

## **Formation of Institutional Architectonics of The Regional Industrial Complex**

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### **Abstract**

It has been substantiated in the article that institutional architectonics at the level of the economic system is extremely dynamic and changes both evolutionarily and revolutionary. The formation of relevant institutions and institutes occurs in parallel with the development of the economic system. Institutional architectonics defines the structure of institutions, which is formed as a result of coordination of economic entities actions, rules, norms, established traditions and perceptions of economic processes and the existing set of institutions that cause certain impact on the economic environment. It has been proved that in the context of deepening integration processes, the Ukrainian economy is forced to introduce its own market institutions, based on the principles of the Y type matrix, but adapted to Ukrainian realities within a short period of time. Approach to the formation of the institutional architectonics of the regional industrial policy of Ukraine has been proposed, which is based on a set of measures of a regulatory, compensatory and motivational nature aimed at solving applied problems related to ensuring the effective development of the regional industrial complex. It has been determined that an important element of institutional architectonics is the formation of a model of interaction and relationships, as a system of stable functional relationships between the basic institutions of the regional industrial complex. The characteristics of the following models of interaction and relationships have been analyzed: pluralistic, neo-corporatist and patronage. It has been determined that at the moment in the industrial sector of Ukraine the features of the patronage (paternalistic) type of model of interaction and relationships are predominant. The necessity of the

transition to a neo-corporatist model of interaction and relationships has been substantiated, which is associated with the redistribution of powers between levels of government – central, regional and self-government.

**Keywords:** institutional architectonics, regional industrial policy, institutional matrix.

## Introduction

The development of the economic system is based on the results of evolutionary or revolutionary changes in its three main elements: productive forces, economic relations and the management mechanism. An important role in the development of the economic system is played by the existing management mechanism, which is based on a set of institutions that perform managerial and regulatory functions in order to improve and coordinate economic processes.

It should be noted that the content of the concept “*institution*”, from an economic point of view, defines a set of laws, norms, “rules of the game” and “rules of behavior” of economic entities that are formed under the influence of currently existing economic relations (technical and economic, organizational and economic, social and economic).

## Brief Literature Review

In research study by Kostyrko and Tymofii'v (2014) *institutions* are the material carriers of the functions of institutes (organizations and institutions) that implement these functions in economic life.

In the book by Mel'nychuk (2010) Architectonics (from Greek. αρχιτεκτονική – construction art, architecture) – is a harmonious combination of parts into one. In addition, this concept can be interpreted as the basic principle of construction, connection and interdependence of the elements of the whole. Institutional architectonics is a complex, multidimensional, multiaspect model and a very capacious economic category that has its own structure and is based on the principle of systematicity.

Institutional architectonics at the level of the economic system is extremely dynamic and changes both evolutionarily and revolutionary. The formation of relevant institutions and institutes occurs in parallel with the development of the economic system. Some of them evolutionarily developing, change their shape and structure, “adapt” to existing conditions, others disappear, because their content does not meet the requirements of society.

In research study by Grycenko (2005), institutional architectonics is defined as the structure of institutions, which is formed as a result of the coordination of actions of economic entities, rules, norms, established traditions and perceptions of economic processes and the existing set of institutions that cause a certain impact on the economic environment. Almost at every stage of development of the economic system, certain changes in institutional architectonics occur. The reaction of economic entities to environmental factors, globalization and integration processes, the need to harmonize values and rules of economic behavior, the challenges of the modern model of development of the national economy determine the features of the modern stage of institutional architectonics formation in Ukraine.

Some scholars emphasize that, despite the significant influence of internal and external factors on the process of institutional architectonics, there are certain basic institutions – deep, historically stable foundations of social practice that ensure the reproduction of social infrastructure in different types of society.

In a research study by S. Kirdina (2007), a Russian researcher, uses the notion of an “institutional matrix” – a stable, historically formed system of basic institutions that regulate the interconnected functioning of major social subsystems – economic, political, and ideological.

Bessonova, O. Je. (2007) has formulated the specific historical periods, the institutional matrix is a set of forms of basic and compensatory institutions, elements of which are presented in the form of legislative rules and regulations.

