable development.

The Significance of Value for Socioeconomic Development

Economic rationality is a moral virtue because its objective is the efficient management of resources. Markets, however, resort to hedonistic values. They are hidden in mainstream economics in the paradigm of the one-sidedly blinded ideology of *homo economicus*, reducing human beings to one purpose – maximising their own market-measured benefits. It does not prevent the advocates of mainstream economics from promoting the idea of unbiased scientific research. This thesis causes much controversy. Hedonistic values do not fully describe development targets, being changeable and vulnerable to marketing manipulation. Moreover, they encourage separation of freedom from responsibility, lay emphasis on maximising consumption, profit and corporate value to the detriment of stable and sustainable development. They represent the attitudes of human beings in accordance with the principles of a perfect market – not from the point of view of what humans are like.

Also, it should be noted that in practical life people seldom develop systematised hierarchies of values. Moral relativism tends to prevail in postmodernist societies. The maximising of current business, political and mediocratic interests is encouraged by the culture of common people³, facilitating the exploitation of the emotional sphere of human psyche. Such social conditions encourage ignoring the knowledge of the

² Porter, M. E. *The Competitive Advantage of Nations*. New York: Free Press, 1990

³ Legutko R. *Triumf człowieka pospolitego*. Warszawa: Zysk i S-ka, 2012

systems of values and their functions, questioning the integration and objectives of development processes in their intra-sphere context.

This type of knowledge is also marginalised in economic research based on individualistic methodologies, allegedly defending the unbiased character of studies and the effectiveness of a scientific critique. However, if questions pertaining to values, their systems, hierarchy and functions facilitate a better understanding of human psyche and motivation, they cannot be disregarded in the process of seeking the sources and manners of integrating development processes.

Humans are multi-dimensional beings; they are institutionally enrooted⁴, and act with limited rationality^{5,6} in pursuit of the general objectives of integrated development. The rationality of activities carried out by individuals is ultimately determined by their genetic inclinations, experience, valuations and convictions, the flow of information, analytical procedures and actions. Nevertheless, people do not tend to carry out integrated analyses of their decisions and behaviours. Human capital is built on the basis of mechanistic rules of thinking, methodological individualism, and fragmented mono-disciplinary knowledge created in this way for at least as long as since the time of the Cartesian Revolution.

This type of knowledge cannot be a basis for analysing the functionality of decisions from the perspective of the characteristics of goals inherent in all areas of human activity. The achievement of this purpose requires holistic, interdisciplinary and prospective thinking which respects social responsibility and differentiates between means and ends in any given spacetime. This type of thinking leads way to reducing cognitive, emotional and information limitations. This process is also supported by the knowledge of universal systems of values which ensure legal order and an orderly manner of making decisions. A coherent system of values is also the basis of legal and moral judgements, which are inseparable from human life. The universal systems of values enable people to focus on specific values, ensuring the transparency of decisions and facilitating the decision-making act. Therefore, if the hierarchy of values is to determine people's will, activities and their trends, it is advisable that individuals engage in self-reflection and self-development exercise, and set ambitious long-term goals, subordinating their activities to long-standing principles.

I postulate a concept of integrated development in which the common good is based on an individual's existential and spiritual wellbeing and the achievement of full self-realization which manifest themselves in

⁴ Morawski W. *Socjologia ekonomiczna*. Warszawa: Wydawnictwo Naukowe PWN, 2001, pp. 34-37.

⁵ March J., G., Simon H.A. *Organizations*. New York: Woley, 1958

⁶ Thaler R. "From Homo Economicus to Homo Sapiens." *Journal of Economic Perspectives*, 1 (2000).

creating conditions for harmonising development targets based on values pertaining to all aspects of human life, the values that are interlinked and must be respected because of inter-sphere consequences (Fig. 1a). However, individual creativity does not respect links between the spheres of existence (Fig. 1b). Integrated development must be based on the principles of holistic and interdisciplinary thinking, as well as respect for the entire complexity of criteria used in decision-making processes.

I define integrated development as a harmonised increase in the quality of a purposeful life in all the eight spheres of human existence. It is sometimes defined as social and economic cohesion. The EU's integration of development processes is implemented at a community and transnational level, being reduced to social, economic and ecological dimensions within the framework of a social market economy. On the other hand, development based on spontaneous order or free market mechanisms with minimal state interference cannot be, by its very nature, harmonised. It is implemented through competition and spontaneous destruction and selection. Similarly, development based on the global liberalisation of all markets cannot be integrated.

