THE THEORY OF ECONOMIC DYNAMICS AT INSTITUTIONALISTS

The Summary of PhD thesis

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Research topic

The topic of economic dynamics – referring to the factors that determine the expansion and development of nations – has always been one of interest for those who ventured on the realm of economic theory and who have, usefully, expended their energy on this topic. Ever since economics developed as a science we have been observing a large number of theories focused on the factors which determine expansions and prosperity. In spite of the numerous attempts to identify the determinants of positive dynamics, a limited number of economists have understood and assessed economic science in an animated, organic nature, considering it as a moral science, which cannot be disconnected from the social sphere and placed in a strictly abstract context. If the analysis dedicated to the factors that generate growth and development have eclipsed the attention of economists, the opposing perspective – investigating the elements that influence and maintain negative economic dynamic, was avoided. Beyond the classical and neoclassical perspective regarding economic growth and that of the determinants of wealth, recent analyses suggest that, currently, the new institutional economy is frequently referred to in order to offer a pertinent answer to the subject of development disparities, an issue that is heavily ingrained among the nations of the World.

The institutional approach proposes a new, more terrestrial vision. In an imperfect world, in which transactions are permanently governed by uncertainty, risk, information asymmetry, the limited rationality of the actors and opportunistic behavior, the market – seen as the queen of the game – does not possess the ability to offer complete protection. Out of various elements considered, those that are more frequently discussed in order to reinstate order and discipline are the institutions. So powerful is their action that economic analysis undergoes a general internal reconversion. Thus, the center of gravity, around which all other constituting elements revolve around, is shifting from the market to the institutions. These are becoming a reference parameter which directs economic research on other paths than those that were being utilized until recently in the various classical and neoclassical incursions. The narrative line of this thesis is focused on the significance of institutions, both formal and informal, in “piloting” economic dynamics. This is the context in which the overall institutional economic theory was used, including various references to general economic theory, such as the works of the classicists, pre-classicists, Austrian economists and the German history school, who have prefaced, in general terms, the decantation of various elements with true institutional roles (e.g. natural order, spontaneous order, free market, private propriety, money). The rules of the game are all the more significant when developing countries are targeted. In the particular situation of the former communist countries, which have experienced the difficult paths of transition to capitalism and democracy, various informal norms represent the key element to understanding the sources for failure and
success. In such a context, Douglass North’s path dependence becomes more than illustrative, fortifying the belief that, in the process of economic growth, institutions matter.

**The scientific aim of the research**

The aim of the current research is concerned with both the outlining of essential elements, which form the substrate of economic dynamics, with the multitude of factors that this allows, and the highlighting, by means of example, of the binomial relationship between institutions and the economic dynamics of countries. In other words, the paper aims to outline a detailed study in the field of economic dynamics, which demonstrates that the quality of the institutions can be considered a barometer for the economic health of countries. Special attention is given to nations who have debuted in the universe of capitalism through the painful transition process.

On the one hand, starting from the overall perspective (which confirms the fundamental contribution of the institutional component in establishing the growth and development trend), the focus is on the quality of the rules of the game. We consider that they have the sufficient capacity to explain both the success and the economic frailty of World nations. In order to accurately outline this feature, we have referred to the main economic doctrines, as well as to the evolutionist vision embraced by the institutional construct. On the other hand, the thesis wishes to meet the research needs observed both on a holistic level, but especially internally, with regard to the identification of theoretical answers to the issue of modest economic dynamics, which is capable to accurately frame the complete set of socio-economic shortcomings and to propose an adequate institutional “therapy”. By referring to the severe dysfunctions which have manifested themselves nationally, both in the transition period and in the context of EU membership, we consider that the stringency of this analysis is entitled. By exploiting this theme, we aim to offer a pertinent explanation for Romania’s frail economic dynamic, starting with the first years of the transition and ending with the present day, while considering all the aspects involved.

