

A SOCIAL STATE IN THE COUNTRIES OF CENTRAL EASTERN EUROPE AND IN UKRAINE: ECONOMIC AND POLITICAL FACTORS

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Abstract. The subject of the research is the economic and political factors of the welfare state in the countries of Central and Eastern Europe and in Ukraine. *Methodology.* The work used a comparative approach, which made it possible to study the development of social states in Central and Eastern Europe, in Ukraine, to identify their similarities and differences. The institutional approach made it possible to consider the problem as a multidimensional socio-political phenomenon, to highlight functionally and systemically important elements and to study their mutual influence. *Results.* The purpose of the article is to analyze the prospects of the welfare state in the countries of Central and Eastern Europe and Ukraine, the influence of political and economic factors on its development. To achieve this goal, the following research tasks were set: to consider the issue of the influence of democracy on economic and social development; analyze the role of the state in socio-economic processes; to study the experience of socio-economic reforms in the countries of Central and Eastern Europe, which began their reforms almost simultaneously with Ukraine, and to find out why the success of their reforms is much higher than those achieved in Ukraine; clarify the reasons for the failure of reforms in Ukraine. It is shown that democracy does not affect economic growth; at the same time, democracy is the guardian of economic and social stability. It is substantiated that the welfare state provides citizens with protection that they will never receive from the state: the “night watchman”. As world experience has shown, the market does not guarantee the protection of the economy from crises and is not a panacea for eliminating the consequences. Sometimes, the market can even pose a threat to society, for example in the field of ecology. Thus, the actions of market forces and the interests of society do not always coincide. It is argued that the idea of a stable causal relationship between the reduction in the state’s participation in the redistribution of national income and an increase in economic growth is erroneous. Failures of economic and social reforms in Ukraine are explained by the fact that their liberal version was chosen, the consequences of which can be characterized as catastrophic. The low level of professionalism of reformers and corruption also played a negative role.

Key words: welfare state, liberal politics, social and economic reforms, democracy.

JEL Classification: H53, I31

1. Introduction

The relevance of the article is due to the fact that the economic situation in Ukraine continues to deteriorate. This condemns millions of Ukrainian families to a miserable existence. Thus, according to the forecasts of the United Nations Children’s Fund (UNICEF), the poverty level in Ukraine may grow from 27 to 44%. (Combating COVID-19...). The Ministry

of Social Policy of Ukraine has denied the UNICEF forecast, which, in its opinion, is based on an incorrect methodology. However, the Ministry’s statement that “38.5% of Ukrainian residents in 2019 lived on less than 2,000 UAH per month and in 2020, there will be 45% of them” does not cause optimism (UNICEF: it actions are not taken...). This means that the social programs implemented in Ukraine do not fulfill their

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main task – to protect vulnerable segments of the population from economic difficulties.

In this regard, the purpose of the article is to analyze the prospects of the welfare state in the countries of Central and Eastern Europe and in Ukraine, the impact on its development of political and economic factors. To achieve this goal, the following research tasks were set: to consider the issue of the influence of democracy on economic and social development; analyze the role of the state in socio-economic processes; to study the experience of socio-economic reforms in the countries of Central and Eastern Europe, which began their reforms almost simultaneously with Ukraine, and to find out why the success of their reforms is much higher than those achieved in Ukraine; clarify the reasons for the failure of reforms in Ukraine.

Foreign scientists have made a great contribution to the development of political and economic aspects of the welfare state, such as R. Dahrendorf, J. Rawls, E. Harms, F. Neumann, G. von Haferkamp, G.-G. Hartwig, W. Abendroth, K. Lenk, G. Brown, M. Niehaus, G. Ehrenberg, A. Fuchs, M. Speaker, G. Vilensky, C. Lebeau, R. Titmus, A. Evers, I. Svetlik, P. Baldwin, J. Barnes, B. Wattenberg, K. Espin-Andersen, A. Hicks, J. Misra, Tang Nah Ng and many others.