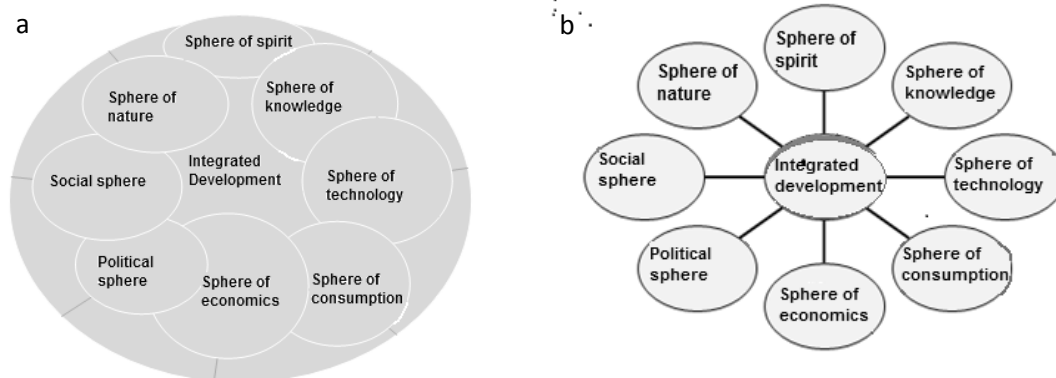


Fig. 1. Holistic (a) and Individualist (b) Understanding of Development

Source: own

It is based on fragmented knowledge, which, in turn, relies on sciences based on methodological individualism – an epistemological attitude which assumes the existence of only individual forms of being. Economic effectiveness is pursued by individuals exclusively concerned with their personal gains. The nature of a fully rational human is promoted by neoclassical economics. In its vision of a perfect market

humans have the nature of “homo oeconomicus”, and act in accordance with rational economic principles because they are well informed and capable of making choices from the perspective of alternative costs. They have the ability to maximise the function of purpose (assuming a specific level of outlays), or minimise outlays to achieve a given objective. Such principles of thinking and acting are spontaneous in character, resulting from activities carried out by individuals who do not intend to create complex structures, but who act in accordance with clearly defined agreements.

Macroeconomic processes are the unintentional effects of an infinite number of endeavours made by economic entities in pursuit of their individual interests. Scientists find it difficult to translate all individual choices to one general social goal. It is assumed, therefore, that the explanation of group (social) behaviour must rely on individual behaviours – the derivatives of group behaviour. In an individualistic approach social groups cannot rely on “being” or reality which is independent of the actions of their particular members⁷. This reasoning leads to marginalising the role of coordination and supervision, and reflects the concept of a minimal state and related policies promoted by the International Monetary Fund with regard to improvement programmes as part of the shift of CEE countries towards a free market economy.

Individualism is the foundation of fragmented sciences and knowledge, subordinating human choices to egoism and hedonistic values. It encourages adopting a mechanistic approach to processes and research studies isolated from the environment of objects as if they were independent of external conditions. Economics based on individualism leads to the approval of a free choice based on economic viability and private ownership, disregarding inter-sphere interactions and non-market coordination activities. The particular spheres of human activity are viewed as being isolated from the characteristics of their environment – they *do* perform specific functions, but these functions should be subordinated to economic criteria to ensure the unified rationalisation of human choices, and to attribute the characteristics of the “econ” to all participants of social processes⁸.

The “econ” possesses necessary knowledge to act for the sake of achieving objectives isolated from the characteristics of their environment. The dominating factor is a logic of reasons subjected to economic criteria inherent in the sphere of human existence. However, the concept disregards a logic resulting from selection criteria related to other human activities. In fact, it rejects such criteria, replacing them

⁷ Ludwig Von Mises. *Human Action: A Treatise on Economics*. Auburn, Alabama: Ludwig von Mises Institute, 1998, p. 42.

⁸ Kahneman D., *Thinking, Fast and Slow*. New York: Farrar Straus and Giroux, 2011.

with economic rationality. This indication of economic imperialism releases freedom from intra- and inter-generation responsibility, disregarding the transcendental dimension of responsibility (to God and values personalised by God). This logic of choice aims to maximise pleasure derived from material benefits in an individual's life horizon. The obvious consequence of this type of axiology is the focus of an economic system and social and political governance on competition (democracy) and, consequently, on the destruction and selection of less efficient economic solutions, and in a macroeconomic dimension – on an increase in GDP per capita and macrostabilisation. The achievement of these goals is supported by tools, mechanisms and procedures based on behavioural institutions which encourage hyper consumerism⁹ and living on borrowed time¹⁰.

The ideology of moral relativism becomes a useful tool for manipulating human emotionality. It promotes the world of axiological buzz and a peculiar speculation on values, creating favourable conditions for business, political and mediocratic marketingspectacles, and for minimising social policies and transforming society and particular spheres of human existence into common grazing grounds for business, political and mediocratic gains.

The combination of methodological individualism and the affirmation of hedonistic values has led contemporary capitalism to a new type of competition which manifests itself in seeking synergy effects resulting from the combined use of various innovations (in the area of technology, products, management, marketing, finance, institutional activities, etc.). Innovativeness is autotelic in character – not a means to harmonising the development goals of all the spheres of human existence. As a result of the dissemination of IT and telecommunication technologies, people live in the world of technotronic culture and the clash of civilizations. Therefore, development must be chaotic, disproportional and unstable, excluding those who do not keep pace with the pressure of changes and the diversity and complexity of various phenomena and processes.

The Disintegration of Development Processes in the Context of the Characteristics and Effects of Contemporary Modernisation

The disintegration of development processes does not solely result from the accumulation of errors related to the distribution and

⁹ Barber B., R., *Consumed. How Markets Corrupt Children, Infantilize Adults, and Swallow Citizens Whole*. New York: W. W. Norton, 2007.