**Methodology**

The methodological framework is composed of a combination between a qualitative and a quantitative approach, in which the guidelines of the research are traced under the tutelage of the qualitative research, which is representative for the sphere of socio-humanity sciences. Thus, the research approach is predominantly qualitative, diachronic, based on deduction and comparison. This allows us to delve into the depth of the research topic based on understanding and interpretation. The reasoning aims to be deductive based on the general-particular trajectory. This will be utilized in tandem with analysis, analogy and the comparison method. The
Diachronic perspective allows for an accurate presentation of the economic and social evolution seen as a succession of events. The impact of the past is decisive on the current economic state and on the future one. Thus, a correct perception of the past can lead to the identification of the sources for both success and blockage. The data will be accessed by means of desk research, an approach that allows the consultation of papers and relevant research in the field. It also allows the use of mediated data collection: official statistics, reports, studies, archives etc. In addition, the use of comparison, together with the reference to concrete examples offers an increased accuracy when assessing the between-countries discrepancies in terms of economic development. The situation of Romania, with its pathe dependence, becomes emblematic for the particular case of an unfavorable institutional interaction, as opposed to the other European states that have experienced socialism. The approach of certain subjects, such as the analysis and study of economic dynamics, the significance of institutions at the societal level, the economic evolutionism (hosted both in the area of general economic science and particularly in the area of institutional economics) or the determining contribution that informal institutions have on the economic dynamics of countries, allows for the use of observation and desk research. In addition, the exploration of the language and vocabulary specific to institutional economics is compulsory in order to be able to extract certain subtleties which are specific to this theoretical field. The analysis will be performed by approaching the anchored theory, which will allow the validation of the observed reality and an analysis based on which the observation was implemented. With regard to the quantitative component, this will be utilized in the final part of the last chapter, in which we offer an analysis of panel data, specifically a Granger causality analysis between the socio-economic frailty of transition countries and the GDP growth rate (as an illustrative variable for economic dynamic). Its role is to provide an outline for the research in our attempt to underline the relationship between the quality and the efficacy of institutions respectively and the recorded dynamic of the economy.

Chapter presentation

This thesis is structured into five chapters. Each one of these has its own contribution to the manner in which the economic dynamics subject is approached and understood. Thus, the first chapter (“General acceptations of economic dynamics”) highlights the connotations that can be attributed to the phenomenon itself in connection to the various aspects of economic theory. It also explains the phenomenon by referring to the traditional economic factors that are capable of generating growth and development. The second chapter (“The binomial relationship between institutions and economic development”) focuses on analyzing the symbiotic relationship
between these two components and aims to underline the contribution of the rules of the game to the pace of economic development. The insertion of institutions into the orbit of economics enjoys a special tradition, which surpasses the borders of neo-institutionalism. At the same time, the chapter pays special attention to the taxonomies and the particularities of institutions and later transfers this attention towards the specifics of institutional change and towards the impact that institutional dynamics has within the economic sphere. In chapter three (“Fundamental institutions in the determination of economic dynamics”) the focus falls on those rules of the game which have had a profound impact in the field of national prosperity and progress even since economics first emerged as a science. Issues such as the natural order in the physiocratic view, the market as a result of Adam Smith’s labor division and exchange and Mises’ labor division and human cooperation, the spontaneous order and Hayek’s rule of law, money from the perspective of Carl Menger and later Marx, and private propriety in the view of John Locke constitute some of the most important elements that economic theory claims are institutions with a fundamental role in the sketching of a positive economic evolution. The fourth chapter (“Landmarks in the transformation of economic evolutionism”) is reserved for an incursion into the realm of evolutionist ideas, with which institutional analysis has maintained a permanent contact. On the direction marked by Lamarck – Darwin – Spencer, economic theory has acquired a profound evolutionist charge. This can be observed both in the general economic theory, in the works of leading figures such as Alfred Marshall, Friederich von Hayek, Nicolae Georgescu Roegen or Joseph Alois Schumpeter (who was unwittingly classified as an evolutionist), as well as the works of representatives of institutional economics, such as Thorstein Veblen and Walton Hamilton, Armen Alchian, Harold Demsetz, Richard Nelson, Sidney Winter or Douglass North. The last chapter (“Economic dynamics in Romania – an approach from the perspective of institutional economics”) aims to be a case study that offers the paper its contour. Starting from the fundamental role of informal institutions, the chapter places special attention on the so called anatomy of the prevalent unofficial substrate in the context of all the former communist countries, aiming to outline a comparative analysis of how the soviet experience has vitiated the quality of social values and attitudes that have a fundamental role in “piloting” transition towards capitalism and liberty. In order to underline the negative impact of the values and habits (that were tainted by means of the socialist experiment) on the rate of economic development for transition countries, this last chapter uses a panel type data analysis. In addition, the Granger causality is meant to underline the consonance between the efficacy of the rules of the game and the pace imprinted on economic dynamics. The end of the paper offers a presentation of the general conclusions that can be drawn, as a result of the approach that was undertaken in studying the chosen research topic.
Chapter I. General acceptations of economic dynamics

