

EDITORIAL

JEL classification: Y20.

-----TRANSFORMATIONS IN -----
BUSINESS & ECONOMICS

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Issue Review. Pleading for Best Practices in Post-Communist Economies

Nobody seems today troubled with finding the address to the key of economic and social progress: rules and best practices generating energies productively consumed. Furthermore, the primacy of institutional factors over the natural ones is accepted while the origins of the civilized world are questioned.

By their policy makers, the Central and Eastern Europe countries generically called post-communist give clear signs of awareness of the importance of institutional reform in overcoming “path dependence” and acceding to the open society, the civilized world.

In fact, it was not difficult to realize that the great problem of the transition from a revoluted system to a free people society based on two fundamental economic facts - the division of labour and human cooperation – was a matter of institutions. The crisis in the 90s in these countries was, almost unanimously acknowledged, a profound institutional one.

Being aware of the reality and the necessity of change is both necessary and important; however, as we ascertain today, it is not enough. After a quarter of a century of institutional and organizational change, the “path dependence” is still winking at this world. Concrete circumstances as well as objective and subjective factors explain this difficult process. This also justifies the need to analyze the “great transformation”, to quote Polanyi, in thorough studies such as the ones included in this volume.

In short, we believe that these countries would have been better off with a new beginning for their great transformation than with a starting position prefaced by an institutional framework altered by the red plague.

It is easier to build something new from the ground up rather than tear down something that does not fit anymore and build afterwards. The comparison with a building is just for suggestion. After you have knocked down an old building you can even allow yourself to forget how it was. If you feel the need, you may take a picture to remember how it looked in the past. Unfortunately, it is not the same with institutional arrangements. As known from the professionals who have studied this issue, new institutions replace the old ones but they always borrow something from them.

There is no problem when the “loan” takes place within the system, in the name of modernization. We refer to modernization in its original and positive meaning. Also, socialism “modernized” itself in its own way getting prepared for its well-known implosion. Big and difficult to overcome problems arise when the new economy and society based on free market borrows from the communism they cannot escape in just one day. And these are real issues because what is borrowed cannot be modernized but simply has to be replaced. This has to be done in record time, “burning” the steps since the above mentioned countries have already entered into an integrated European structure, a Europe with modern institutions and organizations, not perfect but functional and providing prosperity.

Why is borrowing harmful? Because, in institutional matters communism was the toughest, the most anti-productive and against human nature. It was a system that governed a

crazy game with a negative sum; one with constraining rules, hampering any attempt at economic and social progress.

If we admit this status-quo and we consider this was the reality, we cannot expect transition to be soft. On the contrary, it was and still is difficult and conflicting at both formal and informal institutional levels.

On the road named „transformation”, it is hard to distinguish which of the two levels prevails. However, on the way to the free world, the free market culture plays a fundamental role. Its assimilation proves to be very difficult, often with synopes though with an ascending trend. After communism affected the intimate structures of human relationships, repairing it turns out extremely difficult. Higher expectations point to the formal rules. However, at this level, path dependence is not weaker but stronger. The hard to break vicious circle has the state as its center. The most urgent of reforms, the one of the state proves to be the most difficult one in all post-communist economies, without exception.

The explanation is simple if we consider the radicalism of the expected change: from the totalitarian state, ubiquitous and unique source of rules, to a neutral arbitrator state with responsibility for establishing best practices for the benefit of the members of society, monitoring their implementation and sanctioning or, where appropriate, rewarding the actors playing the economic and social game.

As taught by the professionals who brought their contribution in shaping the new institutional economics, the image of the state as a not-involved arbitrator, fair, backing out of the “reasons of state”, acting for the benefit of the citizen proves either impossible or difficult to obtain. This is even harder to achieve in a post-communist transition country. It is hard to erase the image of the “paternal state” always thinking about the healthy reasoning of the members of the red society and to replace it with the image of the minimal state, an instrument at the hands of individuals, willing to let them create the new context; the rule of law helping all to see what cannot be directly observable: rules that concern them all but not each of them individually - if we are allowed to use the Hayekian terminology. In this area, even the developed countries still have some work to do.

It is easy to understand what the post-communist states have to do. In all of them, there is still work to be done regarding the Law, its credibility and transparency and its non-arbitrary and non-discretionary character. There is still much to be done with establishing clear property rights and ensuring the free operation of the market. The attempt to replace the “political entrepreneurship” with the productive, essentially economic one has not yet reached its target.

It will certainly take a long time to reach the stage where the rule (the institution) itself reflects the minimum compromise between utility and liberty; meaning it will tend towards what Menger understood as an optimal, organic institution, under its roof each citizen being able “to contract with himself” and not to request from the state more than he deserves.

The duration of this process proves to be a given concrete, specific, historical fact, impregnated by the culture, in general and organizational culture, in particular, of each post-communist economy. Once again, the assumption that institutions not only favour (or not) economic performance but remain key explanatory factors for differences in performance, can be validated.

The fact that today, post-communist economies do not reach the same level of development although, in the 90s, they took the same path from a relatively common base, finds its explanation in their different positions towards the key institutions of the civilized world: private property, free market, social contract.

The articles in this special issue of the prestigious *Transformations in Business & Economics* journal address aspects belonging to the broad and generous area of new institutional economics which we have tried to outline above.

Important, engaging and noteworthy issues are captured between the pages of the journal as a reason for reflection and dialogue. There are interdisciplinary studies focused on the relationship between institutions, entrepreneurship and economic development in European Union, in general and in post-communist economies, in particular. We discover a wide range of issues, from transforming property in Central and Eastern Europe, institutional determinants of shadow economy, the impact of cultural values on human development to the relationship between institutional framework and innovation and different aspects of entrepreneurship development. Other dimensions of development such as the impact of institutions and economic governance on bank performance, infant mortality and socio-economic context are also presented in an attempt to capture as much as possible of the complexity of economic and social realities.

The papers in this issue mostly belong to renowned professors and researchers in the Department of Economics and International Relations from the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iasi, the oldest university in Romania. Our department brings together a certain number of professors with proven, well-known expertise and propensity towards liberal-institutionalist studies. Note in this context that the founders and main supporters of the Friedrich von Hayek scientific seminar, very popular in Romania, consume their energy and talent in this department.

Reputed professors and researchers, friends and colleagues, from different Romanian universities (The West University of Timisoara, Babes-Bolyai University Cluj-Napoca, Stefan cel Mare University of Suceava and Ovidius University of Constanta) and from abroad have accepted our scientific challenge and joined our world of institutionalist ideas.

On their behalf, we thank the Editorial Board of the journal both for the generous offer which provided the opportunity for our articles to be published and for us to share our ideas with the academic community and also for their support and collaboration.

With wishes of engaging reading,

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23rd December, 2014