



## SCHUMPETER'S THEORY OF ECONOMIC DEVELOPMENT AND MODERN CIVIL SOCIETY: POINTS OF INTERACTION

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Received: 29 November 2022; Accepted: 17 December 2022; Online Published: 02 March 2023

### ABSTRACT

The article substantiates that in connection with the development of socio-economic relations in states, Schumpeter's theory of economic development can be more widely applicable to entities, whose purpose of the activity is different from making a profit and which collectively make up civil society. Accordingly, the **aim** of the article is to investigate the points of interaction between Schumpeter's theory of economic development and modern civil society.

To achieve the goal of the research, a set of general scientific and special **research methods** was used, in particular, the abstract-logical method, including methods of analogy and comparison, induction and deduction, scientific abstraction; logical generalization and systematization; economic and statistical methods, namely: graphical, systematic, comparative and others.

**Results:** The author substantiates that Schumpeter's theory of economic development, which is still relevant, acquires new outlines with the change in social and political processes and becomes more widely applied. It is revealed that previously Schumpeter's theory of economic development and the theory of civil society were studied separately. The author substantiates that Schumpeter's theory of economic development involves taking into account specific areas of social development, which can be applied to the activities of the non-profit sector. At the same time, thanks to the practical contribution of civil society to the social and economic development of states, civil society and Schumpeter's theory of economic development have found points of interaction.

**Conclusions:** Thus, the article substantiates that common points of interaction include education and dissemination of knowledge; population employment; economic activity; social entrepreneurship; investment, and innovation. The presence of these areas has a positive impact on the development of both theories: economic development and civil society, which at the same time creates a basis for further scientific research in this direction.

**Keywords:** economic development, civil society, state policy, civil society institutions.

**JEL classification:** O10; O30; O35.

**Paper type:** Research article

**Citation:** Tkachuk, I. (2023). Schumpeter's theory of economic development and modern civil society: points of interaction. *Access to science, business, innovation in digital economy*, ACCESS Press, 4(2), 182-193, [https://doi.org/10.46656/access.2023.4.2\(3\)](https://doi.org/10.46656/access.2023.4.2(3))

### INTRODUCTION

The world is changing significantly over time. It is obvious that the approaches to the interpretation of certain economic phenomena are also changing, because the economy has perhaps the greatest influence on the life of entire societies and, simultaneously, reflects their style and manner. This also applies to the theory of



economic development, which should be studied today taking into account modern trends and challenges. Civil society combines non-governmental organizations that cover almost the entire population of states with their needs and interests, promotes the development of personality, civic education, and responsibility, and therefore, in the end, cannot but influence economic development.

A large number of scientists who want to find out the meaning of each of the phenomena and the peculiarities of their functioning turn to the issues of economic development and civil society in their research (Uteubaev, Petrova & Lyubenova, 2018; Linde, Petrova, 2018; Jarmusevica et al, 2019). Let us consider the approaches of some of them in terms of each of the theories.

### *The civil society theory*

Back in the 18th century, in "*An essay on the history of civil society*", Ferguson A. interprets the concept of social progress as the development of civil political and social order, human rights, and freedoms. The philosopher expressed the opinion that people should be considered in communities (groups) - the way they have always lived (Ferguson, 1980).

Civil society is studied by modern scientists both from an existential point of view and in interaction with other spheres. Thus, Edward M. in his scientific work "Civil Society" claims that "civil society might be the big idea for the twenty-first century" (Edwards, 2009, p. 4).

Carothers, T. and Barndt, W. (1999), stressed the idea that new thinking reflected changing economic realities: the rise of private property, market competition, and the bourgeoisie and that it also grew out of the mounting popular demand for liberty (Carothers et al., 1999).

Seligman, A. B., examining the idea of civil society from a historical perspective and under the influence of modern factors, indicates that "the resulting picture is one of great ambiguity and not a little confusion as the idea of civil society has come to mean one set of principles and practices to thinkers working in the liberating tradition of politics and another to their more conservative critics" (Seligman, 1995, p. 7). We agree with the scientist and also want to note that civil society, as one of the most "alive" concepts of the 21st century, cannot be "driven" into the conventional framework of certain political thinking.