2. Democracy – a consequence or a condition of socio-economic development?

Scientists have long wondered whether political freedom is a consequence or a condition for a high level of economic and social development. Some of them note that “political pluralism and democratic regulation of markets are far from indicators of automatic success in meeting certain human needs” (Deacon, Hulse, Stubbs, 1999). And this is clearly seen in countries such as South Korea, China and Cuba. Despite the fact that these countries lack stable democratic institutions and guarantees of some human rights, they have made great strides in improving human development. The experience of these countries allowed researchers to conclude that the key to their success was state management of socio-economic development, and not socialist ideology. Also, examples of a high level of economic freedom without democracy are Hong Kong and Singapore, which topped the world ranking “Economic Freedom of the World – 2020” (In the Economic Freedom of the World rating...).

As B. Deacon and others point out, the results of such studies depend on what is meant by human needs. When it comes to the right to political pluralism and freedom of speech, the successes of political regimes have a different meaning than under the condition that human needs mean the need for health (longevity), and personal freedom means access to profit and mastery of

writing. In the latter case, “the democracy of political pluralism in developing countries is not a prerequisite for meeting human needs” (Deacon, Hulse, Stubbs, 1999). Thus, the question of the relationship between democracy and social development is very controversial, and, perhaps, this can be considered one of the reasons for its popularity among scientific researchers who have devoted many of their works to this problem.

J. Healey and M. Robinson in their well-known work “Democracy, Governance and Economic Policy” note that “there is no evidence that for (developing) countries that achieve economic growth faster or reduce income inequality, the most important factors are effective management, clear understanding of decisions and political stability” (Deacon, Hulse, Stubbs, 1999).

The famous economic growth theorist R. Barro also studied the influence of democracy on economic growth. In his opinion, “...the idea that democracy in terms of suffrage is necessary for economic growth is just as wrong as the statement that poor countries definitely need a dictatorship to break out of poverty... For a country with weak institutions, weak democracy and lack of rule of law, developing democracy is less important than strengthening the rule of law to stimulate growth and investment. Moreover, democracy does not appear to have a significant direct impact on strengthening the rule of law. Therefore, it cannot be argued that democracy is a key condition for growth, because it is necessary for the rule of law” (Barro, 2000).

Historical experience shows that sometimes autocratic rule can lead to deep economic reform and social welfare. But it is also known from this experience that, over time, high levels of economic growth and human development are complemented by greater political freedom. And this is understandable, since an economically independent person thinks independently. Research findings confirm that countries with a high human development rate are also generally characterized by a high level of political freedom. As F. Fukuyama writes, the development of a market economy is not the cause of stable democracy, but rather depends on the social capital that has been formed earlier. “If public capital is abundant, both markets and a democratic political system will develop successfully, and then the market will really be able to play the role of a school of public behavior and help strengthen democratic institutions” (Fukuyama, 1999).

So, the question of the dependence of democracy and economic growth continues to be controversial. Proponents and opponents of the idea that democracy affects economic growth have strong arguments. We would venture to suggest that, nevertheless, democracy has a beneficial effect on economic development. This argument is supported by the fact that virtually all economically developed countries are liberal democracies.

3. Economic reforms and prospects for the welfare state in Central and Eastern Europe

B. Deacon, M. Hulse and P. Stubbs, examining the situation in the countries of Central and Eastern Europe, believed that, probably, in these countries, economic, cultural and historical reasons would be an obstacle to achieving the ideal combination of democratic politics and meeting human needs so, as happened, for example, in Sweden. Therefore, the choice between democracy and human development can always exist (Deacon, Hulse, Stubbs, 1999).

F. Fukuyama considered one of the problems of the CEE countries that they tried to create democratic political institutions without an efficiently functioning capitalist economy, including private enterprise, the market and competition. The result of this may be an increase in the level of poverty and the emergence of difficulties with the formation of various forms of public support, without which the normal functioning of democratic institutions is impossible (Fukuyama, 1999). The common thing in the history of democratization of the CEE countries and Ukraine is that the liberal Western democracy imposed their democratic institutions on them without taking into account national, sociocultural specifics. As a result, the adaptation to Western democratic models has not been completed yet.

