CONTENT AND SIGNIFICANCE OF THE THEORY OF INSTITUTIONALISM AS A FACTOR OF THE AGRARIAN FAMILY FARM DEVELOPMENT ©

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The publication examines urgent issues of creating favorable conditions for the development of family farms based on the implementation of the theory of institutionalism. The essence and position of the theory of institutionalism in the development of agrarian relations in rural areas are determined. It is emphasized that industrial relations should be based on the individual, his needs and qualitative growth of human potential in the rural area. The main factors promoting the introduction of institutional principles in the rural economy development are outlined, and the directions and content of institutionally oriented influence on the activities of small businesses in rural areas are justified. The article highlights the author’s proposals on the main directions of institutional support of family farms in rural areas and emphasizes the need to increase the role of the state in the formation of the institutions necessary for the agrarian market, including the instruments of state protectionism.

Key words: institutionalism, development, households, farms, factors, approaches, priorities, market.

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ЗМІСТ ТА ЗНАЧЕННЯ ТЕОРІЇ ІНСТИТУЦІОНАЛІЗМУ ЯК ФАКТОРУ ЗАБЕЗПЕЧЕННЯ РОЗВИТКУ АГРАРНИХ ГОСПОДАРСТВ СІМЕЙНОГО ТИПУ

У публікації розглядаються актуальні питання створення сприятливих умов для розвитку сімейних господарств на засадах реалізації положень теорії інституціоналізму. Визначено сутність та місце теорії інституціоналізму в розвитку аграрних відносин на селі. Наголошено, що в основі виробничих відносин стій визначати людину, її потреби і якісне зростання людського потенціалу на селі. Окреслено основні фактори сприяння впровадженню інституційних засад в розвиток сільської економіки та подано обґрунтування напрямів і змістовності інституціонально орієнтованого впливу на діяльність малих форм господарювання на селі. У статті сформульовані авторські пропозиції стосовно основних напрямів інституційного забезпечення сімейних господарств у сільських територіях та акцентовано увагу на необхідності підвищення ролі держави у формуванні необхідних для аграрного ринку інститутів, включаючи засоби державного протекціонізму.

Ключові слова: інституціоналізм, розвиток, господарства населення, фермерські господарства, фактори, напрями, пріоритети, ринок.

Рис.: 3. Літ.: 16.
СОДЕРЖАНИЕ И ЗНАЧЕНИЕ ТЕОРИИ ИНСТИТУЦИОНАЛИЗМА КАК ФАКТОР ОБЕСПЕЧЕНИЯ РАЗВИТИЯ АГРАРНЫХ ХОЗЯЙСТВ СЕМЕЙНОГО ТИПА

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В публикации рассматриваются актуальные вопросы создания благоприятных условий для развития семейных хозяйств на основе реализации положений теории институционализма. Определены сущность и место теории институционализма в развитии аграрных отношений на селе. Отмечено, что в основе производственных отношений следует определять человека, его потребности и качественный рост человеческого потенциала на селе. Определены основные факторы содействия внедрению институциональных основ в развитие сельской экономики и дано обоснование направлений и содержания институционально ориентированного влияния на деятельность малых форм хозяйствования на селе. В статье сформулированы авторские предложения по основным направлениям институционального обеспечения семейных хозяйств в сельских территориях и акцентировано внимание на необходимости повышения роли государства в формировании необходимых для аграрного рынка институтов, включая средства государственного протекционизма.

Ключевые слова: институционализм, развитие, хозяйства населения, фермерские хозяйства, факторы, направления, приоритеты, рынок.

Рис.: 3. Лит.: 16.

Formulation of the problem. The main problem of the current state of the agrarian economy is that intensification and expansion of the agricultural export potential is accompanied by the destruction of rural way of life and gradual degradation of rural territories. These processes thrive on the background of intensive intervention of large landowners in the agrarian sector, which accumulate large land areas and practically eliminate agricultural farms from participation in the income distribution through monopolization of production of export-oriented types of foodstuffs. Hence, rural business turns into primitive and underdeveloped sector of the economy, which operates on the basis of self-survival.