¹⁰ Bauman Z., *Żyjąc w czasie pożyczonym. Rozmowy z Citlali Rovinosa-Madrazo*. Warszawa: Wydawnictwo Literackie, 2010

allocation of market mechanisms (a view held by the advocates of Keynesian interventionism). Cautious intervention policies – according to Keynesian principles – cannot be implemented in an incoherent institutional governance system which does not provide protection against an overregulated economy and development barriers resulting from government failures. In fact, it was a long-term effect of Keynesian interventionism after World War II. It led to the rebirth of *laissez-faire* concepts of development through globalised liberalisation, which do not recognise state development-oriented activities. Changes in institutional governance, inconsistent with the requirements of integrated development and focused on the elimination of government failures through reducing distribution functions as a result of deregulation, liberalization and macroeconomic policies based on the Washington Consensus¹¹ – which ignores state development-oriented policies – and focused on standard macroeconomic stabilisation programmes without respecting the character of time-space coincidence and historical context, hinder contemporary development processes and increase global threats to intra- and inter-sphere development.

Ukraine is a unique case of the combined impact of both government and market failures. The inconsistent process of implementing a market economy and related political reforms has led to establishing a state-controlled capitalist oligarchy which prevents the rule of law, the efficient state oversight of development-oriented undertakings, the proper functioning of a democratic system and local governments, and the implementation of civic society principles. In Poland, the effects of mismanaged development processes are reflected in the political sphere's failure to keep pace with market economy advancements and the resulting paradoxes related to the development of educational, health care and pension systems, as well as certain deficiencies in the functioning of the system based on the rule of law.

Globalised liberalization, along with the relevant logic of politics, lead to numerous benefits. However, for a number of reasons they contradict the concept of integrated development. It is reflected in the above mentioned combined impact of global threats and, in the first place, in the characteristics and consequences of contemporary institutional modernisation.

In the most general sense, they include the following issues:

- The internationalization of the neoliberal standards of deregulation and economic liberalisation, which prevails over liberalisation in the area of politics, worldviews and habits. Minimised state interference is accompanied by a number of state prerogatives being taken over by

¹¹ Williamson J. "What Washington Means by Policy Reform." In *Latin American Adjustment: How Much Has Happened?*, edited by J. Williamson. Washington: Institute for International Economics, 1990

transnational organizations, and subordinating government macroeconomic policies to the interests of transnational corporations.

- Institutionalisation which deprives consumers of the freedom of decision for the purpose of shifting their preferences towards hyper consumerism.

- Focus on individualistic creativity through a new type of competition (seeking synergy effects resulting from broadly understood innovations in the area of products, technologies, management, marketing, finance, etc.), finding sources of competitive advantage, eliminating social responsibility within and between generations, eradicating cultural heritage.

- Shocking modernization leading to excessive stress in large social groups, uncertainty, instability, unsustainable economies in terms of real and institutional processes (great transformation, future shocks, clashes of civilizations¹², and permanentreinstitutionalization to the detriment of entrepreneurship).

- Exclusion from modernization processes: social groups fostering traditional values, unemployed people, large families, states excluded from regulatory functions, morality based on decision-making processes.

- Focus on the microeconomic endogenous factors of modernization, stimulated in a bottom-up process by *homo oeconomicus creativus*.

- Ignoring the need for modernising the political sphere, democratic procedures, and the macroeconomic tools of demand and social policies.

- Creating the society of the spectacle¹³ and people who do not follow moral standards for the purpose of exploiting human psychology and animal spirits¹⁴.

The modernization process, determined by contemporary globalization, results from the rapid acceleration and dissemination of destruction and selection¹⁵, which has an impact on all spheres of human existence. The great dynamics of these processes leads to splits between thinking, behaviour, motivation as well as verbal and emotional expression. It results in the disintegration of development and functioning of people in the environment whose changeability and instability make it impossible to understand these processes.

The analysis is based on the eight separate spheres of human existence, but it should be remembered that the following factors constitute the basis of postindustrial development:

¹² Huntington S., P., *The Clash of Civilizations and the Remaking of World Order*. London: Simon & Schuster, 1996

¹³ Debord G., *La Société du spectacle*, Première édition. Paris: Buchet-Chastel Editeur, 1967

¹⁴ Akerlof G., A., Shiller R.J. *Animal Spirits. How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. New Jersey: Princeton University Press, 2009

¹⁵ Schumpeter J. *Theorie der Wirtschaftlichen Entwicklung*. Berlin 1952; Kozłowska A., *Ewolucja struktur gospodarczych w świetle Schumpeterowskiej koncepcji kreatywnej destrukcji*. Poznań: Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, 2010

– The utilitarian system of values and moral relativism, releasing human emotionality from the straightjacket of the hierarchy of values, giving approval to psycho-social manipulation for personal gains (business, political and mediocratic marketing spectacles).

– Developing integrated development programmes on the basis of the human capital of "econs", the interests of transnational corporations, and economic and social networks^{16,17}.

– The perception of natural and biological resources as "common grazing grounds" – the problem of the scarcity of resources is to be solved by future technological revolutions.

– Economic entities' focus on economic viability, innovativeness and hyper consumerism, and the state's orientation on macro stabilization in accordance with neoliberal standards, minimising the role of social policies, and increased GDP rates.

The main trends of contemporary development determine local modernisation processes. The pressure of such trends is inevitable – all national economies, depending on their economic advancement and the scope of international economic cooperation, are affected by the new type of competition. Also, deregulated and liberalised national economies are pressured by global financial markets and financial innovations which encourage gambling behaviour, or even resort to psychological manipulation methods. The finansisation of an economy encourages business entities to outsource real processes to less developed countries, resulting in the division of the world into the exporters of material goods and the importers of financial services.