According to S. Kirdina (2007), there are two types of institutional matrix, conventionally called the X and Y-matrices, or “eastern” and “western”. Each of these types of matrix is characterized by differences in their institutions:

- for Y (Western) type of matrix the following basic institutions are inherent: in the economic sphere – market institutions; in the political sphere – the institutions of the federation in the broad sense; in the ideological sphere, the dominance of individual, personal values (characteristic of most countries in Europe and the USA);

- for X (Eastern) type of matrix the following basic institutions are inherent: in the economic sphere – non-market economy institutions; in the political sphere – institutes of unitary-centralized state system; in the ideological sphere, the dominance of collective values (characteristic of China, Russia, certain countries of Asia and Latin America).

Problems of development of the Ukrainian economy and complexity of the transitional stage of its development is due to the need to move from one type of institutional matrix (X (Eastern) type) to the second (Y (Western) type) and, accordingly, the transformation of institutions in all spheres of life – economic, political and ideological.

### **The purpose**

The aim of the article is to analyze the formation of institutional architectonics regional industrial complex. It is necessary to prove that in the conditions of deepening integration processes the Ukrainian economy is forced to introduce its own market institutions based on the principles of the Y-type matrix, but adapted to the Ukrainian realities in a short period of time.

### **Results**

The need for transition to Western type of institutional matrix is complicated by the tight timing of transformational change. For many years, the formation of the industrial sector of Ukraine, and especially in its most industrially oriented regions (Donetsk, Lugansk, Kharkiv), was under the influence of historically established economic relations and close cooperation of production with the Russian economy. Most industrial enterprises of Ukraine in their production cycle were associated with industrial enterprises of the former Soviet Union, and in the vast majority of economic processes were dominated by basic institutions of the X (Eastern) type. In the context of deepening integration processes, the Ukrainian economy is forced to introduce its own market institutions within a short period of time, based on the principles of the Y type matrix, but adapted to Ukrainian realities. That is why the study of the development experience of the regional industrial complex of countries with Western type of institutional matrix, especially those that in recent years have made the transition using this algorithm, is an important element in the formation of its own effective regional industrial policy.

Research by North D. (1990) is based on the hypothesis that the main factors of development – innovation, economic scale, education and attracting capital, etc. – are not the causes of growth. The development of the national economy is determined by the level of development and character of institutions, because changes occur in certain political, managerial and cultural conditions, which impose certain behavioral constraints and affect the efficiency of economic activity.

In the article “Institutions, Institutional Change and Economic Performance” (North D. Institutions, Institutional Change and Economic Performance, 1990), he argues in favor of reviewing institutions during the transition period. The emergence of institutes and related institutions is explored in another paper by D. North (North D. Understanding the Process of Economic Change, 2005). The author

points out that the development of relationships in the chain of beliefs → institutions → organizations → politics → results can lead to unprecedented economic well-being, and to endless catastrophes and human suffering.

Considering the “new” institutionalism R. Picciotto and E. Weisner (Picciotto & Wiesner. “Evaluation and development: the institutional dimension”, 1998) identify institutions and organizations as the basis of economic, social and political development. According to scientists, the important issue is not only the creation of the “right” institutions, but also the assessment of the “correspondence” between institutions and development problems, their “suitability” for solving these problems.

In general, the study of the compliance of institutional architectonics with the requirements and conditions of the development of the economic system, the search for ways to optimize it, is an important element of economic research. Especially its relevance is manifested in the conditions of decentralization of the economic development of the regions in Ukraine, when the question arises of the need to move from the format of centralized public administration to a more flexible form of government, taking into account the particularities of the development of the economic system of a particular region. To date, these issues are not sufficiently covered and require more in-depth research.