The situation is deteriorated by the government support for large-scale production as a main approach providing enhancement of the agricultural potential in the national economy. At the same time, there is no awareness in the society that rural economy, which is based mainly on farms and agribusiness, is a holistic socio-economic system that includes production of safe food, recreational activity, conservation of nature and landscapes, protection of traditional Ukrainian identity, ethnos traditions. Thus, there remain problems that need in-depth study, in particular, the formation of effective institutions to prevent potential risks; research on institutional changes and their impact on the development of public relations; development of methodology for empirical measurement of transaction costs in the current institutional system.

This requires the search for theoretical approaches to substantiate the conceptual provisions of the feasibility of existence and multiplication of farms and agribusinesses.

Analysis of recent research and publications. Further development of the agrarian market requires the development of an effective, nationally receptive institutional model to reduce the negative correlations with the past Ukrainian reality that result from basic socio-economic transformations of the economic system. In this regard, institutionalism as an economic theory and the process of economic practice on its basis has become the subject of scientific research by well-known foreign scientists, e.g. W. Hamilton, T. Veblen, M. Commons, R. Coase, O. Williamson, D. North, D. Clark, M. Olsen. These issues have been successfully studied by domestic scientists, including V. Heiets, A. Hritsenko, H. Kaletnik, M. Malik, A. Mazur, P. Sabluk, O. Shpykuliak, etc.

Their works have contributed a lot to the development of agrarian science and formation of its basic foundations, however, the issues of institutional development, its provision on the example of small forms of farming in rural areas have not been sufficiently studied, and therefore they require new scientific research [1-9].
Objectives of the article. The research is aimed to determine the position and essence of the theory of institutionalism in the development of agrarian relations in rural areas and to outline the directions of application of this concept in the practical activity of both family farms and public administrative structures. It is a scientific concept that considers a person and its social needs through the implementation of industrial relations in the society. The practical content of institutionalism bases on the development of rules and codes of conduct for family commodity producers in the market environment that will be favorable for their expanded economic reproduction.

Presentation of the research material. Solving the problems of implementation of the theory of institutionalism requires comprehension of the basis of this approach of economic development and elaboration of the model that would be effective regarding a domestic system of social relations of the methodology for regulating market relations, including agrarian ones. The problems of operation of small agribusinesses depend directly on their adaptation to the requirements of a market economy. At the same time, their content is caused by the availability objective factors. Let us consider activities in detail:

Firstly, the overwhelming majority of rural people are unable to evaluate economic conditions as a benefit. They believe that current norms of morality, good neighborliness, equal exchange of food products are rationally accepted for rural life, but at the same time they do not see market processes in the rural area, which in practice lead to acquiring added value in the form of latent exploitation.

Secondly, it is the power of intermediaries. Their emergence in the market environment has effectively obliterated the already insignificant initiative rural people to participate in the retail markets. It should be noted that in addition to intermediaries, nowadays processing enterprises are engaged in purchasing through a network of their own procurement stations.

Thirdly, adaptation of small commodity producers in rural areas is significantly reduced due to inability of rural people to perceive the development of the market environment positively. They are characterized by economic closeness, low inclination for interaction, and absolute commitment to relations (Fig. 1).

Fourthly, it is the opposition to cooperative movement in the rural area. These processes in rural areas are constrained by both internal and external factors. In the first case, rural people are panicked about cooperatives, linking their content to collective farm practices, and they are not eager to form a statutory fund for cooperatives because they do not believe in their profitability. In addition, the profit sharing of a cooperative is methodologically imperfect and involves inequality concerning cooperative members. In the second case, the agricultural lobbying (agriholdings, agricultural firms) in every way creates obstacles to the establishment of cooperatives, considering them competitors in the agrarian market.