Chandhoke, N., denotes the idea of civil society as having proved very elusive, escaping conceptual grasps and evading sure-footed negotiation of the concept itself (Chandhoke, 2007).

After examining the works of Lock, Hobbes, Rousseau, and other philosophers of the Scottish Enlightenment, Tester K. concludes that through civil society the protagonists and heirs of European modernity struggled to make their words meaningful and safe (Tester, 2014).

Foley M. and Edwards B., distinguish civil society into two logical groups "Civil society I" and "Civil society II". "Civil society I" postulates the positive effects of association for governance (albeit democratic governance), the "Civil society II" emphasizes the importance of civil association as a counterweight to the state (Foley et al., 1996).



A group of fifteen scientists in their essays indicates how an influential Western idea like civil society is itself altered and innovatively modified by the specific contexts of intellectual and practical life in the societies (Kaviraj et al., 2001).

Earlier also, while researching the finances of civil society, we noted that in modern conditions it can produce a huge number of innovations in the state, and innovations, in particular, democratic ones, can influence the methodology of researching the very finances of civil society (Tkachuk, 2020).

Chambers S. explores 6 spheres of interaction between civil society and the state: civil society apart from the state; civil society against the state; civil society in support of the state; civil society in dialogue with the state; civil society in partnership with the state; civil society beyond the state. The scientists stress that these 6 perspectives on society/state relations are not mutually exclusive nor do they necessarily compete with each other. However, each of the models of interaction indicates what is important and interesting in the interaction between the state and civil society. In addition, philosophers divide all the scientific research into three groups: which include the economy into civil society (Walzer, Lomasky); which exclude the economy (Cohen and Arato, Keane); which include economic relations only to the extent that they are folded into associational life (Chambers, 2006).

### *The theory of the economic development*

The problems of economic development were brought to another level after the publication of the essay by J.-A. Schumpeter's "Theory of economic development" (Schumpeter, 2003).

Much later, in 1961, Ranis, G. and Fei, J. contributed to the theory of growth by rigorously analysing the transition process through which an underdeveloped economy hopes to move from a condition of stagnation to one of self-sustaining growth (Ranis et al., 1961).

The purpose of the scientific work of Leibenstein, H., written in 1978, was to show that at least for some types of problems faced by developing countries, a broader and more general theory than the conventional one is likely to be more relevant to several issues at hand (Leibenstein, 1978).

Nevertheless, in the 21st century, the study of economic development remains relevant and many scientists address these issues in their scientific works, adding a certain novelty to the theory.

Jones C. I., addressing the question What explains the enormous differences in incomes across countries? notes that "just as a chain is only as strong as its weakest link, problems along a production chain can sharply reduce output under complementarity. These forces considerably amplify distortions to the allocation of resources, bringing us closer to understanding large income differences across countries" (Jones, 2011, p. 1).

In another work "Knowledge and the Theory of Economic Development" Jones C. I. stresses that "modern growth theory views the discovery of new knowledge as the key driving force underlying economic growth. In the theory of economic development, however, knowledge has played a much less significant role" (Jones, 2006, p. 2).



Lewis W., setting out the problems to be solved if mankind is to be freed from poverty, embraces the disciplines of economics, history, sociology, politics, and anthropology in their coverage. Focusing on outputs and growth (rather than distribution and consumption) scientist in their research discusses the economic institutions, knowledge, capital, population, resources, and government, and their role in the growth of output per head for population (Lewis, 2013).

Ros J., points out 'trespassing' between two disciplines: development economics and growth theory. The philosopher points out that these two disciplines have not been studied inseparably, and emphasizes that they should be interacting closely with one another. Even more, “many insights of development economics are not only very valuable but can be made perfectly intelligible to researchers working on the economics of growth, and that some of the formal contributions of orthodox growth theory can be put to good use in clarifying unsettled (and sometimes obscurely formulated) issues in development theory” (Ros, 2001, p. 5).