Regarding the subject of economic dynamics, we would like to point out that this concept did not emerge together with neo-institutionalism. It actually enjoyed special attention from both classicists and pre-classicists, by means of the physiocratic school. All these approaches also included an institutional component, in the sense that elements such as: natural order, the division of labor, cooperation, exchange, represented those practices and institutions that favored the growth and development of nations. However, they were not assessed as institutions or rules of the game, as the focus was placed strictly on the sources that increase the wealth of nations. The economic analysis was disconnected from these humanistic references by the neoclassicists, whose abstract instruments. Beyond this disconnect, however, economic dynamics was always enlivened by the use of good practices. The physiocrats’ institution of natural order provides an initial framing of the subject of positive economic evolution. The main representatives of the classical school also paid attention to the sources of the wealth of nations. When the analysis is extracted from its natural framework and placed within an ideal, abstract vision, an irremediable rupture occurs, which suppresses the model’s capacity to offer a pertinent explanation regarding what is occurring in reality. With the exception of the second wave of the Austrian school, the neoclassicists have redefined the frame of analysis to static dimensions and ideal conditions. Being preoccupied with equilibrium and optimal choices, they have designed their own research environment based on the model of a market with pure and perfect competition and the logic of maximum profits, placing at the center of their analysis the selfish, rapacious individual, who is perfectly rational and able to permanently deliberate regarding the choices that would maximize satisfaction. Thus, the neoclassical analysis is successfully included in the typology of approaches that consider the growth and development of nations in the context of an institutional void. In such a context, Solow’s model of economic growth tends to be, in our opinion, representative for the neoclassical idea of economic dynamics in the absence of institutions. When institutions are included in the analysis, a significant change is observed: the analysis of economic dynamics becomes humanized by being included in a set of temporal and special coordinates, thus providing it with a natural “habitat”. The individual undergoes the analyses in the context of the qualities and imperfections which are specific to human nature. The individual is extracted from the hedonist analysis of neoclassicists and assessed under the circumstances of a limited rationality. Such a context, governed by imprecision and risks, explains, in our opinion, the acute need for efficient institutions. They are regarded as inducing order and transparency by conditioning the contribution of traditional factors to the growth and development of nations.
Chapter II. The binomial relationship between institutions and economic development

Institutions display miraculous “abilities” regarding the stimulation of economic development. Under this tile we introduce the “rules of the game” which facilitate living and human interaction in a fallible world. In spite of this, it is important to point out the fact that their insertion within economic analysis is not a recent approach, especially one accomplished by the singular contribution of institutionalism in its new and its old formula. Assessed in the sense of “good practices”, institutions represent a nearly omnipresent component of the economic sphere. Thus, for example, in Menger’s view, the emergence of institutions takes place as “unintentional consequences of the individual choices” made with the purpose of materializing certain own interests of the individual. This is why money, for example, gain the connotations of a social institution enlivened by human nature’s desire to gain significant advantages from an exchange. The belief of German historicism proves itself to be especially attached to the study of the individual within his societal environment. It is within this context that the institutional dimension is projected. The organic analysis of economic phenomena is vitalized by belonging to the family environment – a social group or the nation itself, all of which are institutions. Later, the representatives of the Virginia School, both those belonging to the School of propriety rights – Ronald Coase or Douglass North, who will later be identified within the body of neo-institutionalism, as well as the representatives of Public Choice, through James Buchanan or Gordon Tullock, have managed, in their own manner, to open up to the analysis of the economy in the context of the existence and manifestation of institutions. The first highlighted the role of propriety rights, of laws, and the state as institutional supports, while the second pointed out the skepticism regarding the insertion of the state in the internal geometry of the economy. In spite of this, we notice that the array of instruments that the institutional field benefits from is a vast and generous one. The Austrian school of economics, through personalities such as Ludwig von Mises and Friedrich von Hayek will continue their commendation of institutions for introducing order and social harmony together with the New Institutional Economy, which will transform the rules of the game into the alpha and the omega of the economic dynamics theory. The act of labor division and that of human cooperation represent projections of Mises’ institutional vision. The commendation of the free market by Friedrich von Hayek is accentuated by the focus he puts on the concepts of social order and rules. They provide a general preface to the institutional vision of the author and, at the same time, of the New Institutional Economy.

The taxonomy of institutions is diverse, from the pairings organic-pragmatic institutions, internal-external, formal-informal etc. In connection to the categories of existing institutions, we acknowledge that there is a two-way relationship between institutions and the economic
evolution. The fluctuation of the economy between the two aspects of dynamics is determined by the quality of the institutional environment, by the capacity of the rules of the game to exploit the potential of every nation separately. The institutional dynamics seems to favor development when the metamorphosis of the formal institutions is in complete agreement with the informal institutions. The sphere of informal or unofficial institutions is considered to be omnipresent, even dominant within the ample phenomenon of change and incremental evolution of the institutional field. They represent the actual DNA of the entire process. On this basis, we consider that the cultural dimension, with its wide diversity, has a significant contribution to what we often refer to as the quality of the informal rules. Thus, we consider that a short incursion within the aspects discussed by Geert Hofstede and reconsidered by his successors offers a support which aids the understanding of the profound implications that this area has on the societal behavior. Thus, the long term orientation, power distance, individualism or colectivism, uncertainty avoidance, indulgence or austerity, and masculinity or femininity represent cultural variables that classify nations within the perimeter of very specific appearances and send a subtle message regarding the efficacy or ineffectiveness of the genetic cultural heritage.