Adaptation of small agribusinesses requires definition of the theoretical basis that would serve as a base for the formation of a corresponding concept of development. The detailed analysis has enabled to recognize the concept of institutionalism as the basic and most acceptable one for rural areas.

In evolutionary terms, it should be noted that the term “institutionalism” was first used by I. Hamilton in 1918. T. Veblen and I. Hamilton considered to be the founders of this theory argue that institutions or “game rules” are the basis for the development of the real economy and the market. Together with the socio-psychological concept, there appeared a social-legal concept of institutionalism by J. Commons that was based on the aspects of interaction of groups of individuals in the economic system. Another approach of institutionalism – related to the market conditions – was generated by W. Mitchell. This concept is based on the market institutions, in particular, market conditions, planning, government regulation, cyclical development of business and economy, which indicates its focusing on economic institutes [10].

On the basis of these and other scientific researches, an institutional paradigm has emerged as a synthesis of hypotheses and theories exploring structural changes in the sphere of fragile economic relations (Fig. 1).

According to contemporary scholars [9], the basic elements of institutionalism include a set of elements creating institutional environment, namely, the norms and rules of life in the country; property rights; business entities; contractual terms; market transformations in the land system; production efficiency; quality of management; the degree of trust in society; transaction costs, etc.

It should be noted that the content of the theory of institutionalism with the shift of its emphasis on small rural businesses requires and forms in practice an appropriate environment for the existence of rural residents through the assimilation of written and unwritten norms and rules of conduct and compliance
with them in business activity. In this case we are talking not only about the interaction between the producers within the settlement, but also with the administrative and public organizations, production structures of the agroindustrial complex, which ultimately contributes to the creation of favorable conditions for production and life in a particular place. Therefore, adaptation to the requirements of the institutional theory of rural development requires a positive change in the behavior of both the farms and the system of local authorities, establishments and organizations that in one way or another influence the formation of a favorable institutional environment.

![Diagram showing the conceptual content of institutionalism as an economic theory and paradigm of social development](image)

**Fig. 1. Conceptual content of institutionalism as an economic theory and paradigm of social development**

*Source: formed according to the research by O.H. Shpykuliak*

Analysis of the essence of institutional theory requires deeper specification of the characteristics of its conceptual apparatus, which enable to reveal the mechanisms of operation and interaction of institutions in the economy. Most scholars argue that “institutions” are the game rules in the society, or human-made restrictions that direct human activity in a particular direction. They influence socio-economic processes as traditions, social, individual norms, organizations and structures. In other words, they structure human and organizational interaction coordinating the exchange within the framework of achieving economic efficiency [11-14].

However, institutes are the structured system divided into formal rules and informal restrictions based on the origin. Formal rules include a set of political (legislative, legal) rules, economic rules and contracts.

In this case, it should be understood that institutions (rules, principles, traditions, mentality) in public life take a form of institutes (property, law, organization, institution, competition, regulation, etc.). As a result, institutions are embodied in the institutes, and institutes need institutions to ensure the development of socio-economic formations adequate to society’s needs. It becomes clear that institutes forms conditions for the economic development and behavior of economic agents. This idea is a key one when characterizing small businesses in the rural economy.

A similar approach is supported in the recent studies of domestic scientists, who have generated a new approach of institutionalism in the form of institutional architectonics. Its authors (V.M. Heiets and A.A. Hrytsenko) argue that institutional architectonics is a structure of institutes that make up rules, norms, stereotypes, establishments and other social entities in their relationships with the general plan for the development of a socially oriented economic system, which confirms lexical content presented above [3, 4].

We assume that ideally the interdependence of institutes and institutions should be coordinated, since only the institutes’ provision with institutions creates conditions for extended economic recovery in the economy. This is evidenced by the data shown in Fig. 2.