The contemporary world, unlike in its past history, is a perfect example of communicating vessels. The modernization of any economy is strongly correlated with the global economy, especially in the context of progressing integration processes and strengthened international business cooperation. We are all doomed to bear the effects of the resulting correlations. Globalised liberalisation is irreversible, while the world's financial deal is a long process, and it is not certain whether it can cope with the problems of the past.

In theory, development through globalised liberalisation should strengthen the position of countries which supply new technologies. Instead, it results in the declining curve of average increases in GDP (Fig. 2).

A relative decline in labour productivity is a fact – it is the effect of the exhaustion of human capital growth potential as a result of very high percentage-of-student rates as well as the aging of societies in countries supplying new technologies. Although this problem is

¹⁶ Barney D. *The Network Society*. Cambridge: Polity Press, 2004

¹⁷ Kelly K., *New Rules for New Economy. 10 Radical Strategies for A Connected World*. New York: Penguin Group, 1998.

temporarily solved by brain drain from developing countries, the probability of the return of a 1% increase in GDP in TFA countries in the coming decades is very high without considerable improvements in the quality of human capital. The observed trend of declining economic growth rates is likely to be accompanied by the risk of catching-up countries being caught in the trap of average growth rates.

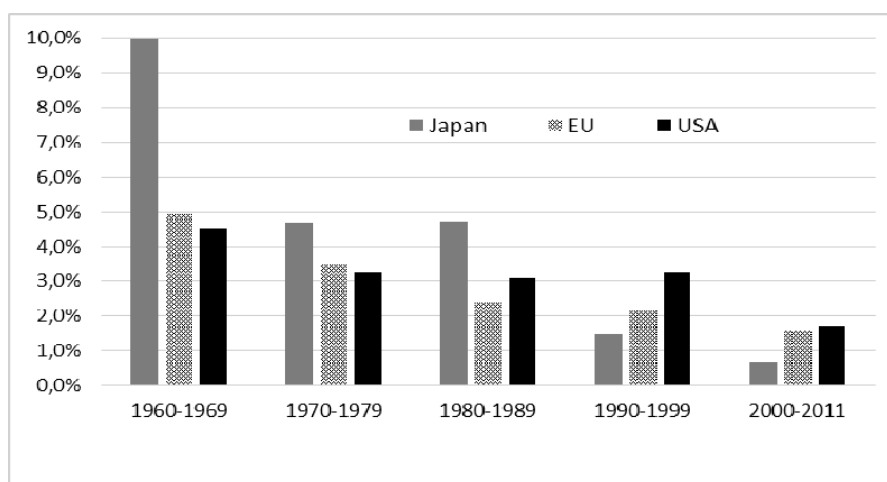


Fig. 2. The Declining Curve of Average Annual Increase in GDP in Technology Frontier Area Countries

Source: Foster B.J., McChesney, 2014

This group of countries is doomed to imitation-based growth because of their failure to adjust human capital structures to production capacity structures, as well as the deficiencies in human capital resulting from the following factors: emigration for economic reasons, brain drain, lack of state-supported innovation undertakings, and the flexibility of labour markets – the alienation of employees without long-term agreements, and the precarisation of the workforce¹⁸. The low significance of innovation policies in developing nations is enforced by low GDP per capita levels as compared with TFA countries, as well as by deregulation policies, which provide opportunities for the inflow of foreign direct investment and technology transfers (obsolete rather than original solutions).

The declining long-term GDP per capita curve will also result from global generation-population incompatibilities (Fig. 3). According to UN demographic forecasts, the problem of aging societies is faced by Europe, North America and Northeast Asia – the major suppliers of new

¹⁸ Standing G. *The Precariat: The New Dangerous Class*. London and New York: Bloomsbury Academic, 2011

technologies. Approximately, 9 out of 10 children below the age of 15 live in developing countries. These countries will record the world's highest birth rates. The young populations of Africa, Latin America, the Middle East and Southeast Asia will not bridge this gap due to internal structural barriers. Ukraine, on the other hand, is likely to continue the trend of population loss and a considerable decline in its human capital. According to long-term forecasts, Ukraine's population may drop to 26.4 million by 2050 (in 1992 – 52.2 million¹⁹).