Chapter III. Fundamental institutions in the determination of economic dynamics

The analysis of the economic field cannot be extracted from its native environment, which is characterized by two fundamental variables: time and space. The first one, time, attests the profoundly dynamic character of economic science and, thus, its predisposition towards change, evolution, perpetual movement, which is observed through the irreversible passage along the temporal dimension. The second characteristic, space, serves as a controlling variable for the amplitude of the economic transformations, in the sense that economic progress or regress are highly dependent on the special coordinates of a nation, respectively: geographical positioning, climate, culture, wealth of natural resources etc. The space itself does not strictly refer to the location or geographic position. One can refer to the marking of some clear, implicit landmarks within the so called “ideological space”. In such a context, we can highlight in a clearer way the potential for one nation to accede to a higher level of economic dynamics or to remain limited to an undesirable level of development. Institutions, seen from the perspective of good practices adopted within a community (due to the benefits that they generate at the individual and the social level) have constituted a reliable “partner” of the transformations seen within economics. It is not just the sphere of economics that went through its own dynamic, but also the connotations associated with the term “institution” have varied over time. Therefore, we can also
point out the existence of a dynamic of institutions, whose emergence was modest, but promising. We retain one of the first aspects of today’s rules of the game – that of good practices, of routines that have been built up gradually, as an unwitting consequence of the choices made by the members of a community. Money, the division of labor, social cooperation and private propriety represent only some notable examples. The natural order designed by the physiocrats illustrates an initial landmark for the wellness generating rules of the game. Next, the virtues of endogenous order represent a reference point for Hayek’s work, which commends its importance in protecting humanity from the imminent danger of disguised planning. Thus, the equivalent of spontaneous order in the field of rules is illustrated, in the vision of Hayek by “nomos” – rules that are generated from this spontaneous state of things, which refers to human action, but that does not constitute, as Adam Ferguson pointed out, the result of human design¹. Mises warns of the particular significance of the “free market institution”, resulting from the two fundamental economic forces: labor division and human cooperation. This has the merit of offering continuity to the path opened by Adam Smith regarding the emergence of the “market” from “labor division” and “exchange”. “Propriety” represents, by far, a fundamental institution of the capitalist economic system. Its origins are discussed with great finesse in the work of Adam Smith and John Locke. Through labor, individuals can implement a transformation in the natural framework of resources, based on their own effort. Considering that this is the result of a personal contribution, it motivates them and gives them the right to appropriate the fruits of their labor. Once this “original appropriation” or “homesteading” takes place, the human being gains the right to private propriety over that resource. Private propriety has the role of preventing the so called “tragedy of the common goods” described by Garret Hardin. Moreover, Mises and Hayek point to the relationship between propriety and another institution – “liberty”, which is a natural continuation of the former. The incursion into the fabulous universe of propriety could not exclude the antagonistic view regarding “collective propriety” of economists such as Marx, who advocated for the abolition of private propriety, or Proudhon, who considered propriety to be a form of theft. Beyond exchange, cooperation, order and the free market, the field of economics cannot be separated from the institution of “money”, which, as Carl Menger states, can also be seen as natural and spontaneous.

**Chapter IV. Landmarks in the transformation of economic evolutionism**

As stated by Veblen himself, institutional economics should be promoted to the rank of evolutionary science as they (the institutions) behave in an evolutionary manner, they become

decanted over time and are transmitted to the future generations. The path designed by Jean Baptiste Lamarck, Charles Darwin and Herbert Simon seems as heterogeneous as it was inspirational in the field of economic evolutionism. This is why Alfred Marshall steadfastly stated that “the true Mecca of the economist is biology, not mechanics”. In this case, the selection is manifested in an ex-post manner, the dominating traits being transmitted genetically after the actual manifestation of the change. Joseph Alois Schumpeter enjoys the position of a true inspiration in the field, without ever claiming to belong to the colorful evolutionary vision – at times, he demonstrated a hostile attitude toward the analysis of economic phenomena by referring to such “amateurish” ideas. In spite of this, we consider that the evolution of capitalism, a dynamic system by the innate nature of its defining features – innovation and creative destruction – is unable to display an evolutionary character in the absence of variation, heredity and the selection mechanism. Hayek has the merit of underlining the crucial importance of “ethics” in the ongoing evolutionary processes. It is from him that we learn that the ethical principles represent the result of an evolutionary process in which the surviving economic system possesses the most appropriate ethical characteristics. Social evolution in the vision of Hayek can be perceived in terms of an “expansion of the spontaneous order”, a development process that is decanted over the course of hundreds of years from a cultural, not genetic, point of view. At its core, social progress represents a natural selection process for rules and institutions. Prosperity is seen as a result of the “imitation” of those norms and institutions which have the highest quality. Nicolae Georgescu Roegen considers that the historical processes cannot be illustrated through mathematical formulas. The irreversible evolutionism of Roegen is located in the shadow of the law of entropy. This refers to “a one-way transformation” of valuable natural resources, with a low entropy, into worthless waste, with a high entropy. Human action is at fault for this entropic degradation through the increase of the rate of extraction and consumption of natural resources and the expulsion of polluting wastes into the environment. These are the consequences of the human being’s “joie de vivre”. The future seems to be a bleak one. The anchor that can prevent us from slipping into this inferno, comes from the cultural matrix and from the values that directly invoke honest and responsible practices. These ideas illustrate the path toward the evolutionary dimension of Roegen’s vision. Culture seems to act as a mediator in the transfer of values and attitudes that serve as a support for economic growth and development. By transferring the attention toward institutional economics, the