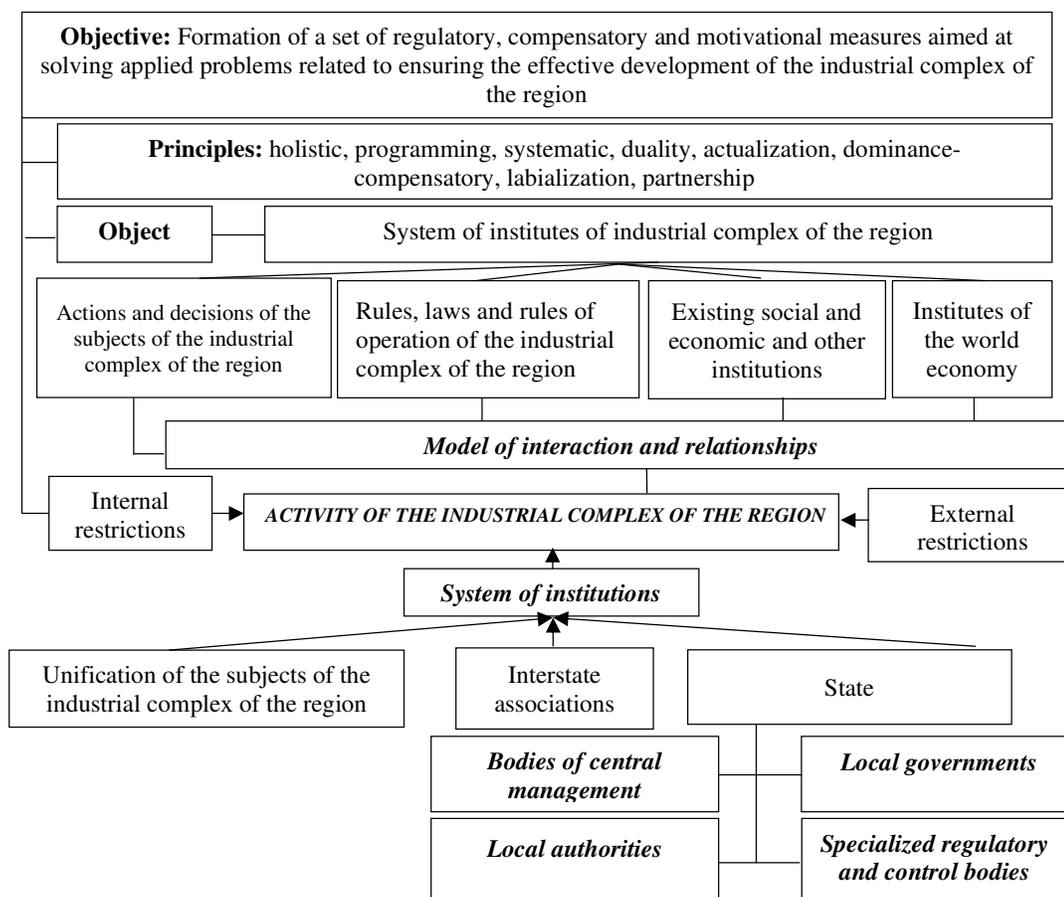
From the perspective of regional industrial policy, institutional architectonics is determined by the totality of institutes and institutions that regulate the activity of economic entities in the industrial sector of the region (Fig. 1).

The vast majority of basic institutions are the same for all territorial units at the level of the national economy. They are formed in the form of regulatory and administrative documents that determine the rules and options for the economic behavior of the main participants in economic relations in the industrial sector. In addition, there is a system of institutions of an indicative nature, aimed at forming a vector for the development of economic entities, clarifying the goals and directions of their activities. It is important to use a system of institutions of a motivational nature, the main purpose of which is to create economic, social and other advantages for economic entities that adhere to certain “rules” of economic behavior and prefer a certain development vector.

It is for the industrial sector that the active participation of the state, as an institution-creating entity, is important. In the vast majority of countries, the state of the industrial sector is a factor in the development of the economic system, the formation of income of both market participants and the state.

The purpose of the state is to create a stable model of interaction and relationships between the actors of the industrial sector and to substantiate the orientation and effectiveness of their individual and collective actions.

From the point of view of the industrial complex regulation in the region, the actions of the state should be directed to the formation of a complex of measures of regulatory, compensatory and motivational nature aimed at solving the problems of applied character, connected with ensuring the effective development of the industrial complex of the region.



**Fig. 1: Conceptual approach to the formation of institutional architectonics of regional industrial policy**

An important element of institutional architectonics is the formation of a model of interaction and relationships, as a system of stable functional relationships between the basic institutions of the regional industrial complex. A rational model of interaction and relationships is determined and formed taking into account the type of institutional matrix, which is inherent in the national economic system and goal setting. It is the institution of goal-setting that determines the characteristics of the subject, a set of rules and procedures for determining priority goals and building mechanisms for their achievement.

In addition, the state should establish a set of restrictive institutions, whose actions are aimed at ensuring the balanced development of the industrial sector of the region, as a component of the national industrial complex, in the context of limited economic resources. In modern conditions, in determining the elements of regional industrial policy, it is important to determine the relationship between the subjects of the industrial complex and the state.