The countries of Central and Eastern Europe (CEE), despite the lack of experience in reforming the command-administrative system, due to successful socio-economic policies, were able to make their economies a market economy. This success is due to the fact that with the help of democratization of state administration, it was possible to preserve the capacity and power of the authorities as such. The results of socio-economic reforms are especially successful in the Visegrad Four countries, which are considered the driver of effective changes in the region.

Having chosen the path of socio-economic reform of the country in the end of the twentieth century, the CEE countries had a strong motivation to become members of the European Union. In their economic development, they had a choice between two models: liberal and social-market.

The liberal model based on radical measures, the so-called "shock therapy", was chosen by Poland, the Czech Republic, Bulgaria, and Romania. The roadmap for liberal reforms has become the task of creating a market economy, total privatization and cutting social programs. However, practice has shown that the observance of the principle of "privatize as much as possible" in economic policy is not the best way to form real market actors and often leads to the emergence of an extremely irrational corporate governance system. It is necessary to create favorable conditions for the functioning of the private

sector, but at the same time, attention should be paid to the property that remains in the management of the state. Otherwise, the likelihood of criminalization of the entire economy of the country increases.

The liberalization of economic activity is an important condition for the formation of an effective market mechanism, but this alone is not enough. An analysis of the practice of reforms indicates a significant role of institutional transformations, including the real provision of property rights, existing antimonopoly legislation, etc. In the absence of institutional transformations, the scale of the development of the shadow economy and the criminalization of the economic sphere are growing. This explains the fact that in these states of the region, which have chosen the liberal model according to the principle of "state – night watchman", the growth of social injustice and social conflicts has increased.

Thus, since 1989, the countries of Central and Eastern Europe have tried to make a sharp leap into unregulated pluralistic democratically liberal capitalism. However, none of these countries managed to avoid an economic downturn, which negatively affected subsequent development. Liberal policies led to a drop in the level of production, an increase in income inequality, high unemployment, a fall in living standards, and a significant increase in mortality in most of these countries.

Under the influence of international financial organizations in the CEE countries (Poland, the Czech Republic, Slovakia), systemic political and institutional and economic reforms took place, which had a very painful effect on the social sphere. The market entered the education and health care systems, which could not but affect the well-being of the population. Wages have dropped significantly. In 1991, wages remained relatively high in Poland. In Hungary, Czechoslovakia, Bulgaria, Romania and Yugoslavia, it was 10-50% lower than the Polish one. (Iazhborovskaia, 2009). A tight monetary and tax policy was pursued.

In the context of the current Ukrainian situation, it is interesting that the CEE countries have been subjected to severe pressure from the European Union, which established external management in the CEE countries. Liberal democracy and market economy were proclaimed as the goals of political and economic reform. Obsessed with their desire to join the European Union as soon as possible, the CEE countries initially willingly imported democratic institutions and economic development models. The citizens of the CEE countries associated membership in the European Union with social well-being. However, the ensuing global economic crisis reduced the possibilities of the welfare state in these countries. This necessitated the intervention of a democratic state in socio-economic processes, which is one of the basic principles of the functioning of the social state. The ideological basis of the "welfare state" was the views of the English

economist J. Keynes, who substantiated the need for government intervention in the socio-economic sphere in order to prevent economic crises, unemployment, and improve the well-being of the population through the redistribution of income between different social strata (Keynes, 1993).

Lorenz von Stein, the founder of the theory of the welfare state, believed that "the welfare state is obliged to contribute to the economic and social progress of all its citizens, so the development of one is a condition for the development of the other, and it is in this sense that the welfare state is spoken of" (Von Stein, 1850).

