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INSTITUTIONAL FACTORS OF ECONOMIC DEVELOPMENT WITH IN SEE6

This paper has two hypotheses to confirm: first, institutional factors of society and economy which can have formal, informal and alternative character, directly affect the indicators of economic development; and second, relations between institutional factors and economic development in the last 25 years in transitional countries (European South-East case) has been dysfunctional due to strong influence of alternative institutions.

Keywords: institutional pluralism; institutional changes; alternative institutions; South East Europe.

Нікша Гргуревич, Мімо Драшкович, Міліца Делібашич ІНСТИТУЦІЙНІ ФАКТОРИ ЕКОНОМІЧНОГО РОЗВИТКУ: ЗА ДАНИМИ ПІВДЕННО-СХІДНОЇ ЄВРОПИ

У статті проведено детальне доведення двох авторських гіпотез: 1) інституційні фактори, що можуть мати формальний, неформальний та альтернативний характер, суттєво впливають на економічний розвиток; та 2) за останні 25 років для країн, що розвиваються (що продемонстровано на прикладі Південно-Східної Європи) взаємодію інституційних факторів та економічного розвитку не можна назвати ефективною через домінуючий вплив саме альтернативних інститутів.

Ключові слова: інституційний плюралізм; інституційні зміни; альтернативні інститути; Південно-Східна Європа.

Рис. 1. Табл. 2. Літ. 11.

Никша Гргуревич, Мимо Драшкович, Милица Делибашич ИНСТИТУЦИОНАЛЬНЫЕ ФАКТОРЫ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ: ПО ДАННЫМ ЮГО-ВОСТОЧНОЙ ЕВРОПЫ

В статье проведено детальное доказательство двух авторских гипотез: 1) институциональные факторы, которые могут иметь формальный, неформальный или альтернативный характер, существенно влияют на экономическое развитие; и 2) за последние 25 лет для развивающихся стран (что показано на примере Юго-Восточной Европы) взаимодействие между институциональными факторами и экономическим развитием нельзя назвать эффективным из-за доминирующего влияния именно альтернативных институтов.

Ключевые слова: институциональный плюрализм; институциональные изменения; альтернативные институты; Юго-Восточная Европа.

Introduction. As known, alternative institutions belong to anti-organizational factors. They represent the core of the hindering mechanism, which for the last 25 years prevented the economic development of many transitional countries, including the Southeast European countries (further – SEE6). Many authors have noted that non-market allocations of privileges lead to numerous conflicts, not only between the organizational methods of political and economic sectors in society, but also in social subsystems. Institutional indicators, institutional innovations and institutional changes are not on the satisfactory level, and are significantly behind those in

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developed countries. Economic practice of SEE6 has been showing extreme crisis characteristics. All previous reforms have proved unsuccessful. Most authors think that the main reason for rejecting real institutional changes has been conscious and interest-oriented ignoring of institutional development factors and institutional pluralism as a civilizational imperative and development priority.

In theory and practice, more efficient social and economic institutions undoubtedly facilitate economic development. Institutional rules of conduct in Western (and other developed) economic systems have been evolutionary. In transitional economies, the topic of institutional change is relatively new, with poor roots in business practice and slightly better in theoretical grounds. Therefore, it is very important to explore the basic theoretical and practical components of institutional factors of economic development.

The review of relevant literature. Previous theoretical studies have confirmed the dominance of understanding about the necessary application and the positive impact of social and economic institutional framework on economic growth and sustainable economic development. In this context, there is a crucial, a theoretical, but also a practical dilemma (referring to economic policy) and considering the role of respective economic institutions – market regulation and state regulation. This dilemma has significantly influenced the level and the quality of applied institutional arrangements in the post-socialist transitional economies of SEE. In the reviewed numerous literature works of the examined scientific fields, the prevailing share use the pluralistic (integrated, synergistic) approach to building institutional environment as a framework for economic development.

