

Dichotomy of formal and informal institutions

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In modern economy a provision of resources is not so much important as the fact, which institutional conditions are created for their effective use. In this aspect, the questions of institutional support of socio-economic development of the country, the definition of relationship and the interaction of formal and informal norms become especially relevance.

By the formalization level all institutions are divided into formal and informal. Formal are fixed in rules of written law, informal are unwritten and are not documented in texts of official documents. The content, basic differences, criteria of differentiation of informal and formal institutions are disclosed in the article.

It is proved that informal institutions can ensure a stable functioning of the institutional system of society by filling institutional vacuum. Based on analysis of literary sources, the main types of interaction between informal and formal institutions in dynamic are summarized and completed, their interaction is determined.

The author argued that the use of formal and informal rules depends on a size of

transaction costs which accompany compliance. High transaction costs of using formal rules leading to partial or complete disregard and determine transition to alternative informal rules.

Informal institutions become priority in the case where formal are underdeveloped. Often informal institutions arise in areas, which are not governed by formal rules. Thus a parity of formal and informal rules is primarily determined by the effectiveness of existing formal rules. Norm, which is more convenient to use, displaces less convenient norm.

It is grounded that a size of the shadow economy is the indirect measure of evaluating the quality of the institutional system and it reflects the effectiveness of existing formal institutions. The high level of shadow economy in Ukraine testifies to the ineffectiveness of existing formal institutions.

It is concluded that the optimization of institutions' interaction depends on the state's ability to bring regulatory framework into line with the market requirements and the creation of an effective mechanism to support updated formal institutions.