In general, at the theoretical level it is possible to distinguish the following models of interaction and relationships: pluralistic, neo-corporatist and patronage. In pure form, none of these models is used, but highlighting the characteristics of each is important for understanding the mechanism, goals and system of communication between business entities and government institutions within the national economy.

The characteristics of the main models of interaction and interrelationships between the basic institutions of the industrial complex of the region are shown in Table 1.

**Table 1: Basic models of interaction and interrelations between the basic institutions**

Model name	The main features	Advantages	Disadvantages	Groups of countries where applicable
<b>PLURALISTIC MODEL</b>	<ul style="list-style-type: none"> <li>– high level of competition;</li> <li>– focus on personal success and profit;</li> <li>– the state acts as an arbitrator</li> </ul>	<ul style="list-style-type: none"> <li>– development of competition, ensuring equal access to the distribution of resources;</li> <li>– high level of motivation in development;</li> <li>– state policy of non-interference in economic processes, its orientation on solving social issues.</li> </ul>	<ul style="list-style-type: none"> <li>– development advantages for the most competitive and influential producers;</li> <li>– struggle for the possession of resources, their distribution and redistribution;</li> <li>– inertia of the state as a participant in economic relations;</li> <li>– disinterest in the implementation of active social policies and effective reforms.</li> </ul>	Countries with the Anglo-American model of development (United States, United Kingdom, Canada, Australia, New Zealand)
<b>NEO-CORPORATIST MODEL</b>	<ul style="list-style-type: none"> <li>– state support for the predominantly privatized industry;</li> <li>– focus on the development of the sphere of economic activity rather than a separate economic structure;</li> <li>– the state as a full participant and economic entity;</li> <li>– the opportunity to participate in shaping the basic elements of economic policy of all market participants, regardless of their competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>– the important role of the state in regulating economic processes;</li> <li>– social orientation of actions with the participation of the state;</li> <li>– expanding the interests of the subjects of the industrial complex by creating associations and unions that represent the main economic interests, receive the privileges and opportunities to participate in the development of standards and conditions for industrial production.</li> </ul>	<ul style="list-style-type: none"> <li>– the ability to restrict competition in order to achieve a certain result;</li> <li>– complexity of the management process and actions in case of urgent solution to the problems of development of the region industrial complex.</li> </ul>	Scandinavian countries

<b>PATERNAL (PATRONAGE) MODEL</b>	<ul style="list-style-type: none"> <li>– existence of hierarchy and inequality in the formation of relationships;</li> <li>– predominance of the regulatory function of the state, the focus of all actions of state institutions in support of balanced development of the region, to ensure the social orientation of business.</li> </ul>	<ul style="list-style-type: none"> <li>– a clear definition of the norms and parameters of the economic behavior of the state and economic entities, based on the reasonable advantages of all parties from the application of this model;</li> <li>– the focus of the institution of paternalism on improving the economic and social situation in the region.</li> </ul>	<ul style="list-style-type: none"> <li>– model of relationships in the plane of dependence-power;</li> <li>– restrictions on competition in the industrial sector;</li> <li>– the possibility of "protection" of business and the formation of "pro-state business"</li> </ul>	Countries with X (Eastern) type of institutional matrix (Russia, Ukraine, China, some post-socialist countries)
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In a research study by Kaufmann (2007) in accordance with the principles of constructing a *pluralistic model of interaction and relationships*, they should be based on "... permanent opposition of diverse interest groups". The functioning of society and the physiological survival of its members is impossible without ensuring adequate access to the results of material production. It is the industrial sector that acts as the basis for ensuring the growing needs of modern society and all other types of social production should be aimed at ensuring its dynamic development.

In a research study by Schmitter and Streeck (1999) ensuring the equilibrium development of the industrial sector, according to the pluralistic model, is possible only in a highly competitive market in which business "... units are organized into an unlimited number of independent, optional, competing with each other, hierarchically independent structures that are not specifically licensed, recognized and received subsidies and are not controlled by the state in any way".

The predominant position of the state in this model of relationships should be support for the competitive environment and focus on ensuring the interests of the system as a whole. In the event of disturbances in the equilibrium system, or the development of crisis processes, the activity of state regulatory institutions should be aimed at correcting the formed imbalances in the development of the industrial sector and returning the economy to an equilibrium state.