In literature, many analyze the observed relationship and interdependence between institutions and economic development. However, very few directly review the relationship between institutions and economic development of the SEE6 countries in transition. For the purposes of this study, citations include rare works available regarding this research topic. Among them are: S. Acimovic (2012) "Inconsistencies in The Creation of Regulatory Bodies as Important Economic Institutions in Transition Countries: Example of Serbia"; M. Draskovic (2009) "Priority of the Anti-Crisis Economic Policy Bases on Innovative-Institutional Changes"; V. Draskovic (2010) "The Real Institutionalization as a Condition of the Efficient Economic Politics and Economic Development of the SEE States"; V. Draskovic and M. Draskovic (2013) "Institutions, order and tranzition".

These works have clearly highlighted the gap between the existing theoretical recommendations, and the unawareness of the resulting negative practical achievements. As pointed out, deficit and insufficient use of institutional changes in the SEE6 countries are the main reason for reproducing the crisis and the main limiting factors of economic and social progress. These are also official marks, which are mostly of rhetorical character, because they were not accompanied by corresponding concrete measures in practice, for which in developed world there exist proven and effective practical exemplary models that could be modified and adapted to local specificities. Unfortunately, neither of these models, nor the proposed theoretical-methodological and analytical models from the mentioned sources, were ever used for generating institutional components of economic behavior, or promoting the required institutional changes. It seems that neither practical, nor theoretical models

of exemplary recommendations are not used because of dominant interest-motives of the "reformers" in the SEE countries.

At the theoretical level, there are disputes about overlapping issues and areas for economic institutions, their social orientation and engagement, defining the institutional balance and the metaphorical term "institutional man" as a synonym of limited economic rationality. However, this does not question the recommendation consistency of the respective neo-institutional economic theories.

Importance of institutional pluralism for economic development. The concept of institutional pluralism in theory and practice is contrary to the quasi-liberal concept of institutional monism, which directly supports the substitution of mass individualism by individualism of the few (privileged, "elite") individuals. Its deep roots are in the ideas of various economic trend representatives, as quoted in detail by M. Draskovic et al. (2013: 267):

- German historical school as a special direction of German political economy (G. Schmoller, L. Brentano, A. Vagner, V. Zombart),
- American "old" institutionalism of the late 19th and early 20th century and the resulting analysis of comparative economic systems, which have been especially developed in the 1970s;
- Russian economic school of the 1920s (the so-called "New Economic Policy" 1921–1929) by N. Bukharin, N. Kondratiev et al.;
- J.M. Keynes and representatives of the three "streams" – conservative-central, liberal-reformist and radical-reformist;
- liberal-reformist (J. Commons, W. Mitchel, J. Clark, J. K. Galbraith, R. Heilbroner) and social-reformist direction (G. Myrdal, J. Tinbergen, A. Cole et al.);
- neoclassical synthesis of the 1950s and 1960s;
- the theory of postindustrial society (D. Bell, H. Kahn, K. Bolding, A. Touraine and beyond A. Toffler, J. Naisbitt, M. Castels, I. Wallerstein, U. Beck et al.);
- "disaggregated" economic approach to the concept of property, developed by representatives of neo-institutionalism (H. Demsets, R. Coase, A. Alchian, G. Stigler, M. Jensen A. Honore, L. De Alessi, S. Pejovich et al.);
- neo-institutional theory of the state (D. North, H. Nutting, G. Calabresi et al.), which is not fully developed, and from which in the 1960s has separated the so-called Economy rights (R. Posner, J. Hirshleifer et al.);
- many western economists, who emphasise the efficiency of state institutions and the methods of their functioning.

Many authors, who do not support the existing institutional theories, have also directly or indirectly advocated the principles of institutional pluralism: eg., A. Toynbee (1934: 150) wrote about the "conversion of unilateral characteristics (unification) into their true unity (unity)", J.K. Galbraith (1990: 9) – "about complex mixture of market incentives, state legitimation and political democracy", and A. Toffler (1990: 59): "diversity and versatility are the most important characteristics of transition to a post-industrial society".