The equality of citizens' rights to participate in government is one of the ascertaining signs of democracy. This means that the social conditions that are created for citizens enable them to exercise their political rights. It is the social state that can create such conditions, the structure of which, along with the state, includes voluntary associations, non-governmental organizations, religious and private educational institutions, etc. The type of state depends on the degree of state intervention in the sphere of civil society. If we are talking about a "strong state", it means that the government has agreed to take on greater responsibility for the welfare of citizens. If this responsibility lies with non-state bodies, then in this case we are talking about a "strong civil society".

Supporters of strengthening the role of the state in socio-economic processes have a fairly weighty argument. The hopes for an unrestrained market have led to many negative consequences. As it turned out, the market is not omnipotent, especially during crises and downturns in production. It also became clear that in industries dominated by natural monopolies, the operation of the free market contradicts the criteria of the highest economic efficiency. I. Wallerstein wittily remarked about the attempt to turn the "market" into an idol capable of creating a common paradise on Earth: "all over the world, pretending to be a panacea for all social diseases. You do not have enough food, you are tired of officials and politicians, you are oppressed by thoughts about your own future, are you worried about a recent divorce? Try the market! Have you lost the peace of mind that your grandfathers had? Try the market." It has long been no secret that the sphere of social security is not included in the range of interests of private business, and this is fraught with social tension and political instability (Andrain, 2000).

This explains the motivation of those CEE countries that preferred the social market model. It provides for the development of the social sphere: education, medicine, poverty alleviation, support of low-income groups of the population through a developed social protection system, etc. The Scandinavian countries and Germany have become a striking example of the success of the social market model.

The social market model became a reference point for the development of Hungary, for which it was very important to maintain economic and political stability. The roadmap for Hungarian reforms included measures to gradually create a mixed economy and a social market economy. As a result of this policy, Hungary was able to receive about 50% of the total volume of foreign investment placed in the CEE countries.

The 2008 economic crisis was a difficult test for all the CEE countries. It was understood that without the regulatory role of the state in the socio-economic sphere, the consequences of the crisis would become even worse. The countries of the region have launched various social programs to support the population. Special attention was paid to preserving employment, supporting pensioners, single mothers, and families with children, etc. As a result of socio-economic and political stability, economic growth began. Today, despite the pressure of international organizations, primarily the European Union, the countries of Central and Eastern Europe basically manage to balance between the recipes of the Washington consensus and the needs of the population of their countries.

In one of the latest regional reports of the IMF "Regional Economic Issues" it is noted that economic growth in the CEE countries is on the upward trend. At the same time, it is hampered by a shrinking workforce and low productivity. All of this slows down the rate at which these countries reach Western European income levels (Central and Eastern Europe...).

Due to objective economic and political problems, the CEE countries cannot hope to occupy a place among the economically developed countries in the foreseeable future. Nevertheless, the population of these countries can count on the welfare state to continue to protect them from difficult economic situations.

4. Economic reforms and prospects of the welfare state in Ukraine

As shown by the reforms carried out in Ukraine, the departure of the state from the economy led to the loss of the main protective and system-forming functions of serving the state to society. The characteristic features are an excessive increase in the bureaucratic apparatus, an increase in lobbying for the interests of certain groups of officials and associated economic structures in the economic and socio-political spheres. And this, in turn, has increased the level of corruption, which has penetrated all spheres of the Ukrainian society.

Reforms in all spheres of life in Ukraine took place at about the same time as in the CEE countries. After 1991, there was some euphoria in Ukraine about its prospects for future economic prosperity. A popular thesis was that Ukraine was the breadwinner of the entire Soviet Union, and now, having removed this burden, Ukraine

will be able to achieve its own socio-economic success. However, the real economic condition of the Ukrainian state in 1992 forced the country to become a member of the IMF and begin systemic borrowing from this organization. In exchange for financial assistance, the IMF gained control not only over economic policy, but also over the political sphere of Ukraine.