However, in the practice of management, there are situations when certain institutions in the economy do not have sufficient institutional support, which really restraints the development of certain structured elements of the market.

The practice provides many examples, including domestic experience, where the inefficiency of institutional transformation leads to imbalances in the economy and social life. These situations are classified as institutional barriers. For example, existence of the institute of private land property de jure and lack of a mechanism for its implementation de facto does not make it possible to get objectively possible income to the parties because of the opportunity to conclude a sales agreement. This indicates an institutional barrier and even irrationality, poor quality of this institute, the rate of transaction costs that make it impossible to conclude an agreement on the effective implementation of the function of this property. Another institute, that is a private household, produces a part of foodstuffs for sale, but it is not
taken into account anywhere, since such form of agribusiness is not publicly registered at all, and its
translation into a family form is restrained due to the lack of necessary management procedures. The
operation of production cooperatives is also restrained by the lack of transparent and regulated legal acts
on the profit sharing between their participants and a negative impact of large agricultural companies on
the cooperative movement. Of all agribusinesses, only agriholdings have adequate institutional support,
since their activity is fully supported by the state structures.

Fig. 2. Content interaction and interdependence of the institutes and institutions in the agrarian
market environment

Source: developed by the authors.

In fact, in such circumstances, we are talking about the need to create a new institutional
environment based on the factors of growth of internal and external significance. In the first case, we define
as the possibility of increasing the human and social capital of agricultural activities of small businesses,
in the second one – as the instruments aimed to enhance the motivation to carry out these activities. Of
course, the best effect of these factors can be obtained in the case of the complex interaction, which is rare
in practice, because it is impossible to anticipate the mass desire of rural people to study and improve skills,
and that of the power structures to create better conditions for family farms and farmers in the organizing
economic activities. In general, formation of the human and social capital of family farms is a rather
difficult problem when creating a favorable institutional environment, because it is not only about the need
to improve the training and skills of rural people, but also about the need to change the stereotype of
thinking in the market conditions. In this regard, it is most important to understand as a basic notion that
family farms are an integral part of the domestic agrarian sector and therefore they require specific
conditions for widespread economic reproduction (Fig. 3).

It is considered that the starting point of the institutional environment formation in the rural area is
the widest possible expansion of opportunities of the family business development. In particular, among
the main priorities of the state agrarian policy should be creation of conditions for realization and protection
of rural people’ rights to land and formation of market relations in the rural area. The current trend
according to which rural people have got acts certifying their right to land units (land shares) does not
resolve the situation. Obviously, public authorities could assist in organizing the production to those
owners of land shares who want to work independently. In the current conditions, households and private
farms do not feel any assistance from the state, unlike the daily support of corporate business entities. As
for the land market, in particular its sale or purchase, in the current economic situation in the country the
acquisition of land by families is considered to be problematic. Some experts believe that when introducing the land market the most likely scenario will be the transition of a large part of these lands to non-core companies (oil, gas, metallurgical, financial). Such processes can be considered plausible, since the global financial crisis is increasing the tendency towards capturing agricultural lands by foreign countries through secondary lease schemes and other forms of control, which in practice pose real threats to farmers and rural communities. By the way, a similar scenario has already been implemented in Moldova, where at the expense of the secondary lease, up to 60% of the land is owned by foreign agents.

![Diagram](http://efm.vsau.org/)

**Fig. 3. Directions and content of the institutional development of small businesses in rural areas**

Source: developed by the author.

Therefore, the authors of the National Report “New Course of Reforms in Ukraine” propose to initiate an exclusive right to ownership of agricultural land as a social obligation to society in the Law on the Agricultural Land Market, including:

- providing access to land as a means of subsistence for a large proportion of the rural population that forms the basis of rural communities;
- preservation of family farms as a basis of rural life style, farming culture and traditional knowledge;
- protection of the society from the negative effects of urbanization, social problems in the labor market and rural degradation. The draft law also proposes that only rural residents may be subject to the right to purchase agricultural land in private ownership;
- limit the size of ownership of these lands through identification of the sources and development of the mechanisms for long-term (20-30 years) preferential lending for land purchase by rural residents under the state support, etc.