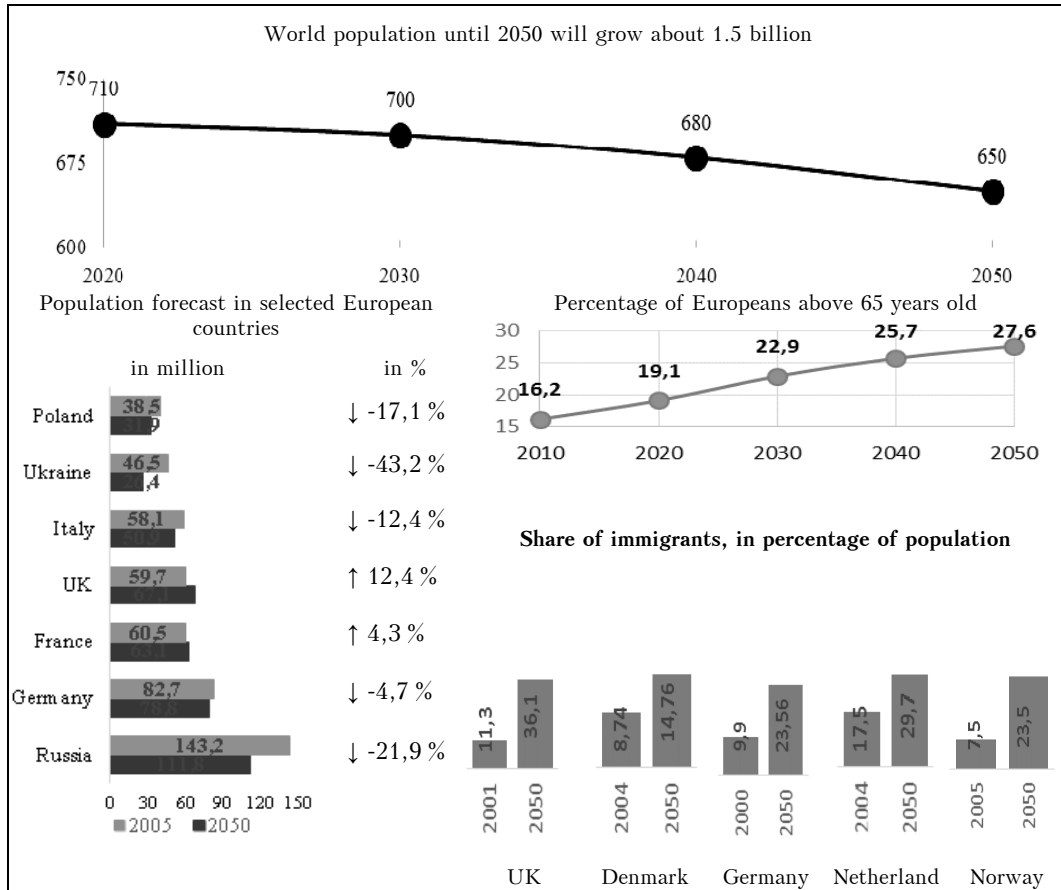


Fig. 3. Generational and Population Incompatibility in Europe

Source: European Commission

¹⁹In this period the world's population is expected to rise by approx. 80 million p.a. and reach the level of 9 billion, while in Poland it is likely to drop to 31.9 million).

Growth rates can also be adversely affected by wealth inequalities – similar to those recorded in the 19th century – and still observed in the contemporary world since the 1970s²⁰. These trends, however, vary considerably in the group of the most industrialised nations (Fig. 4).

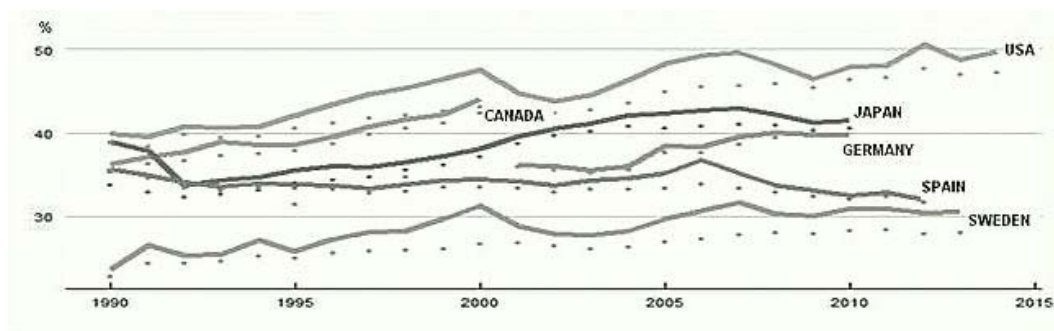


Fig. 4. Share in 10% of the Wealthiest Excluding Capital Income (points) and Including Capital Income (lines)

Source: author's own research based on WTID (The World Top Incomes Database).

Currently, a mere 1% of adults own 40% of world assets, and 2% of them – 50% of world wealth²¹. In 1976-2006, the average compensation of CEOs in the United States increased 10-fold (surpassing average levels by 300-400 times). Simultaneously, employee compensation levels rose by 13%, and the share of 0.1% of the wealthiest population in the national income increased from 3.5% to 11.6%²². If these inequality trends continue, the world's economy will face the problem of the progressing precarisation of the labour force, the exclusion of large social groups from modernisation processes, the increased risk of starvation and poverty, and serious political conflicts.

The Endogenous and Structural Threats to the Development of Ukraine

The course of real processes in the entire period of transforming Ukraine into a market economy points to the syndrome of a negative impact of endogenous and structural factors on the country's economic growth. The combined effect of adverse factors has deprived Ukraine's

²⁰ Piketty T. *Capital in the Twenty-First Century*. Cambridge, Massachusetts: Harvard University Press, 2014

²¹ Davies J.B., Sandström S., Shorrocks A., Wolff E. N. "The World Distribution of Household Wealth." In *Personal Wealth from a Global Perspective*, edited by J. D. Davies. Oxford: Oxford University Press, 2008, p. 402

²² Mishel L., Bernstein J., and Shierholtz H. *The State of Working of America*. Washington DC: Economic Policy Institute, No. 9., 2009

economy of its ability to narrow development gaps – the problem faced by this country for the past quarter century, i.e. the life cycle of one generation. The effects are as follows:

- the loss of demographic potential in 1993-2015 by approx. 9,315 thousand inhabitants, accounting for 17.8% of the entire population, including 600 thousand refugees and 1,230 thousand internal migrants²³.
- a rapid increase in mortality rates (3.8 million additional deaths in 1993–2012 – if life expectancy rates for 1980-1990 were maintained),
- increased unemployment rates (from 7.3% to 9.3% in 2013–2015).