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evolutionist vision retains the same nuances. Using the theoretical heritage of the Darwinist vision, Veblen aims to “promote” economics to the rank of modern and evolutionary economic science. Veblen perceives the “evolution of the social structure” as a “selection process for institutions”. Thus, the institutions become “an inertial factor of social and psychological inertia”. In order to illustrate this, Veblen uses the example of the upper class, which manifests an increased rigidity in relation to the need for institutional progress, due to the abundance of means of living that they enjoy. Armen Alchian proposes a new perspective for economic evolutionism. The environment is the one that performs the selection of economic entities, forcing them to a minimum of rationality. Maximum profit is replaced by satisfactory profit. In the case of Milton Friedman, the principle of natural selection is concerned with the behavior of market actors that act “as if they are maximizing” their profit (either consciously or subconsciously). Sidney Winter and Richard Nelson examine thing from the point of view of organizational behavior and consider capitalism as a source of change, referring especially to innovative competition. Companies compete on the market and only those entities that have proven themselves to be efficient at an organizational level are able to survive. In this case, it is the routine that acts as a means of genetically transmitting those traits that are able to determine the capacity of obtaining economic performance.

Finally, when considering the representatives of the new institutionalism, the evolutionary vision of Douglas North cannot be omitted. The selection process considers those individual and collective behaviors that show the best adaptation. The filtration of these is done through adaptation and innovation. The institutional change is the one that outlines the societies’ evolution over time. The selection of the most adequate behavioral norms is mediated by the institutions, which go through a selection process of their own. The type of institutions (efficient or less efficient) that are decanted determine the direction of the economic dynamic, which will fluctuate between rise and decline. Thus, the main selection criteria is what North calls “path dependency”.

Chapter V. Economic dynamics in Romania – an approach based on the institutional economy

Romania, as a country aspiring to the status of developed nation, has known even from the first years of transition a precarious evolution, even chaotic at times of the economic sector, as well as of the social one, with reference to the general dimensions of the transformation. The

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“labor” associated with the birth of capitalism was felt not only inland, but implicitly in the rest of the satellite states of the Soviet Union, in which context the attention of the specialized analysis has been put not only on the social reconstruction, but mainly on the economic dynamics these nations have known. From this last point of view, the reality of the last decades confirms major discrepancies between the former communist states, a sign that the distinguishing marks of the economic evolution have taken the “cloak” of national specifics. After more than two decades of transition, Romania is shown to be profoundly scarred by the reminiscences of the past, which are now identifiable with the image of a corrupt, bureaucratic environment lacking efficiency and vigor. Past the serious errors and inconsistencies which led the path of transition towards chaos and disorder, we hold responsible for the current state of events the artefactual, genetic structure of Romanian people as a substrate on which the much coveted capitalist society has later developed. As a consequence, the echo of initiatives by formal institutions, spotted in measures and policies for society metamorphosis as a whole, has been severely attenuated by the inertiality of informal institutions. Here the preeminence of the informal institutions raises a big question regarding the resultant of institutional interactions and, thereby, regarding the direction and cadence given to the economic dynamics. In this respect, the explanation given by Svetozar Pejovich, with his interaction thesis stays more than illustrative. One of the forces involved in the process is illustrated by the formal institutional component, meaning economic, legal and especially political rules which the former satellite states of the USSR have created using the pattern from the states in the democratic, capitalist world, with the intention on rebuilding the bases of society on healthy foundations. The ones that illustrate the epicenter are the informal institutions, meaning the values, traditions, attitudes, norms of behavior, therefore luggage received through the genetic branch. The desired modifications to these institutions belonging to the sphere of the unofficial are much slower, as they are not suitable for deliberate human manipulation. We thus ascertain the existence of a permanent need for complementarity between the changes which occur on the institutional level, so that the creation of a land propitious to development, based on the reduction of transaction costs and wealth growth can come into discussion. The antagonistic situation, of incompatibilities manifested between the two institutional areas will fuel the expansion of transactional costs and, thereby, the decoupling of the respective country from its growth potential. On these grounds we would like to emphasize that these unofficial rules are responsible for the stagnation or the capping to an undesirable level of development in general, but especially in the particular

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situation of states which have experienced the process of transition. The natural aspirations of the former communist states towards prosperity have guided their footsteps throughout the transition from plan to market. Formal measures were aimed at the construction of base pillars for the capitalist economy, but their echo has varied in intensity, from one country to another, fact that can be explained both by the self effectiveness of the new rules, but also mainly by the efficiency of the informal institutional substrate. Regardless of the posture in which it was manifested, by adopting an abrupt route or one based on the policy of small steps, transition can be seen as an indispensable stage in the evolution of these states. In places where the cultural, social patrimony was less indoctrinated by the deviant values and practices of collectivism, i.e. in countries such as Poland, Slovenia and the Czech Republic, effects were soon made apparent. In states such as Romania or Bulgaria the effectiveness of the results was compromised by the deviant conduct of the ones who kept watch over the implementation of the reforms.