Unsuccessful economic reforms, a decline in production, as a result, a decrease in incomes led to a narrowing of the state's social responsibility to citizens, who were left alone with their problems. CEE countries in the process of reforms also faced such problems, but unlike Ukraine, they were able to cope with them. Already in the second half of the 1990s, the level of well-being in some countries (the Czech Republic, Poland, Slovakia) began to rise.

The social consequences of the reforms in Ukraine turned out to be heavy because Ukraine, like a number of countries of Central and Eastern Europe, chose the liberal version of socio-economic reform.

The spontaneous liberation of the market was not accompanied either by the formation of an efficient social protection system, or by a consistent industrial policy and employment policy that stimulated the efficient sale of labor resources. The consequence of this was, for example, a contradiction that arose and continues to gain strength between the still sufficiently high educational and professional-qualification potential of the population, on the one hand, and the deterioration of the conditions and quality of employment, on the other. The inevitable growth of social problems in these conditions is largely due to the growing underutilization of labor potential, its devaluation and gradual degradation.

The period of reform was characterized by the narrowing of opportunities for effective employment. In parallel with the growth of open and latent unemployment, there is an outflow of labor from the industries that ensure the preservation and development of the labor force, innovation and saturation of the consumer market. The expansion of the non-production sphere is due to the influx of workers into trade, public administration and the financial and credit sector.

The fall in the level of income and living standards of a significant part of the population as a result of the depreciation of labor potential is the most important criterion of social disadvantage. However, reducing the social costs of reforms to lost income lays the methodological basis for limiting social policy to the redistribution of a part of GDP in favor of the poorest strata. At the same time, attention should be paid to other aspects of this problem. Time has shown that a sharp decline in social protection of the population, for which Ukrainians were not ready, had a destructive effect on labor potential. The unpreparedness of the processes of privatization of the social sphere also played a significant role here, when the appearance of

paid services instead of free ones was not accompanied by a corresponding increase in wages.

It did not take into account the fact that freeing the market alone is not enough to form a new economy. The noted disparities in employment are generated by various factors and, first of all, the deinstitutionalization of the labor market, the weakness of the legislative framework, insufficient development of productive forces, and only as a result of this, the presence of monopolistic non-market elements. It seems that the normal functioning of the labor market is possible today only with a developed institutional infrastructure.

Almost 30 years after the beginning of the reforms, it can be stated that Ukraine has not managed to achieve the level of socio-economic success that was achieved by the CEE countries. The welfare state, which it proclaimed itself in Ukraine in Article 1 of the Constitution of Ukraine, did not take place. Throughout this period, the Ukrainian political elite was busy only with increasing their own well-being. All spheres of life in Ukraine turned out to be riddled with corruption. This is confirmed by the 126th place out of 180 countries in the ranking of the Corruption Perceptions Index-2019 (The Corruption Perceptions Index).

Low level of salaries and pensions, which does not correspond to prices for goods and services, commercialization of social services, high level of unemployment, and social insecurity of citizens – that is the situation in which Ukraine finds itself today.

In the rating "Economic Freedom in the World – 2020" Ukraine took the last place in Europe. Despite the fact that Ukraine has moved from 138th to 131st place, it is still the only European country in the group of the most economically not free countries. According to this rating, Ukraine has never managed to leave this group throughout its history (Economic Freedom Ranking 2018...).

Today, the total public debt of Ukraine is 85 billion USD. In 2015, after the crisis in a difficult financial situation on the verge of default, Ukraine on unfavorable terms restructured its debt in the amount of 19.3 billion USD, 20% of which was written off. For this, Ukraine issued new securities (GDP warrants) for the holders of Eurobonds in the amount of 3.8 billion USD economic growth rate (GDP-warrant payments...).

Some commentators explain the failures in economic and social policy with the loss of Donbass and Crimea, the need to conduct hostilities in Donbass. Of course, this could not but affect the country's economic policy. But, unfortunately, even before the war, Ukraine could not boast of socio-economic achievements. The Ukrainian-Russian conflict has exposed the fact that Ukraine has always been economically dependent on Russia. Ukrainian enterprises were mainly focused only on the Russian sales market. Europe, despite the promise

of support for Ukraine, which has chosen the European path of development, has not opened its markets for Ukraine. Those quotas that Europe provided to Ukraine for the sale of products turned out to be too small in order to positively influence the state of the country's economy.