Ukraine's inability to narrow development gaps is confirmed by a synthetic economic indicator – its GDP per capita in 1990 stood at the level of USD 5,859 USD (in PPS), being comparable with Polish levels (USD 5,967). However, 24 years later it rose to a mere USD 8,247, while in Poland it tripled (up to USD 22,162.19)²⁴. In 2014, Ukraine's GDP per capita accounted for a mere 61% of its 1990 level²⁵. As a result of this trend, as well as Ukraine's high and rising inflation rates, the country faces the problem of impoverishment and a decrease in domestic demand. Foreign demand cannot act as a development driver due to the country's obsolete structure of manufacturing systems. Ukraine's exports rely strongly on world prices. Consequently, even such factors as the establishment of a free trade zone, Ukraine's association agreement with the EU, and its unilateral decision to remove customs duties on Ukrainian goods cannot act as development drivers in the global post-crisis economy.

As a result of the above described conditions, GDP per capita in Ukraine is very low (Fig. 5), accounting for merely 22% of average EU levels (2013), and slightly more than 30% of Poland's respective level. Such great differences in Ukraine's labour productivity, as compared with other European nations, do not raise any optimistic expectations as to the possible role of this country's export as a driver of economic growth. The same is true of foreign direct investment and the import of technology due to the following factors:

- the unsettled question of restructuring foreign debt (USD 15bn) – Ukraine's economy does not have the potential to service external debt,
- the total public debt accounting for 95% of GDP (USD 61bn),
- lack of significant FX reserves (USD 6.4bn as compared with USD 100bn in Poland).

²³ United Nations, 2015, *World Population Prospects The 2015 Revision Key Findings and Advance Tables*, New York, <http://esa.un.org/unpd/wpp/>, [access data: 20/04/2015].

²⁴ World Bank, <http://databank.worldbank.org/data/>, [access data: 10/20/2015].

²⁵ Nigmatulin B. *Ukraine. The price of independence*. Lessons for Russian Accessed March 29, 2015 <http://www.forum-ekonomiczne.pl/wp-content/uploads/2014/04/31> [in Ukrainian].

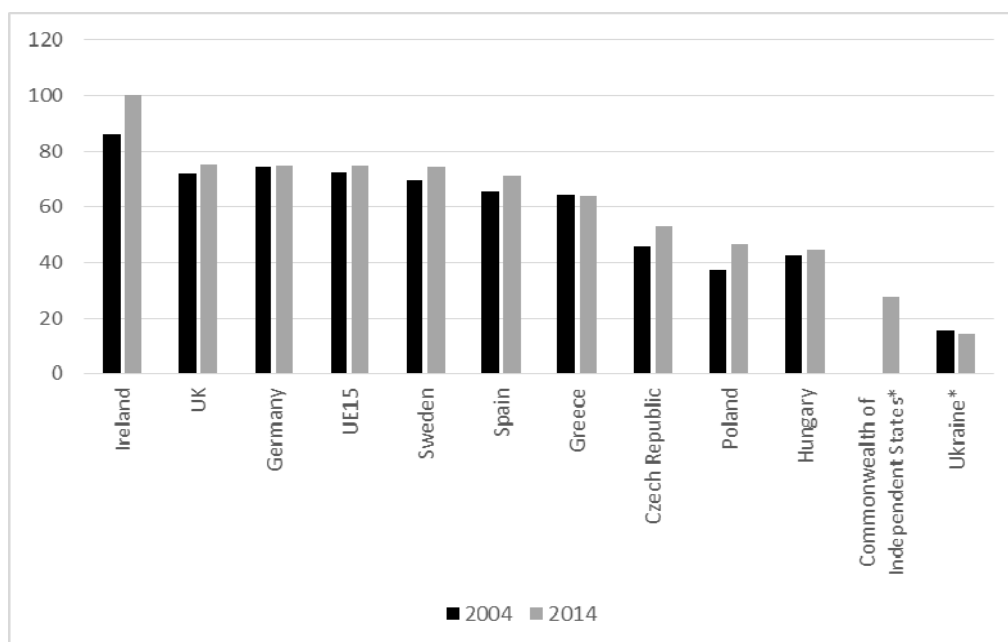


Fig. 5. Labour Productivity (GDP PPP per one employee) in Selected East European Countries, 2013 and 2014²⁶

Source: Authors' calculations based on data from UNECE [<http://w3.unece.org>]

Some other factors which have a negative impact on economic growth include the following:

- Low innovativeness measured by the global innovativeness index – in 2014, Ukraine comes in 71st place among 143 countries (based on 81 criteria), while Poland is placed in 45th position.

- A low position in the global competitiveness index – in 2007–2014, Ukraine is ranked between 89th and 72nd position, falling by 11 positions (Poland is placed between 53rd and 39th position with a positive outlook).

- 2015 doing business rankings place Ukraine in 85th position among 189 nations (Poland ranks high in 25th place).