While the policy of radical change meant calling for social measures which promised future wellbeing, at the price of momentary dissatisfaction, of sacrifice which the entire society would have had to endure, the strategy of gradual transformation was motivated exactly on the background of reduced suffering for the population, under the pretext of gradual adaptation to all that is new. Such a perspective did not only give to society the illusion of wellbeing with minimum efforts, but has offered fertile lands to those who were responsible with the implementation of changes to persist in the same grave errors. It seems that the states which sympathized the idea of gradual transition were exactly the ones which had assimilated in their own artefactual structure the values and supporting principles of the socialist ideology, the ones which were shown to be more attached to the collective reasoning, displaying fear of separation from the past and of shaping an independent path. Genetically and culturally materialized evolutionism has allowed the perpetuation of values, traditions and behavioral patterns which have been converted into a burden that weighs too heavily on the shoulders of Romania and Bulgaria. On the background of displayed docility, they fall with great success among nations with a strong preference towards power\textsuperscript{7}. In Romania and Bulgaria the “creative destruction” of the old totalitarian institutions did not work, instead they remained more attached to de Russian model of “capitalists without capitalism”\textsuperscript{8}. The persistence of corruption, bureaucracy and inefficiency has been a source of blockage that veiled the path of development. At the level of formal measures undertaken since the 1990s in order to materialize the transition to capitalism and democracy, the same inefficiency of vitiated values and attitudes coming from the

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communist experience mediated their decoupling from the expected efficiency. Flawed privatization started late, only in 1995-1996, being void of the accuracy of real exigencies. Chaos dominated over the conduit of the political class in the most important years following the implosion of USSR, denoting the fact that the great reformers lacked a clear strategy. As pointed out by Tom Gallagher, many hesitations have been in Romania regarding the realization of the privatization process, elements which generated a willful delay of the reforms implemented in this regard. In other terms, a true transformation of the institutional arrangements based on the capitalist model was not wanted in post-revolutionary Romania. The reasons are simple, since the revolution in December 1989 only marked the apparent detachment from the old ideology. It has survived the lesson in democracy, perverting capitalism into a new, heterogeneous and ill construct. The manner in which privatization occurred in Romanian economy is totally detached from the ethic load of private property, in the sense that instead of the much coveted social order, the effect was exactly the opposite, of chaos and disorder. The efficiency and non-waste which would have had to result here from were completely missing. Nor its economic benefits made their presence felt. As a fundamental institution of the capitalist market economy, the role of private property is crucial for the annulment the great “curse” of the socialist economic system: the impossibility of economic calculation. In Romania however, “the calculations” were a task given to the state and its own employees, workers of the targeted enterprises, which, severely exploited by the collectivist experience, not only found themselves unprepared to assume such a high responsibility, but also not knowing how to do it. Dispersing the property to such a large number of owners with coupons made this impossible. Then, let us not forget of the disproportionate percentage of the shares held by the Private Property Fund, of only 30%, compared to 70% owned by the State Property Fund. In other words, the so called privatization did not depart the permanent control of the state. To blame, says Mises, are the bureaucrats in the state structures, to whom the economy was and will remain a taboo. The massive intervention of politics has vitiated the reforms undertaken in various fields. Whether discussing about macroeconomic stabilization, the banking area or the social area, Romania’s dynamic has always been inferior to that of other states.

The designer of the former “social nirvana”, now transposed in democratic clothes was confronted with a challenge he was not prepared for, that of ensuring “the respect for individual freedoms, namely harmonizing them with the collective interest”\(^9\). The break was inevitable,  