The state, as an element of the system of institutions of institutional architectonics of regional industrial policy, is considered as an external force, the main task of which is to develop, together with subjects of the industrial complex of the region, uniform rules for functioning and regulation, the initiator of resolving conflict situations and supporting national industrial producers in international markets.

Thus, among the main features of a pluralistic model of interaction and relationship are the following: competition is a driving force for the development of the industrial sector, within which there are numerous interest groups competing with each other; the basis of development is a focus on personal success and profit; the state acts as an arbitrator, participates in the development of rules of relations and interaction, and provides support in foreign markets.

Among the main disadvantages of this model of relationships can be identified:

- the predominance of the interests of the most competitive and influential sector entities, their focus on maximizing profits;
- competition is based on the principle of the struggle for the possession of resources, their distribution and redistribution, which leads to the practical elimination of weak and new competitors from the market;

- inertia of the state as a participant in economic relations, the prevalence of compensatory actions in its positions;
- lack of interest in implementing active social policy and implementing the most effective reforms.

The pluralistic model is based on Anglo-American traditions of business-state interaction. Thus, in the UK, the regulation of the industrial complex is carried out only at the regional level (in each enlarged region of the country (England, Scotland, Wales, Northern Ireland), its own departments of industry are established, which use specific industrial regulation instruments for the respective territories. The main thrust of industrial policy is to increase the competitiveness of their own producers through an active innovation and protectionist policy.

The mechanism of regional industrial policy in the US is similar: the main goal is to increase competitiveness and the application of protectionism measures to protect the national market and expansion into foreign markets of industrial goods; decentralization of state regulation functions, expansion of powers of local government.

Shmytter, F. (1992) insists *the neo-corporatist model of interaction and relationships* is based on the system of "... representation of interests, the components of which are organized at several special, compulsory, non-competitive, hierarchically ordered, functionally different levels, officially recognized and resolved (and in some cases created) by the state, endowed with a monopoly for representation in certain industries".

The main features of the model are as follows:

- the system of economic relations is based on state support for the predominantly privatized industry;
- a focus on the development of economic activity, not a separate economic structure, even the most competitive;
- the possibility of restricting competition in order to achieve a certain result;
- the state, as a full participant and economic entity, with the right to formulate requirements to business entities;
- possibility of defining social effect as the main economic result;
- the opportunity to participate in the formation of basic elements of economic policy of all market participants, regardless of their competitiveness.

The state's involvement is not limited to its recognition as an important economic agent and the development of "rules of the game" common to all participants. For this model of relations, it is important to recognize the social orientation of actions involving the state, its significant social obligations to society, and therefore the right to impose certain requirements on business. The state also plays an important role in regulating economic processes.

The model is characterized by the consolidation of the interests of the subjects of the industrial complex by creating associations and unions that represent the main economic interests, receive privileges and opportunities to participate in the development of standards and conditions for industrial production.

Formation of *paternalistic (patronage) models of interaction and interrelationships* is most often supported for the most economically and financially weak and investment unattractive regions.

If we examine the content load of the paternalistic model, it reflects the formation of specific relations between the state, as a subject of regulation and its individual regions, or spheres of activity (industries). The model is based on the concept of hierarchy, vertical orientation, dependency and guardianship. The regulatory and legal activity of the state and its main institutions is reflected in the patronizing attitude to the development of the region or its industrial complex. The purposeful and administrative distribution of resources, the use of an integrated system of directive and indicative

planning, the system of state order, the creation of specific investment and legal conditions for the functioning of the enterprises of the industrial complex of the region are the main elements of the paternalistic (patronage) model of interaction and relationships.

In a research study by Shushkova (2010) From the standpoint of institutional architectonics, paternalism can be defined as "... a social institution constructed by actors who need relationships of interdependence and who need care and guardianship".

It is possible to distinguish the following basic characteristics inherent in the paternalistic (patronage) model of interaction and relationships: the main characteristic is a model of relationships in the dependence-power plane; existence of hierarchy and inequality in the formation of relationships; a clear definition of the norms and parameters of economic behavior of the state and economic entities, based on the substantiated benefits of all parties from the application of this model; dominance of the regulatory function of the state, orientation of all actions of state institutions to support the balanced development of the region and its industrial complex, to ensure the social orientation of business; the paternalism's focus on improving the economic and social situation in the region.

In some cases (especially for post-Soviet countries), the patronage model acquires the signs of "protection" of the business of structures close to the authorities. This type of model consists in the application by the state and state institutions of administrative methods aimed at restricting competition in certain industries in which "pro-state business" is interested.