In all neo-institutional and new-institutional economic theories, despite the fact that they are based on neoclassical methodological individualism, with its numerous interpretations of public choice, property rights, optimal contract etc., application of institutional pluralism in economic development is directly suggested. Thus, for

example, A. Denzau and D. North (1994: 20) insist on "coevolutionary process" of ideologies and institutions, and emphasize that the complementarity and synergy of market institutions and state regulation has no rational alternative. D. North (1981: 32) has used the term "institutional structure" as a synonym for pluralism of institutions, primarily referring to "the structure of property rights, by which is achieved the income maximization and a high level of freedom". G. Hodgston (1998: 8) also stated the need for institutional synergy as a "bridge between the two levels of analysis", as reflected in harmonization "from macroeconomic top to the microeconomic bottom".

In theory and practice it has been proven that economic development implies a pluralistic action of economic institutions, i.e. macroeconomic basis of microeconomics is generated in an efficient, high-quality and pluralistic institutional environment. Recent studies of D. North (2010) explained why institutions of market regulation can be good or bad: it is about their different quality and efficiency. Translated into the phenomenon of economic development, that means that it functionally depends, not only of intellectual capital (knowledge), information technology and innovation, but also on institutional pluralism (Figure 1).

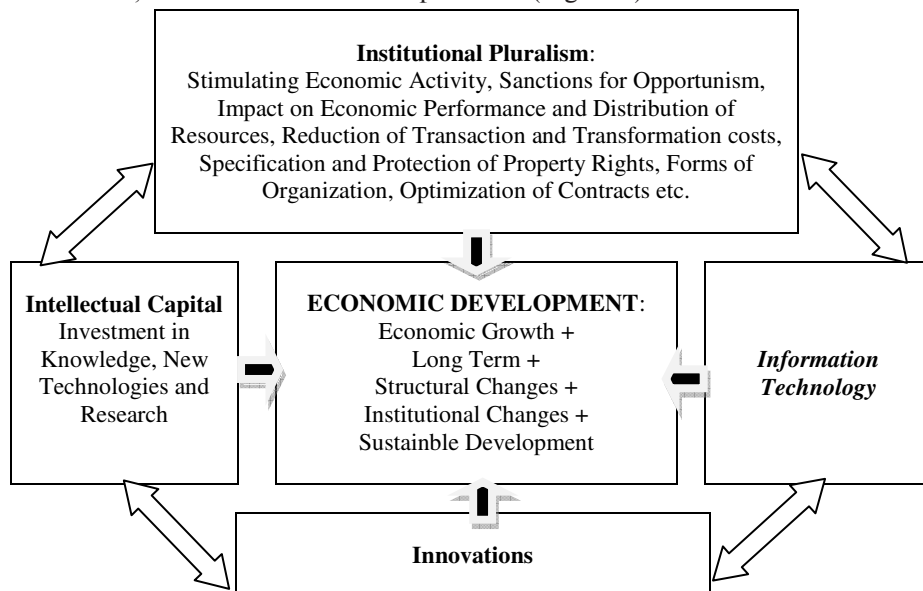


Figure 1. Framework model of "4I" causes of economic development, adapted creation of the authors

Transition dogmas replaced the socialist ones with an unknown shelf life and adapted value criteria ranging from "shock therapy" through the theological replacement of goals of economic growth and development (finding the way out of the crisis, economic growth, efficiency) with the means (liberalization, privatization, democratization, institutionalization, stabilization), to the socio-pathological demagoguery and rhetoric which were used to create the so called real institutional changes. Economy institutes have been replaced by *pseudo-forms* (imitation and improvisation), such as: *meta-institutionalization* (creation of over-institutes and

institutes of total control), *institutional monism* ("messianic" uncontrolled market without parallel formation of complementary institutes) and the *quasi-institutionalization* (paternalism, monopoly, lobbying, social pathology, grey economy, annuity-oriented behavior, naturalization, street currency conversion, dominance of politics over economy, predacious privatization, "pocketisation", privileged "newly established entrepreneurs" as alleged "efficient owners" etc. The effect of these obstructive factors in the period of post-socialist transition was synergistic and destructive (Draskovic, 2011: 12).

There is no doubt that the deep factors of economic development, besides geographical resources, new technologies and socio-cultural changes, are also institutionally-evolutional factors. Institutes as a set of formal (defined by the state) and informal (slow changing) laws directly and indirectly determine the type (form) of an economic system and the direction of economic development, through the impact on the level of transactional and production costs, together with applied technologies (North, 1990: 36).