Another priority area of institutional support for small business forms in rural areas is as follows:

- the development and implementation of state and regional programs for integrated rural development;
- improvement of the state support for entrepreneurship in order to address the problem of rural employment;
- state support for the development of competitive agricultural production through cooperation and integration; introduction of modern mechanisms and methods of forming a transparent market for agricultural products, food, capital and labor.

Such proposals were included as the main ones in the Law of Ukraine “On the Fundamental Principles of State Agrarian Policy 2015”, but they have been implemented partially, mainly due to lack of funding.

A separate institutional support is needed for the agricultural market, which would take into account the peculiarities of small-scale production. The main course of action is to preserve the cultivation of such products as potatoes, vegetables, cattle and poultry for sale by the households, though it has been “captured” by the intermediary structures.

It should be acknowledged that the intermediary institute promotes trade efficiency, since it releases funds for the development of production. However, the intermediaries have skillfully taken advantage of the underdeveloped market infrastructure and at present they get high benefits. Researchers of these issues argue that the purchase prices in households are overestimated: for milk and beef – 3 times, pork – 3.3 times, carrots – by 50%, potatoes – 25%, apples – 55%, eggs chicken – 32%. In this case, the income of intermediaries is much higher than the income of farmers who produce agricultural products. Obviously,
this situation can be improved through the extended access of agricultural producers to transparent markets by creating and developing current market infrastructure, e.g. activation of wholesale trade through stock exchanges, live cattle auctions, wholesale markets, etc. Of course, this is possible only if the network of these institutions is built.

Institutional changes in the rural economy in one way or another imply reorganization of the public administration of agriculture at all its hierarchical levels. Scientists believe that strengthening of the administrative component for these processes requires the establishment of a separate body, e.g. the Agency for Rural Development that is subordinate to the Cabinet of Ministers of Ukraine. It should be entrusted with the functions of organizing and budgeting (on a competitive basis) rural development projects. The functions of the working body of this Agency can be performed by the Rural Development Department of the Ministry of Economy, Trade and Agriculture of Ukraine. At the regional and local levels, the structural units that will represent the Agency on the local level should also be set. They should ensure implementation of the national rural development policies and coordinate this work with the regional and local executive authorities. Operation of the above-mentioned management structure will be aimed, first of all, at stimulating the production by the farms of products targeted at the local food markets, i.e. support of the family farms. In addition, the management functions of these structures include the development of specific sectoral programs, in particular, dairy cattle and pig production in animal husbandry, production of cereals, oilseeds and horticulture. For example, cereals and oilseeds should be transferred to large agricultural producers, and the biggest share of fruit and vegetable growing as well as viticulture to small-scale farms. Formation of large-scale production in dairy cattle breeding should be carried out with the preservation of the production volumes required for the domestic processing industry and ensuring the structure of storage, processing and transportation of milk produced by farms and small producers. The state’s involvement in formation of the intellectual environment is also seen in supporting the development of rural infrastructure (roads, schools, hospitals, etc.), which largely contributes to the growth of human capacity in rural areas. The development of the institutional environment in rural areas can actually be achieved through local self-government. For this purpose, a leadership institute should be founded through the selection of rural activists who are able to fulfil the community’s daily plans, and to solve common problems of the community. The increase in the volumes and ensuring the target state support for rural infrastructure development are required in the conditions when the overwhelming number of local budgets in rural areas are subsidized, the financial position of business entities is mostly unsatisfactory, and the incomes of the majority of rural households are insufficient to meet their needs even within the subsistence minimum. It should be acknowledged that the main problems associated with the condition of the social rural infrastructure are as follows: aging and degradation of the overwhelming majority of rural housing stock, deterioration of the conditions and provision of rural areas with engineering communications and facilities, decrease in the number of socio-cultural and commercial services. It is worth noting that at present the rural housing stock does not meet the current needs of the population, especially young and middle-aged people, since only 21% of rural houses are equipped with water supply, 16% with the sewage, 25% with central heating, and 40% with natural gas. Rural housing renewal rates do not exceed 0.3% per year.