The possibility of forming economic relations between the state and its components according to the principles of libertarian paternalism extends in modern Western economic literature. The concept of libertarian paternalism was proposed by the economist of the University of Chicago Richard Teyler and professor of Harvard Law School Kas Sunstein and consists in the fact that state institutions have the ability to legally influence the behavior of economic entities without violating freedom of choice. The main goal of their activities is to "push" economic entities in the right direction, direct the efforts of state institutions to identify and substantiate the most optimal options for economic development. The authors of the theory emphasize: "We propose a form of paternalism, which is libertarian in spirit, which should be acceptable to those who firmly believe in freedom of choice on the basis of either autonomy or welfare" (Palermo, G. (2000)).

If we evaluate the current model of interaction and relationships in the industrial sector of Ukraine, the features of the patronage (paternalistic) type are prevailing. Perhaps in recent years there has been a tendency to gradually transform it to the principles of libertarian paternalism and the growing role of such an important market tool as competition. The reason for these trends may be the transfer of the characteristics of economic relations that existed between the state and industrial producers in the former Soviet Union and the significant dependence of Ukrainian industrial producers on Russian partners.

The importance of the latter statement is to preserve the X (eastern) type of institutional matrix within the Russian economy. The coincidence of the specifics of organizational, economic and technical and economic relations and the continuation of contractual relations at the level of subjects of the industrial complex of the two countries, the lack of need for their transformation and the weak access of Ukrainian producers to the world markets for industrial products led to the preservation of the principles of the patronage type of relationship.

In the conditions of deepening of the European integration processes preservation of patronage type of relations is possible only in relation to the development of the weakest, depressed regions. World experience involves the application of two main options for differentiation of approaches and patronage for the development of the industrial sector of the region – regional differentiation of tax rates (or their differentiation by types of industrial production within a particular region) and regional differentiation of the system of public expenditure related to public procurement and social transfers. The main purpose of applying differentiation in terms of stimulating the development of the

industrial sector is to increase the demand for investment resources and the results of industrial production within individual regions of the country.

On the one hand, it is a powerful mechanism for stimulating the symmetrical overall development of all regions of the country and solving the problem of economically backward territories. On the other hand, the economic effect of applying symmetric measures is different in different regions of the country. It all depends on the capabilities of the regional industrial production market, the development and structure of the labor market, the existence of appropriate infrastructure and the potential capabilities of individual territorial units. Therefore, differentiation must be deepened and must take into account the region's capabilities and the specificities of its social and economic development. To do this at the level of central government is extremely difficult and will result in inefficient allocation of financial resources of the state. A separate problem may be the realization of attempts to stimulate the economic activity of individual producers by applying fiscal policy measures. First, it violates the principles of the competitive environment and leads to a change in the system of the industrial complex of the country. Attempts are underway to change the very system of interregional and internal regional interaction. Territories and individual regions of the country, with the most favorable conditions for carrying out economic activity, become attractive for industrial producers, in turn, it leads to an overflow of capital and the emergence of interregional imbalances in the national economy. A separate economic and political problem may be the horizontal differentiation of tax rates. Certain regions or producers who have not received the appropriate preferences from the central government, express some dissatisfaction with the violation of competitive conditions, and in some cases, reduce the volume of their own industrial production.

Summing up, we can conclude that the use of the system of inter-budget relations and the system of state orders in the conditions of the formation of patronage relations between the state and industrial producers is a more flexible tool compared to fiscal methods of differentiation and should be used with the active participation of regional institutions that have the right and ability to implement their own economic policy.