because the individual interests, which belonged to the governors, were not aligned with the ones of society and this discrepancy, although of a minor share in the core of society, proved to be of a major impact in piloting the transition towards the market economy. Partial and successive reforms veiled the transition to democracy and free market, perpetuating chaos and inefficiency. Beyond the disruptive effects of values inherited from the socialist experience, the momentum imposed on the domestic economy can be justified inclusively on the background of the informal institutional substrate which precedes it, defining the psychology of the Romanian people in the landmarks of time. A brief stop on its historic origins emphasizes the difficulties encountered in the intention to outline a personal cultural identity, imitation being a recurrent practice with destabilizing effects on the long term. Permanently subjected to foreign, barbaric invasions, the Romanian people were denied the chance to crystallize a personal mentality, values and attitudes which are naturally decanted. “The orphan child of European history” as personified by Emil Cioran, has suffered such mutations in the cultural field, the field of values, precisely against the background of tolerance, piety, excessive humanity, which were gradually converted into a factor of stagnation. In completing the particular involution we find the heterogeneity of the indigenous mentality, it reflecting the echo of historical evolution. As outlined by Virgil Madgearu, the Romanian people can be characterized by a few major attributes, i.e. conservatism, traditionalism and increased religiosity. Locked in an environment where the results of personal labor became ephemeral, as a result of numerous foreign invasions, in a climate over which a permanent sign of uncertainty reigned, the Romanian people were inoculated with short term thinking, the lack of confidence in the chance for a better life and, here from, the state of indifference, hesitation, lack of motivation to achieve great and durable things. Then, such a behavior has degenerated into chaos, incoherence and even shallowness. Taking advantage of the “blemish” of tolerance, the vast majority of positive behavioral patterns were “contaminated” through the Slavic branch and metamorphosed into an opaque genetic heritage. The cultural profile of the Romanian people offered the informal background on which the arrangements of the socialist institutions were later “grafted”. Making use of coercion, terror or oppression, the virulence of anarchy has atrophied the psychology of the entire nation. Its suffering did not end here, the architectural perfection of centralization being modeled, in the communist era, by resorting to “the well intended” rationalization of utilities, of food, by depriving the population of what was necessary for the minimum conditions of subsistence. Well

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12 Pohoată, I., Socoliu, O., The hereditary imprint of informal institutions in emerging economies. The case of Romania, VIth International Conference Globalization and Higher Education in Economics and Business Administration (GEBA), 2012, p. 338.
anchored in the register of “communist reasoning” the Romanian socialism was classified as the most articulate and effervescent in the region of Central and Eastern Europe. Thus, the cardinal principle of socialism, i.e. collectivism, was kept alive by illicit group activities, during which the institution of the working man fell into derisory. After 1989, a permanent state of tension has been installed in Romania between the informal wealth it started with and the exigencies of the capitalist market economy. In the terms given by Lucian Boia, this constant battle was fought between form and substance. Under these circumstances, the much coveted symbols of western civilization become, in the national context, nothing more than mere “dead products, unfounded claims, bodiless ghosts and illusions without truth”. From our point of view, we consider that the great problem of transition in Romania has its origins, as economic theory itself warns us, in human action. It illustrates the vector of socio-economic changes. Unfortunately, on domestic land it altered both the meaning and connotations of the institution of private property, without which the free market was decoupled from its own order, of democracy and the meaning of rule of law, completely detached from its Hayekian sense, etc. Great reformers are rather transposed into the representatives of the “luxury class” from the work of Thorstein Veblen. Theft has been a handy practice, in which context we find that values such as honesty, fairness, citizenship, morality remain at the status of inert traits of human conduct. The so called path dependence or dependence of the past becomes responsible for the ongoing social animosities, fact which certifies that Romania does not possess a healthy moral tradition. The impediments arising in this way have been also empirically demonstrated by the panel analysis applied to a number of 19 states which have experienced the transition to a market economy. Moreover, through the Granger causality it was emphasized that the entire load from informal institutions reflected in the socio-economic fragility of these states possesses a significant influence on the economic dynamics. For states in which the level of economic freedom, the quality of the rule of law, corruption and the level of democracy have offered positive signals, this was also reflected in the momentum of economic expansion and growth. Unfortunately, Romania does not enjoy this privileged position, indicating the existence of acute vulnerabilities in terms of the effectiveness of informal institutional level.

Conclusions

Following a journey that took us on various "paths" of the economic theory, full of meaning and substance, we find that the subject of economic growth in its positive connotations

enjoyed a special status, which is the center of attraction for the economic theory since ancient times. The emphasis laid on the individual, the self-regulating capacity of the market, the free enterprise, the individualism characteristic of the human nature have an additional contribution to the classical pathway. The human approach which allows the expression of moral feelings, beyond the egocentric natural valences of the individual was, however, forgotten by neoclassical movement. Despite their charm, the neoclassical analyses intertwined with mathematical equations and complex graphics, which furnish the economic side with an additional scientific pattern, skip unfortunately an essential particularity of the social area they are circumscribed to, which is the need for a time and space. The neoclassical analyses sketch a hypothetical framework able to generate equally hypothetical answers. Solow’s equations meant to offer substance to the model validate the beneficial contribution of the savings rate’s increase, population growth and technical progress to the origin of positive economic growth. However, they invalidate the real applicability of the model. From this perspective, such an analysis aiming at perfection is representative for what we call economic dynamics within the institutional vacuum. Although it enjoys a special place in the economic analysis in time and space, the insertion of institutions into the economic theory has not been sparked by the institutionalists. From this point of view Carl Menger's position is worth considering, which presents the rules of the game due to the emergence of unintended human actions. Depicted from a distinguished perspective which does not place the individual at the center of the analyses, but the social context he belong to and from which he cannot be extracted, institutions appear according to the German Historical School as best practices serving since centuries the social interests, hence providing identity for the social system.