Anti-institutional factors and consequences of underdeveloped institutional environment. The significance of this study is to identify the anti-institutional factors that actively participate in society and economic reality of the SEE countries. In other words, it is important to find out: what, when and why interferes with real institutional changes and the formation and development of effective institutions? Correct answer to this question is: real institutional changes are blocked because of: a) contradiction between the long-term nature of institutional efficiency and short-term character of politician's actions; b) degradation of personal freedoms of individuals, which should provide a competitive decentralized political environment. Various elements of social pathology have caused the imbalance of personal and economic freedoms among all individuals (mass phenomenon). The phenomenon of personal and economic freedom in post-socialist countries of SEE6 was fragmented and incidental, rather than universal and mandatory.

D. North, J. Wallis and B. Weingast (2009) studied the ways to limit violence in society (especially the violence over massiveness), which is justifiably considered to be the major anti-institutional factor. Commenting the basic conclusions of that book, V. Draskovic and M. Delibasic (2014: 44–45) point out the following: On the contrary, it helped its expansion. According to D. North et al. (2009) violence include various forms of social pathology: the non-market appropriation of rents, buying votes, corruption, exploiting privileges, coalitions of interests, ignoring masses etc.). The authors have come to the conclusion that it is possible to politically manipulate the economy in order to build a privileged interest groups and anti-institutional incentives by political and economic competition. This occurred under the conditions of neoliberal implementation in the countries with the policy of "limited access", where some organizations and groups of elites were pulling the rent due to their privileges and some tacitly "special rights". Those "rights" are created in an institutional vacuum environment, characterized by personal relations and "strings".

Hence, the order is unstable and volatile, politics dominates the economy, a minority (elite) manages the masses, informal and alternative institutions (extremely personified) dominate, and organizational structures are very unstable. The above authors point out that the restriction of access (inequality) is provided by a deficit of

the rule of law, insufficient guarantees of rights and freedoms and the lack of competition in political and economic systems. Place in the hierarchy is determined by the position of individuals in relation to the law and the nature of its application. This system of organizing society drastically reduces the efficiency of economy and politics. It produces deeply intertwined network of corruption, which is most evident in the relation "patron – client". Its viability is based on the elimination of strong internal institutional structure.

Table 1. Causes and consequences of ignoring the institutional pluralism, authors' creation

<i>Negative impacts</i>		<i>Deficit</i>		<i>Surplus</i>
socio-cultural, party, political ideological, sociopathological, armed conflicts and globalization	→	real institutional changes, institutional control, institutional innovation, the rule of law, economic freedom, protection and specification of property rights, market competition, economic growth and development	→	institutional failure, alternative institutions, opportunistic behavior, misuse of state, monopolistic behavior, asymmetric information, rent seeking, economic crisis, privilege, inequality, unemployment, poverty

The analysis of economic effects of the SEE6 countries transition, forced liberalization and "rapacious" privatization clearly show there was a "*transformational fall*" (term by J. Kornaia) in the period 1991–1995, and then the criminalization of economy and the collapse of the so-called "*prolonged transition*" in the period 1995–2015. Overall, this has led to a deepening and reproducing economic and general social crisis. Practice has proved that during a formal institutional "reforms" in SEE6, the strategies of "institutional growth" (J. Stiglitz) and "institutional transplantation" (V. Polterovich) did not fit. The reasons were social and political interests, institutional dysfunctionality (paternalism, nepotism, passivity, tradition of violating legal norms, possibilities for unpunished manipulation, abuse and compensation, log rolling, lobbying, rent orientated behavior etc).

Indisputably, the SEE6 countries have seen systemic changes and significant institutional transformation. However, the problem was that practically operated much more established and rooted alternative institutions (from the shadow) dominated over formal and informal institutions. Alternative institutions helped achieving great influence of interest groups, which were annuity-oriented, with quasi-market and preferential access to resources. They formed a recombinant institutional order, where structures of the government were determined and maintained the level of quality and speed of institutional change, giving priority to their own petty and lobbying interests in relation to general social interests. Likewise, the propagated massiveness was substituted by privileged individualism, disguised quasi-neoliberal rhetoric, which was essentially an institutional monistic. This has led to numerous contradictions, misconceptions, dilemmas, mistakes and problems, resulting in poor economic results (Table 2).