Copp C. M., defines the new task of development economics, noting that it “focuses on improving fiscal, economic, and social conditions in developing countries” (Copp, 2022). At the same time, the philosopher considers such factors as health, education, working conditions, domestic and international policies, and market conditions as those that focus on improving conditions in the world's poorest countries.

Despite the contribution of the above-mentioned scientists to the study of the problems of ensuring economic development, the functioning of civil society, and the limits of their interaction, as well as taking into account that over time both theories have significantly expanded, going beyond their own existence and taking into account several transdisciplinary factors, it is important to research Schumpeter's theory of economic development on the subject of applicability to the functioning of modern civil society.

Thus, the aim of the article is to investigate the points of interaction between Schumpeter's theory of economic development and modern civil society.

## **METHODS**

A set of general scientific and special research methods was used to achieve the research goal. In particular, the abstract-logical method, in particular the methods of analogy and comparison, induction and deduction, scientific abstraction (to substantiate the expediency of applying Schumpeter's theory of economic development to theoretical research and practical development of civil society); logical generalization and systematization (when forming an approach to determining points of interaction between Schumpeter's theory of economic development and modern civil society); economic and statistical methods, namely: graphical, systematic, comparative (to visualize points of interaction between Schumpeter's theory of economic development and modern civil society) and others.



## RESULTS

A lot of time has passed since the appearance of the first attempts to interpret the category of economic development and the factors affecting it. Accordingly, economic currents existing at different times had their influence on the formation of economic thought and consideration of this phenomenon. Schumpeter was the first to apply a significantly different approach to the interpretation of economic development and its causes. Thus, in his fundamental work "Theory of Economic Development" he notes that the economy, which is focused on the reproduction and development of the traditional structure of production (the "static" type of development), cannot significantly increase its wealth and social welfare, because the development of traditional competitive markets over time limits the creation of new added value within the country.

Schumpeter argued that any fact cannot be exclusively or purely economic — there are always other, often more important aspects (Schumpeter, 2006).

The same opinion is held by Dr. Novotnyi, who in the introduction to the Ukrainian edition of "Theories of Economic Development" by J.-A. Schumpeter notes that Schumpeter always considered the understanding and development of economic theory in its close relationship with the history of economics, sociology, and statistics to be his main task (Schumpeter, 2011, p. 5). Such a vision is extremely modern because today clear boundaries between various economic and social objects of research have been erased. The same applies to the relationship between the main spheres: the state, business, households, and civil society. These spheres are so closely intertwined that sometimes it is even difficult to separate them, while factors related to a specific sphere simultaneously affect other spheres. For example, we understand that the cost of credit is a factor that traditionally belongs to the business sphere; however, in modern conditions, it can affect the general image of the state, and also acts as a factor that significantly determines the purchasing power of households and civil society organizations.

Another feature of the 21st century, there is a growing mass of information in daily circulation and knowledge created and accumulated by mankind. Accordingly, the central driving factor of economic growth is the creation of new knowledge to ensure effective innovative development. Moreover, therefore, today, as noted by Yu. Bazhal, the tasks related to ensuring an accelerated transition to a knowledge-based economy, which implies a significant increase in the significance of the policy of innovative structural restructuring of the European united economy, take priority (Schumpeter, 2011, p. 9).

Schumpeter himself notes that the indisputable growth of the wealth of factual material must constantly generate new theoretical knowledge and in this way improve existing theoretical constructions (Schumpeter, 2006). However, such a transition is based on the psychological characteristics of individuals, who by their very nature gravitate towards constancy and at first internally resist changes (like any other biological organism). Thus, the development of scientific thought led to the need to consider economic development concerning the development of civil society, which can ensure a smooth and stress-free transition of individuals from the use of old technologies to the use of new ones.



In addition, since it is impossible to obtain new results using old combinations (in modern science, innovations), civil society becomes exactly that element that is "on the surface" and can provide a new impetus for the economic development of states.