- Ukraine takes the lowest places in the 2015 Index of Economic Freedom, the Heritage Foundation, "The Wall Street Journal", as well as the 2014 *Transparency International* corruption perception index. In the former index it ranks 162nd among 178 countries (Poland ranks

²⁶ For the CIS and Ukraine included the latest available data (2013.); for the CIS do not see the value in 2004. due to the lack of complete data for calculations *Źródło: obliczenia własne autorów na*

42nd), while in the latter – 142nd among 175 countries (Poland takes 31st place).

Ukraine's "development trap" results from a number of exogenic and endogenic factors, especially those created by an oligarchy financed by the state-controlled capitalism, steered by a small group of influential people. The development of this system was supported by the legislation of *perestroika*. It led to dividing huge soviet plants, introducing market management principles, followed by the process in which parts of these plants were taken over by new owners. As a result, state-owned property was transferred to educated mid and senior managers originating from the communist nomenclature. The vague principles of the slow process of privatization strengthened the position of business magnates. They took advantage of the weaknesses of post-communist administration to execute (for huge fees) orders commissioned by the oligarchs of state-run institutions (winning huge contracts, participation in the media and banks, establishing political parties, sharing profits of energy sectors, or taking over administrative functions: employee social schemes, establishing police force and paramilitary units). All this led to the rebirth of the tradition of gentry families, which operated as private states for more than 200 years until the Bolshevik Revolution.

Is There Light at the End of the Tunnel?

It is extremely difficult to offer an answer to this question, considering Ukraine's current conditions and future challenges. Respectable scientists and experienced politicians also raise doubts about the country's future. It is commonly believed, however, that an oligarchy-steered reasonable package and the rule of law are required to counteract the problem of corruption. In my opinion, a rational solution could be based on reaching a certain consensus – a consistently implemented process of transforming oligarchic structures into economic networks in return for their non-interference in state policies, and state policies aimed to create favourable political and social conditions for establishing innovation networks. The expectations that the development of an oligarchy can be hindered, and that the group of the wealthiest will "break their neck" without making any economic concessions are not justified – dreams will not come true. It is necessary to identify social and political groups which could enforce new legislation on competitive bidding procedures and effectively promote the development of the SME sector. If SMEs were guaranteed business freedoms, they could compete with oligarchy-controlled companies. It could mark the beginning of social change in Ukraine and stimulate the growth of middle classes by establishing new businesses, especially those

focused on transborder trade with EU-related partners. It would also be advisable to consider land privatization programmes and hold social debates on tax reforms, including the introduction of property and financial transaction taxes. However, the implementation of such programmes requires patience. Ukraine's society must be ready to make consistent and well-directed endeavours for a period of some 30 years, aimed to transform their homeland into an economically stable European nation. It has a 20-million population of fairly well educated people. Most of them would like their country to be part of Europe, which indicates that Ukrainians have the potential to develop their social capital based on market values. Ukraine's other strengths include its land area (almost as large as the combined area of Germany and Poland), Europe's most fertile arable land, access to warm water ports, long coastlines, and rich natural resources.

Ukraine's economic recovery is conditioned by peaceful relations with its neighbouring countries, especially by following the examples of nations which have successfully implemented reform programmes. A good example is Poland, which, in pursuit of its own national interests, can act as the best advocate of effective economic and political reforms in Ukraine, sharing its good experience.

Another challenge faced by the Ukrainian economy is the modernization of human capital for the needs of a knowledge based and innovative economy focused on integrated development. Imitating the patterns of a neoliberal innovation-driven economy, or the Europocentric economic model based on knowledge and "triple bottom line" sustainability, are not the right directions to be followed by a country affected by brain drain and characterized by limited population resources and underdeveloped economic structures.

Building an economy based on integrated development must be supported by various institutions. It should be remembered that a coherent institutional system should provide sufficient economic freedom to integrate the development of the particular spheres of human existence, especially in the areas of self-responsibility, commitment to act, innovativeness, entrepreneurship, and cooperation in solving common problems. All legal standards, decision-making procedures and economic instruments should be tested from the perspective of their functionality in developing various spheres of human existence and their impact on synergy effects and their distribution. Therefore, it must be ensured that changes serve the following purposes:

1. In the axiological sphere—a dynamic balance of economic, ethical, spiritual and emotional values, enrooted in the structured hierarchy of universal values. The social sphere is hindered in its moral development if people operate in a cultural and historical environment which offers

economic, political or image-related benefits to those who effectively manipulate human emotionality, or who have the ability to benefit from rent-seeking behaviour. Integrity is no longer a civilizational standard, and honest people are often viewed as naive losers. The rebuilding of civilizational standards requires a revision of the functionality of universal spiritual values in the new environment of a post-industrial economy, a new type of competition, and the network structures of economic and political markets and postmodern society. The knowledge of the functions of structured systems of spiritual values in achieving individual and collective development goals raises the hope that cooperation is beneficial, and that people are able to control their emotions and avoid manipulation and exploitation of their individual development potential for the benefit of others. This knowledge can also encourage people to adopt a constructive approach to modernization processes – a tool for counteracting the syndrome of instilled helplessness – and to actively engage in these processes.