In the period 2009–2013, the real GDP growth was 13.9% in Albania, 6.9% in FYR of Macedonia, 0.7% in Montenegro, -0.5% in Serbia, -1.2% in Bosnia and Herzegovina, and -11.4% in Croatia. In the same period, public debt has increased significantly in all SEE countries. Thus, for example, in Serbia and Montenegro was

even more than doubled (in Serbia has increased from 29.2% to 61.4% of GDP, while in Montenegro from 28.7% to 59.6%) – according to central banks statistics of the respective countries.

Table 2. The selected economic indicators in SEE6 countries for 2013 (annual change), %

Indicator	Albania	Bosnia and Herzegovina	Kosova	FYR of Macedonia	Montenegro	Serbia
Real GDP	0,7	1,2	2,5	3,1	3,4	2,5
GDP compared to the EU average	31	29	36	36	43	36
Unemployment	15	28	31	31	20	23,5
Current Account Balance	-9,1	-5,6	-6,8	-1,8	-15,0	-5,0
Consumer prices	1,9	-0,1	1,9	3,3	3,6	7,7
Average wage	380	450		380	480	330
The share of public debt with guarantees in GDP	70	49	10	41	62	62
FDI per capita	232	77	284	869	199	341
Competitiveness growth Index	95	87	-	73	67	101

Source: IMF statistics, World Bank, SEE6 statistical bureaus.

Since the beginning of economic crisis in Europe, 2008, all SEE6 countries have faced problems with public finance. There was a decline or stagnation of GDP, from which it was necessary to increase government spending. So they were in turmoil of lower income and higher government expenditures. To compensate the funds lacking in budgets, the states started borrowing. Thus, public debt began to grow much faster than GDP, which limits or prevents further borrowing and opens debt problem after some time.

Conclusion. Reduced activity of formal and informal institutions and their substitution with strong alternative institutions objectively represents a bottleneck for economic development of SEE. Therefore, it is necessary to make increased efforts in building and developing the consistent, integrated and pluralistic institutional (regulatory) models, which must be based on the optimal combination of institutional arrangements. In this sense, it is particularly important to explore the practical exemplary model, whose experience in certain segments can be successfully used and combined with economic characteristics.

All development models that ignored institutions have proved to be unsustainable. The rules are there to be respected, this is the basic function of effective institutions, which in their totality constitute the infrastructure of rules in the society and economy. However, some countries in transition have developed different forms of alternative institutions, which have led to inefficient, imitation-interest and dysfunctional (vertical) institutional order.

Institutional pluralism, in theoretical and practical terms, was imposed as a basic civilizational principle of development. Only institutional pluralism can successfully resolve, regulate, stimulate and limit the contradictions between common and private interests. Deficit of institutional pluralism in real functioning of institutions in SEE6

is generally conditioned by their predestination of alternative institutions. This led to deformation, reduction and asymmetry of information, and economic choice has become subjective and determined by preferential access to resources. Transaction costs were growing. All of that objectively influenced the creation of numerous development barriers, strong anti-institutional hindering mechanism, thus leading to crisis reproduction.

Transitional institutional environment, mostly focused on the encouragement of privatization and market institutions, have lost not just its pluralistic institutional capacity, but also some of its essential elements. That led to a collapse in the efficiency of the implicit social contract, an increase in opportunistic behavior and the formation of quasi-market structures, which prevent the efficient functioning of markets. The non-market appropriation has been widely authorized, and transition reforms disconsidered. Social and organizational capital have received new jurisdiction, with the help of dominant alternative institutions and many conflicts of interest.

The socioeconomic crisis, that lasted for 25 years, its deepness, amplitude, reproduction and intensification with all its painful and associated manifestations and consequences still makes an insufficient warning to "reformers" and the holders of (neoliberal) economic policy in the SEE6 states, showing that something is wrong and that this allegedly "development" model should be changed right away. Sustainable development itself with the structure of its components, gives the the most serious warning suggesting that institutional pluralism presents its imperative framework and mandatory requirement.

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