The study of the foundations of institutionalism as an economic theory and practice of management makes it possible to conclude that it is advisable to introduce this concept as a form of economic relations in the system of small-scale agricultural production. When developing and interacting, institutes and institutions, create an enabling environment for extended economic reproduction [15,16].

Conclusions. The paper analyzes in detail the current agricultural production service institutes and institutions as rules of behavior in a market environment and describes their content characteristics. There is a lack of institutional support for small agribusiness in rural areas, in particular, the lack of balance between the institutes and available institutions, lack of sufficient institutional support for the agricultural market, formal existence of some state institutions without their effective operation. The authors of this publication suggest the directions and content of the development of the institutional environment in the agricultural production and emphasize the need to increase the role of the state in the formation of institutions necessary for the agrarian market, including the instruments of state protectionism. The issues of institutionalism certainly require further systematic research in terms of both the development of theoretical foundations and practical actions on the implementation of institutional provisions in the activities of agricultural producers.

The issues and content of this publication have been discussed and approved by the Department of Industrial Development, Ecology and Natural Resources of Vinnytsia Regional State Administration.

The research examines a set of problems counteracting the development of small businesses and outlines the approaches and opportunities of forming a favorable institutional environment in rural areas. The authors emphasize that the development of small businesses within the framework of the theory of institutionalism requires promotion of the maximum expansion of family farms as a basic unit of rural
development, regulation of the role of intermediaries in the agrarian market, facilitation of transforming private households into family farms, state support of family farms, unconditional participation of small producers in the land market formation, etc.

Practical implementation of the proposed approaches to institutional support for the development of family farms in rural areas requires further regulatory and legal support through the adoption of new laws aimed to stimulate rural development and amendments to current ones.

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СИСТЕМОУТВОРЮЮЧІ ЕЛЕМЕНТИ ТА ЧИННИKI ВПЛИВУ НА ЕКОЛОГІЧ- 
ЕКОНОМІЧНУ БЕЗПЕКУ СТАЛОГО РОЗВИТКУ АПК

У статті досліджено сутність системоутворюючих елементів та чинників впливу на екологічно-економічну безпеку сталого розвитку АПК. Екологічно-економічна безпека як один із пріоритетних напрямів економічної науки, що базується на предметних і міждисциплінарних засадах в галузі організації та управління, сприятиме формуванню нового аграрного сектора економіки. Встановлено, що система екологічно-економічної безпеки сталого розвитку АПК є складною, має розгалужену систему зв’язків та взаємопов’язана з іншими багатоступінчастими системами, в основному з продовольчою безпекою. Сформовано визначення „системи екологічно-економічної безпеки сталого розвитку АПК”. Доведено, що зв’язок екологічно-економічної безпеки сталого розвитку АПК з якістю життя населення свідчить про наявність сукупності загроз, які слід досліджувати для обґрунтування інструментарію впливу та технологій управління екологічно- 
економічною безпекою сталого розвитку АПК.

Ключові слова: екологічно-економічна безпека, сталий розвиток АПК, чинники впливу на екологічно-економічну безпеку, системоутворюючі елементи екологічно-економічної безпеки, продовольча безпека, якість життя населення.

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SYSTEM-FORMING ELEMENTS AND FACTORS INFLUENCING THE ENVIRONMENTAL AND ECONOMIC SECURITY OF SUSTAINABLE DEVELOPMENT OF AGROINDUSTRIAL COMPLEX

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