Schumpeter claims that each individual tries to find the best distribution of all goods under specific conditions in such a way that such distribution is the best (according to the provision of maximum marginal utility) (Schumpeter, 2011, p. 41). It is important that the individual will try to achieve this distribution by all possible means. For this, he needs certain knowledge and skills. If he already had the experience of making such a distribution before, then, according to Schumpeter, he will use it; however, if he did not have such experience before, then it is important for an individual to acquire it.

In modern conditions, knowledge and experience can be acquired in several different ways. You can turn to traditional or non-traditional education systems. However, the first requires an investment of time and often, financial resources (it takes several years of life to get a traditional education. In addition, education is quite expensive, except for cases of free education, which can be obtained for academic (rating) success or social status). At the same time, the traditional education system usually offers the acquisition of theoretical knowledge, without practical skills, which, in addition, are often outdated. And the second (informal education), which is resorted to mainly by already employed individuals, usually requires diversion from the main employment, is quite expensive and segmentary, as it does not provide full-fledged knowledge in any direction (it should rather be used as a supplement to traditional education). Another way to gain experience and knowledge is direct employment in a certain field, but this is not always available to certain individuals for various reasons (for example, due to employment in another field, lack of work experience, etc.).

In this case, civil society itself occupies a special niche in acquiring knowledge and forming the necessary experience. Thanks to civil society, individuals unite in organizations based on common interests, and therefore, having united, they begin to find themselves in a special environment, which is thoroughly "saturated" with ideas and knowledge related to a specific area of interest. Thus, civil society not only produces concrete special knowledge, but also acts as an environment for their accumulation, exchange, and approbation.

The result of acquiring such experience, in particular, and gained thanks to the activities of civil society institutions, is the formation of professional specialization of members of social groups. As Schumpeter notes, when there is a professional specialization of members of social groups, we can distinguish classes of people whose activities are mainly economic or commercial in nature, from those whose economic aspect is overshadowed by others (Schumpeter, 2011, p. 22). In this case, the economic life of society is represented by a special group, although all its other members must also be economically active (Schumpeter, 2011, p. 22).

In this regard, it is worth emphasizing once again the role of civil society. However, this time not as a union of institutes that perform a semiotic function, but as integration centers that at the same time also perform personnel and communication functions. That is, civil society organizations not only contribute to increasing the level of education of the population, and its awareness of the most important problems of a socio-economic



nature, but also contribute to active communication of participants within the community, thanks to which the so-called "personnel reserves" of modern "changemakers" are formed. Speaking of the latter, we note that another important function performed by modern civil society is the integration function, thanks to which there is a significant increase in the number of young people with a progressive vision of the development of society. In the modern world, the activities of civil society organizations whose activities are aimed at democratizing societies and improving the level of the social environment are usually financed by Western and American funds. Sometimes funding comes from local private or municipal funds. Some well-known organizations and foundations aimed at financing social policy, development of democracy, and protection of human rights in Ukraine are The European Endowment for Democracy, the Embassy of the USA, the Konrad Adenauer Foundation, USA ID, and others.

Some scientists, studying civil society, also distinguish a group of economic functions. Such as, for example, economic, financial, material, and technical. However, we believe that these functions are almost the most important of those that are characteristic of civil society organizations. That is why, in our opinion, they should be distinguished not as separate functions, but as a separate block, which, together with the social element, serves as the socio-economic base for the implementation of the rest of the functions of civil society (Tkachuk, 2015).

The specified socio-economic base expresses the practical role of civil society in the formation and redistribution of state resources and their contribution to the development of national economies. In the economically developed countries of the world, a significant economic effect is observed from the activities of civil society institutions. Thus, in the analytical report "On the State of Development of the State of Ukraine's State Government", prepared by the National Institute of Strategic Studies, the following analytical data were indicated, characterizing the contribution of the State Government institutions to the development of the world economy (National Institute for Strategic Studies, 2012):