The wide opening to the study of institutions according to the best practices study has had a significant contribution to the morality of the social human behaviour. In this respect, whether we claim either Smith’s or Locke’s property rights, Hayek’s and Mises’ freedom and rule of law, the liberty - property relationship described by Mises, the role of money and free market, the overall outcome can only be beneficial. Mises believes in the imperfection of human nature because of its limited rationality (i.e. native propensity of individuals to cooperation) which makes Hayek a pathfinder in the field of norms and rules a society needs to correct the deficit of rationality or the attainment of order. According to the old and, particularly, the new institutionalism we get in touch with a human approach manner vis-à-vis economics, a new perspective which admits fallibility and imperfection as individual traits within a society. Neoinstitutionalism brings to the fore the complementarity between institutions and prosperity, highlighting the importance of rules and regulations to bring about economic performance. Thus, we realise that economy is a part of the social sciences broader domain extremely sensitive and
vulnerable to external pressures and its resistance to change lies in the quality of its institutional environment. Having this as a backdrop we consider that economic growth is not only closely in tune with institutional change, but it is also precisely guided by the institutions’ “invisible hand”. Either formal or informal, the institutions are designed to limit uncertainty and steer human interaction. Since the official rules subject to human intentionality have enjoyed a greater flexibility, the informal ones decide the societal change.

The same vision of “locomotion” is strengthened by the economic evolutionism pathway which includes various manifestations. Focusing on the evolutionary movement developed within biological sciences we have cast a thorough glance on the work undertaken in this field by three leading figures - Jean Baptiste Lamarck, Charles Darwin and Herbert Spencer. Their work has been a real source of inspiration for what has subsequently emerged as economic evolutionism. Thus, Lamarck reveals us a primary way of perceiving the evolution of species, an approach according to which the manifested changes are the result of the grassroots environment. According to Charles Darwin evolution of species by natural selection is influenced by time and it is a matter of survival of the fittest. This expression, coined by Herbert Spencer, has become an iconic phrase in the analysis of evolutionary processes. Spencer explains social progress based on the quality of individual biological traits inherited from previous generations, sharing from this perspective Lamarck’s standpoint. Moving the analysis from biology to economy, we notice that the insertion of evolutionary ideas of biological origin is not something novel for economists, when they seek to outline the evolutionary stages of the economic processes. Marshall is in line with Spencer’s and Lamarck’s evolutionary ideas which are the outcome of the changes in the economic environment. We believe, for Hayek, culture is the best means to ensure the transfer of values and behavioural norms. From this we learn that ethics filter selection illustrates able to sort out the economic systems dominated by high ethical principles. Hayek regards culture as essential for ensuring the transfer of dominant traits from one generation to another. Finding refuge in culture is for Roegen a one-way path, without any possibility of return, based on a certain dose of fatalism. Humanity, animated by its desire to live, transforms resources vital for survival into high entropy “waste”. In all this chaos, cultural values attained genetically remain the only chance of salvation. Moving the focus of our attention to the area of institutional economics, one can observe a plurality of positions and approaches that abound in evolutionary load. According to Veblen, the evolution of the economy is limited, ultimately, to the extensive process of institutional development. From Armen Alchian’s standpoint, the economic environment is the one has the ability to shape the economic agents in tune with the logic of the satisfactory profit which has become the new selection filter. For Milton Friedman and Fritz Machlup the symbol of heredity in terms of firm behaviour is the
so-called routine. Following the same Lamarckian path, Douglass North explains the major disparities in the economic development, based on the so-called dependence path. Evolutionism, according to North, is achieved via each nation’s specific culture which governs their path forward. The domestic societal evolutionism has meant a shift from the planned economy to the open market, but in terms of efficiency changes are scarce, signalling that the selection mechanism has not worked properly; the dominant elements, more persistent than the positive values of the Romanian people, have been the ones inherited from the Soviet experience. The hereditary imprint from the past, the rules and norms of conduct, the centralised plan have been perpetuated throughout the past years breeding rampant corruption, bureaucracy, inefficiency and lack of transparency, flawed economic policies designed to serve the interests of the ruling class. Against the background, Romania requires a real “Transfiguration”, in the sense of Emil Cioran’s words, able to redefine spiritually, historically and politically. From an overall perspective, we believe transition in Romania still does not have a finalité politique, our country still lagging behind in terms of economic and social transformation. In such a context, we consider that refining informal norms and values is the only chance for a nation to catch up with its prosperous counterparts.

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