2. With regard to economic issues – the effects of changes should be diagnosed in the context of the complex criteria for assessing an economic system, that is such factors as the patterns of economic effectiveness, economic growth, macroeconomic equilibrium and stability, acceptable social and economic inequality, innovativeness, and achieving social and economic coherence and market efficiency²⁷. Within the framework of integrated multidimensional management in network structures it is easier to respect the logic of co-management and the subjectivity of network stakeholders, regardless of their respective functions within these structures.

3. In the political sphere—reducing the domination of political elites and their manipulation of human emotions by means of populist slogans targeting specific social groups in favour of good governance, laws approved by a civic society, cooperation, partnership and a rational state – not a minimal welfare state. In the contemporary political arena a key role in achieving political success is not played by a coherent programme for social and economic development, which defines a long-term integrated development strategy, its realistic goals and implementation methods, but by political marketing aimed to manipulate human emotions and attract new niche populist groups. This type of political marketing gains its own autonomy, enforcing the adjustment of politics to the needs of local political groups. This mechanism undermines the rationality of implementing integrated development programmes. Alternative solutions include those that aim to strengthen the rule of law, cooperation, partnership, rational (not

²⁷ Woźniak M., G. *Gospodarka Polski 1990–2011 Transformacja, Modernizacja. Droga do spójności społeczno-ekonomicznej, t. 1: Transformacja*. Warszawa: Wydawnictwo Naukowe PWN, 2011, pp. 15-46.

minimal) states, and which undertake and implement consistent and realistic development programmes, integrated within the framework of an overall strategy focused on increasing the propensity to invest, developing intellectual capital, stimulating human activity and entrepreneurship, as well as enhancing self- and social responsibility.

4. In the social sphere – a shift from the domination and accumulation of wealth (owned by small groups) towards cooperation and partnership for the sake of the quality of a purposeful life. A significant indication of the contradiction between economic effectiveness and equality is the occurrence of frustrating inequalities leading to a helplessness syndrome. It results from great income inequality, poverty and social exclusion, which implies living at subsistence levels, as well as the abuse of altruism as a result of extravagant and irrational social policies.

In the conditions which do not allow for adopting a life style in accordance with individual development aspirations, people are not able to engage their full potential, or they lack necessary incentives to make use of that potential because it would be contrary to their understanding of rationality. Such contradictions can be eliminated by an appropriate institutional system which facilitates a shift from the rules derived from Pareto optimum to intra- and inter-generation equity, as well as by strict adherence to Rawls's division principles²⁸. They should be integrated with modern social policies which take into account Armatya Sen's theory^{29,30}, as well as with time-space development coincidences by means of introducing democratic negotiation and consultation procedures.

5. In the sphere of technology – strengthening the atomised, subjectivity-oriented systems for managing innovativeness with the use of multi-level management techniques which rely on an objectivity-based approach to innovativeness³¹.

6. In the sphere of human capital – developing and implementing education programmes aimed to create knowledge capable of integrating all spheres of human existence – developing the ability of holistic and interdisciplinary thinking, creativity, gaining and updating knowledge, orientation on the future, reflexive competences³², cooperative competences, the ability to understand cultural differences, and functioning in the global environment of diversity and changeability.

²⁸ Rawls J. *A Theory of Justice*. Cambridge, Massachusetts: Harvard University Press, 1971.

²⁹ Sen A. *Inequality reexamined*. Cambridge, Massachusetts: Harvard University Press, 1992

³⁰ Sen A. *Development as Freedom*. New York: Alfred A. Knopf, 2000.

³¹ Bal-Woźniak T. *Innowacyjność w ujęciu podmiotowym. Uwarunkowania instytucjonalne*. Warszawa: PWE, 2012, pp. 404-423.

³² Woźniak M., G. „Holistyczna modernizacja refleksyjna kapitału ludzkiego odpowiedzią na wyzwania i zagrożenia rozwojowe współczesnej fali globalizacji”. In *Gospodarka Polski 1990–2011 Transformacja, Modernizacja. Droga do spójności społeczno-ekonomicznej, vol. 3: Droga do spójności społeczno-ekonomicznej*, edited by M.G. Woźniak. Warszawa: Wydawnictwo Naukowe PWN, 2013

7. In the sphere of consumption – a shift from the infantile maximisation of consumption towards improving the quality of a purposeful life, health protection and the sovereignty of customers who are aware of the multi-dimensional consequences of improving the current quality of life at the cost of future periods. An unstable economy and shocking changes have an adverse impact on life quality. As a result, the world is fast, which leads to an inner drive to move, the fear of the lack of the ability to keep pace with it, and the feelings of anxiety, stress and emotional pain. Consequently, people act under the pressure of time to the detriment of the quality of life; they ignore their own constraints related to emotional, psychological and physical exhaustion as well as deteriorating interpersonal relations. The distortion of balance resulting from the dynamics of changes above the acceptable level of stress reduces the possibility of inner reflection, and encourages people to ignore their inner constraints, leading to the dominance of human emotions over rationality. The pressure of unfair marketing practices pushes people towards a world of mediocre development, in which consumption, instead of being optimised, is maximised in an unreasonable and irresponsible way.

8. In the sphere of nature and biology – respecting the integral characteristics of human nature, and – respecting the borders of the ecosystem's tolerance. Can we fancy a society without a family, composed of individuals who do not create family goods, being exclusively concerned with personal gains? How, then, can we explain the marginal position of family education and family-oriented policies, and the absence of family goods in economic thinking?

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