- NGOs create on average from 3 to 9% of the GDP of developed countries (for example, 5% in Belgium and 7.9% in Canada);
- the contribution of NGOs to the GDP of EU countries is growing twice as fast as the contribution of light industry;
- civil society as a whole is the world's seventh economy in terms of GDP (1.3 trillion conditional units, which is equal to the GDP of France or Great Britain);
- in the public sector of the EU countries, from 4.4% to 14% of the working population, or at least five people out of every hundred, are employed;
- 10 times more people work in the public sector of the European Union than in light industry, and 5 times more than in the food industry;
- civil society has created more than 25 million paid jobs in the world (the largest transnational corporation creates 3.5 million jobs);



- 60 % of civil society representatives (including volunteers) are engaged in providing services, of which 40 % are focused on social, medical, and educational services;

- in the countries of Central and Eastern Europe, NGOs attract three times more internal and external investments in the social sphere than social state and communal institutions of social direction.

Thus, civil society has already occupied its specific niche in ensuring the social and economic development of the developed countries of the world and continues to gain importance in developing countries. Moreover, economic and innovative activities are gaining more and more importance for civil society organizations (Tkachuk, 2020).

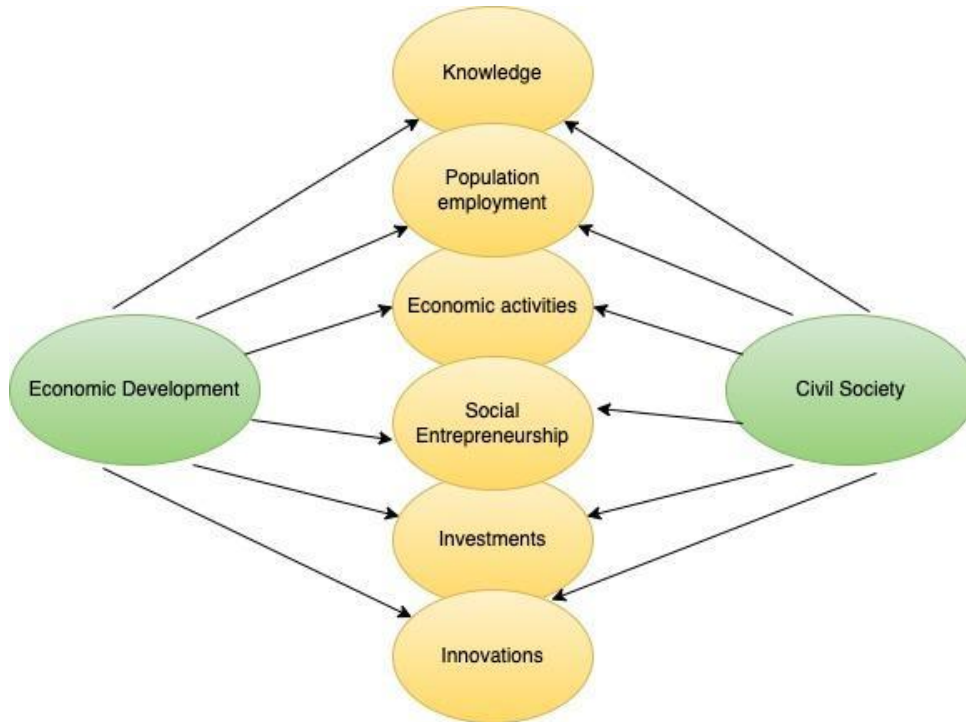
Nevertheless, what stimulates the development of the economic process itself? Schumpeter's statement that "existing external conditions and individual needs appear as two determining factors of the economic process and together determine the result" (Schumpeter, 2011, p. 29) is indisputable. At the same time, we consider it correct to consider the needs and values of society (as a set of needs and values of individuals) as external factors. However, the basis of acquiring values in society and, accordingly, the formation of needs is not only upbringing in the family, but also, to a large extent, upbringing and learning in educational institutions.