An objective analysis shows that the establishment of a welfare state in our country continues to be a matter of the future. The path to a welfare state is complicated by the fact that we have to simultaneously address issues of economic development and urgent current problems associated, for example, with the search for new models of social protection for a significant part of the population of Ukraine. The existing system of social protection needs to be revised, since its mechanisms are not able to solve the problems of material provision of those who need help. Therefore, the main characteristics of new models of social protection should be both social and economic efficiency.

5. Conclusion

1. Consideration of the issue of the influence of democracy on economic and social development has shown that democracy does not affect economic growth; at the same time, democracy is the guardian of economic and social stability. Political freedom helps to attract investment, develop small and medium-sized businesses, and guarantees private property, which generally reduces the likelihood of social instability. On the other hand, economic growth helps to strengthen democracy. In addition, in a democratic country, the political class through elections is responsible to the voters for the economic course and its results. As for the relationship between the welfare state and economic growth, the first is a factor of the second. In turn, economic growth ensures the effectiveness of the welfare state.

2. Analysis of the role of the state in socio-economic processes has shown that the welfare state provides citizens with protection that they will never receive from the state: the "night watchman". Liberal politicians and economists are skeptical about the strengthening of the role of the state in the socio-economic sphere, since the market is considered the most perfect or even ideal institution capable of independently resolving any complex problems of the economy. However, this is precisely the case when theory diverged from practice. As world experience has shown, the market does not guarantee the protection of the economy from crises and is not a panacea for eliminating the consequences. Sometimes the market can even pose a threat to society, for example in the field of ecology. Thus, the actions of market forces and the interests of society do not always coincide.

The idea of strengthening the state should not be replaced by the idea of strengthening the bureaucratic

apparatus. The real strength of the state as a public institution depends on its support from society, on how adequately it expresses public ideas and priorities.

3. The experience of reforming in the countries of Central and Eastern Europe shows that the idea of a stable causal relationship between a reduction in state participation in the redistribution of national income and an increase in economic growth is erroneous. Another myth turned out to be the assertion of a direct relationship between the scale of the private sector and the rate of economic growth. In the reformed countries, the greatest economic effect was achieved already at the stage of commercialization of the activities of state enterprises.

4. Failures of economic and social reforms in Ukraine are explained by the fact that their liberal version was chosen, the consequences of which can be characterized as catastrophic. The stagnation of the economy, the continuous outflow of capital abroad, the aggravation of the social situation – this is an incomplete list of conditions in which the population of Ukraine found itself as a result of the reforms in the direction of liberalism. The low level of professionalism of reformers and corruption also played a negative role.

The experience of reforming in the countries of Central and Eastern Europe shows that decentralization has played an important role in socio-economic development, which is not yet fully functional in Ukraine. But without close interconnection and cooperation between the state and civil society, one cannot count on successful reforming of the country's economy and implementation of effective economic policy. Institutions of civil society and local self-government, that is, organizations that reflect the interests of the widest sections of the population, should be able to participate in solving the most important political and socio-economic problems. Given this, it is advisable to change the priorities of state policy towards greater socialization of the Ukrainian state, as established by Art. 1 of the Constitution of Ukraine.

It should be noted that the scientific study of the essence, functions, formation of the welfare state in Ukraine has been going on for at least two decades. However, answers to questions have not been given yet, such as determining the boundaries of state intervention in the socio-economic sphere; elimination of sharp differences in the material status of individuals; the consequences of managerial decisions in the field of social policy for the population; dependence of the degree of increase in social spending on the level of professionalism in the legislative and executive authorities and many other problems, the development of which will give an impetus to the further development of the theoretical basis for the practical implementation of the principles of the welfare state in Ukraine.

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