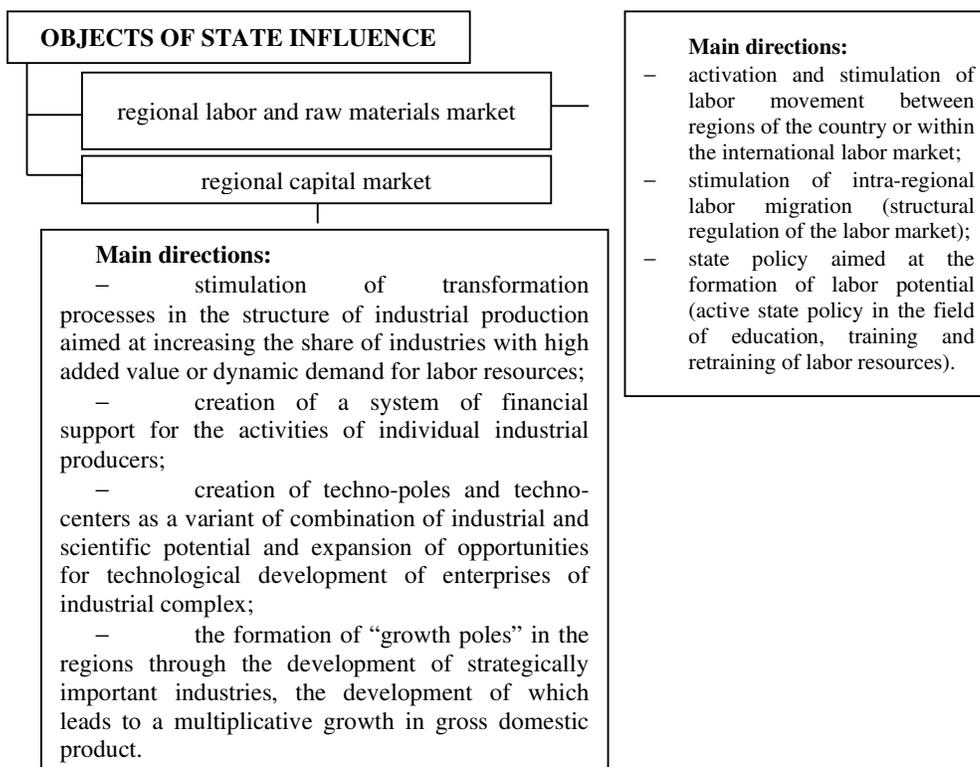
The need to move to the principles of a neo-corporatist model of interaction and relationships is determined not only by the internal need to improve the competitive environment in the middle of the industrial sector, but also by shocks from external (foreign) industrial producers. The "roofing" of individual producers by the state, the opacity of the system of government orders and other features of the existing model of relationships lead to a decrease in the competitiveness of national industrial producers and reduce their stability in the competitive global market. The transition to a neo-corporatist model of interaction and relationships is associated with the redistribution of powers between levels of government – central, regional and self-government. This division is also possible under libertarian paternalism, when the state, represented by central government bodies, determines the use of individual instruments, including the financial and fiscal nature, and local government bodies determine the boundaries and mechanism for their application.

Under the neo-corporatist model of interaction and interrelationship, the object of regional industrial policy changes, from the activity of the subjects of the industrial complex itself to the elements of regional development that indirectly influence the development of the industrial complex of the region.

This model is characterized by a high proportion of privatized industrial enterprises and the participation of the state, as an active participant in economic activity, with the right to make demands on industrial producers regarding the structure of commodity supply and social orientation of business. The state is unable to influence directly the stages of economic activity of privatized enterprises of an industrial complex of a region; instead it has a wide range of economic regulatory instruments (taxes, indicative planning, programming and forecasting an industrial complex development, etc.).

The role of the state as one of the important subjects of regional industrial policy under the neo-corporatist model of interaction and interrelationship is determined by its regulatory influence in the

following main directions (Fig. 2): influence on the regional labor market and raw materials, influence on the regional capital market.



**Fig. 2: Objects and directions of state influence in the context of regional industrial policy in neo-corporatist model of interaction and relations**

## Conclusions of this study

Among the main problems in the formation of the institutional architectonics of regional industrial policy in Ukraine there is the need to switch to the Western type of institutional matrix (a stable, historically developed system of basic institutions that regulate the interconnected functioning of the main social subsystems - economic, political and ideological). In the context of deepening integration processes, the Ukrainian economy is forced to introduce its own market institutions within a short period of time, based on the principles of the Y type matrix, but adapted to Ukrainian realities.

It is theoretically possible to distinguish the following models of interaction and relationships: pluralistic, neo-corporatist, and patronage. In its pure form, none of these models is used, however, the identification of the characteristic features of each of them is important for understanding the mechanism, goals and the system of relations between business entities and state institutions in the framework of the national economy. The role of the state as one of the important subjects of regional industrial policy in the conditions of a neo-corporatist model of interaction and relationships is determined by its regulatory influence in the following main areas: influence on the regional labor market and raw materials; impact on the regional capital market.

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