The report of the National Institute for Strategic Studies emphasizes that civic education should contribute to the formation of civic identity, and the ability, and readiness of a person to make an informed choice (National Institute for Strategic Studies, 2022). Thus, the level of involvement of the population in civil society organizations depends on the level of civic education of the population. At the same time, the level of civic education increases thanks to the institutions of civil society, namely depending on how effective they are in performing the semiotic function. We get a kind of closed circle, which at the same time has a factor of external influence. To "spin" this circle even more, it is necessary to raise the level of civic consciousness and awareness, primarily of children and youth, regarding the existing mechanisms of public participation, which can be achieved by including programs on civic education in the educational process, which is currently being carried out in Ukraine (Ministry of education of Ukraine).

Another available and used tool for the development of the economic activity, which is used by civil society institutions, is social entrepreneurship. In the report of the National Institute for Strategic Studies for 2021, a special place is allocated to the development of social entrepreneurship in Ukraine, in particular during the war (National Institute for Strategic Studies, 2021). The use of this tool by civil society institutions has increased significantly since the beginning of Russia's invasion of Ukraine in 2014. Today, after the events on February 24, when the Russian Federation announced the announcement of a special military operation in Ukraine, which provoked a wave of internal migration, social entrepreneurship has gained new development and importance, expanding the range of services from the field of nutrition to the provision of treatment and rehabilitation services.



Thus, the main points in which the theory of economic development is actualized for the functioning of modern civil society are such as education and dissemination of knowledge; population employment; economic activity; social entrepreneurship; investments, and innovations (Fig. 1.).



**Figure 1.** Schumpeter's theory of economic development and modern civil society: points of interaction

*Source:* Author's illustration

Depicted in fig. 1 spheres are precisely those points of interaction that are important for civil society because they explain the relevance and applicability for it of Schumpeter's theory of economic development. At the same time, they show how changes in the modern world give "new breath" to established theories. After all, Schumpeter in his "Theory of Economic Development" mainly wrote about the role of entities whose purpose is to make a profit, and today we already apply it to non-profit organizations.

## CONCLUSION

The theory of economic development, which is still relevant, with the change of socio-political processes acquires new outlines and becomes more widely applied. Therefore, Schumpeter's theory of economic development and the theory of civil society, which were previously studied separately, today, thanks to the practical contribution of civil society to the social and economic development of states, found points of interaction. Such points of interaction include education and dissemination of knowledge; population employment; economic activity; social entrepreneurship; investment and innovation.



The above-mentioned areas, on the one hand, actualize Schumpeter's theory of economic development for theoretical research and practical development of civil society. On the other hand, the presence of points of interaction between the mentioned theory of Schumpeter and civil society modernizes the very theory of Economic Development, expanding its applicability from commercial institutions and organizations to organizations whose purpose of the activity is different from making a profit.

Recognition of the fact that civil society has points of interaction with Schumpeter's theory of economic development, and in practice directly affects the social and economic development of the state, which was briefly proved in the article, makes it possible to outline further directions of economic research in a certain direction. Thus, as part of the APEX Four Years Full Scientific Program at the Fil. Dr. Jan-U. Sandal Institute, the role of civil society in the production of innovations will be further explored; the role of city development institutes for the socio-economic development of municipalities and the state; the influence of the activities of civil society institutions on the socio-economic development of the state.

**Author Contributions:** Conceptualization, IT; methodology, IT; formal analysis, IT; investigation, IT; project administration, IT; data curation, IT; resources, IT; supervision, IT; validation, IT; writing—original draft preparation, IT; writing—review and editing, IT.

The author has read and agreed to the published version of the manuscript.

**Funding:** not applicable

**Institutional Review Board Statement:** not applicable

**Informed Consent Statement:** not applicable

**Data Availability Statement:** The data presented in this study are available on request from the corresponding author.

## **Acknowledgment**

This scientific article was created at the Fil. Dr. Jan-U. Sandal Institute, Finstadjordet, Norway, in the frame of the Four Years Full Scientific Program. The paper was created with the support of the Summit Fund (ES-01-A- Scientific Entrepreneur Grant) awarded by Fil. Dr. Jan-U. Sandal Institute. The article has been presented at the 84<sup>th</sup> Summit Conversations on Emerging Issues in Social Entrepreneurship.

## **Conflict of interests**

The authors declare no conflict of interest.



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