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## Hypothetical Matrix for Institutional Modeling of the Basis for Economic Development in the Countries of Southeast Europe

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### ABSTRACT

In this paper we propose three hypothetical matrices for institutional modeling of the basis for economic development. They apply selectively chosen elements of Neo-Institutional Theory (NIT) and convention theory, which are in line with affirmation of institutional pluralism and criticism of institutional monism. In this sense, the developed institutional pluralism is critically and polemically opposed to all forms of opportunistic behavior, which in the conditions of the domination of institutional monism leads to the creation and strengthening of alternative institutions. Its hypothesis is that the hypothetical modeling of pluralistic institutional basis for economic development must be based, inter alia, on the elements and recommendations of the NIT and the convention theory on key issues (research parameters). This is especially the case with institutional elements, factors and recommendations that have been confirmed in the practice of developed countries. The conclusion is that the economic growth requires strong and pluralistic institutions, which represent the best means of protection from all forms of opportunistic behavior.

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## 1. INTRODUCTION

In the period of expansion of the parallel processes of globalization and post-socialist transition, which are ongoing for 25 years, there were rapid and dynamic changes of economic reality, the structure of contradictions, systems and criteria of values, development priorities, expression of interests of various social groups and the like. All this had a significant impact not only on the practical manifestations, which often had a dominant crisis character, but also on the development of many schools of economic thought, of which the most renowned were the neo-institutional theories (NIT).

This paper studies the analytical and methodological models of bounded institutional rationality on both theoretical and practical level. It is created with the aim of explaining the role and importance of pluralistic institutions in developed countries, which is reflected through economic growth and sustainable development. Hence, there was a need: a) to prove the negative role of all forms of institutional monism, which characterize, to a greater or lesser extent, the practice of those countries, and b) to criticize the deficit of institutions, which significantly reduced and deformed its role. Those are objective and long-term constraints of economic development. Therefore this research topic is extremely important for the future reforms, development plans and strategies of the SEE countries, which need be based on the radical, real, and pluralistic institutional changes.

It is known that deficient and degenerated institutional factors are the core of the hindering mechanism, which for two and a half decades prevents the desired economic growth and development of most transitional economies, including economies of the SEE countries. Institutional indicators and institutional changes are unsatisfactory and far behind the corresponding indicators in developed countries. This was directly reflected in the lagging behind of transitional economies of the SEE countries, deepening their social and economic crisis.

Given research could significantly contribute as a landmark for the policy-makers in adopting realistic and pluralistic institutional changes and the principles of bounded rational behavior in those countries. *The subject matter of study* in this article is wide, but in summary it includes: a) a comparative analysis of theoretical concepts of bounded institutional rationality, which involves a combination of constructive contributions of various NIT and effective pluralistic institutional practical arrangements. *Scientific research* was set according to the aforesaid subject of study, and consisted of identifying the relevant elements recommended by NIT, in order to design and prove the hypothetical exemplary model of bounded economic rationality, which meets the needs of modern economies that favor sustainable development.

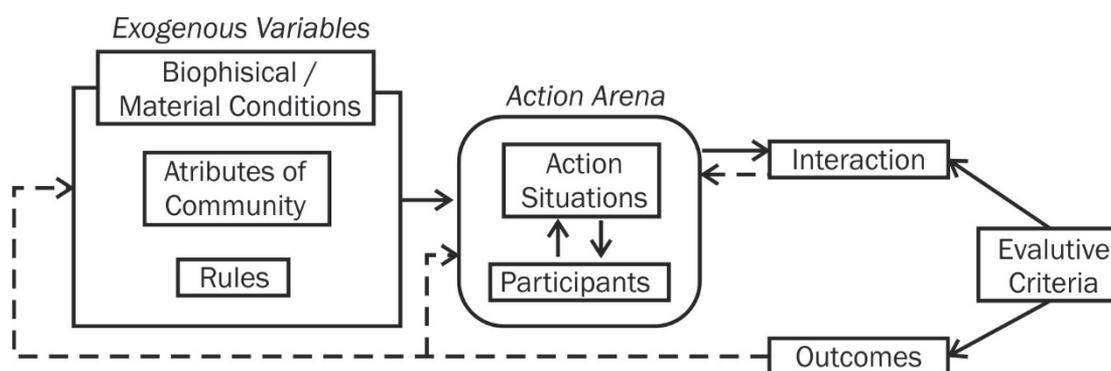
This article formulates original matrixes, which can be used for hypothetical institutional modeling of the economic development foundation (for analyzing elements of the NET relevant to the institutional model, and elements of the convention theory relevant for institutional modeling. The benefits of institutional pluralism as a mandatory condition of economic growth and sustainable development have been reaffirmed..

## 2. THEORETICAL APPROACH

The theoretical framework of hypothetical matrix for institutional modeling of the basis for economic development has been formulated based on the most important research papers of neo-institutionalists and their key definitions, which are mostly heterogeneous (probably due to the complex nature and numerous functions of the institutions). This paper is an attempt to selectively display the basic ideas of the NIT representatives and economics of convention, which can be applied to analyze the character, quality and level of real institutional changes in the transitional countries of SEE. In conceptual sense, as an inspiration and a theoretical guide for creating hypothetical matrices, which affirm the institutional pluralism, helped the research by D. North, J. B. Wallis and Weingast (2009), the scheme by E. Ostrom, R. Gardner and R. Walker (1994), presented in Figure 1, and the reasoning by W. Scot (1995), as shown in Table 1 and Table 2.

Scott (2004) argues that this theory also provides insights into conflict and change within social structures. It should be noted the importance of logical scheme, shown by R. Greenwood, M. Raynard, F. Kodeih, E. Micellota, and M. Lounsbury (2011, p. 324), indicating the importance of institutional pluralism and its connection to institutional complexity. It is believed (Jarzabkowski, Matthiesen and Van de Ven, 2009) that only developed and pluralistic institutional environment enables efficient managing the balance of social interests, with applied simultaneous skills for stimulating investment and entrepreneurship.

**Figure 1:** A Framework for Institutional Analysis



Source: Ostrom, Gardner and Walker, 1994, p. 37.

**Table 1.** Three pillars of institutions

	<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification accreditation	Prevalence isomorphism
Basis of legitimacy	Legaly sanctioned	Morally governed	Culture, knowledge

Source: Scott, 1995, p. 35.

**Table 2.** Instittional carriers

carrier	<i>Pillar</i>		
	<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
Cultures	Rules, laws	Values Expectations	Categories, typifications
Social structures	Governance, power sys	Regimes, authorita sys	Identities, isomorphism
Routines	Protocols, standard procedures	Conformity, performance of duty	Scripts, performance programs

Source: Scott, 1995, p. 52.

According to A. Stulhofer (1995), five characteristics of institutions are significant for our analysis, related to the hypothetical modeling of institutional behavior, as follows:

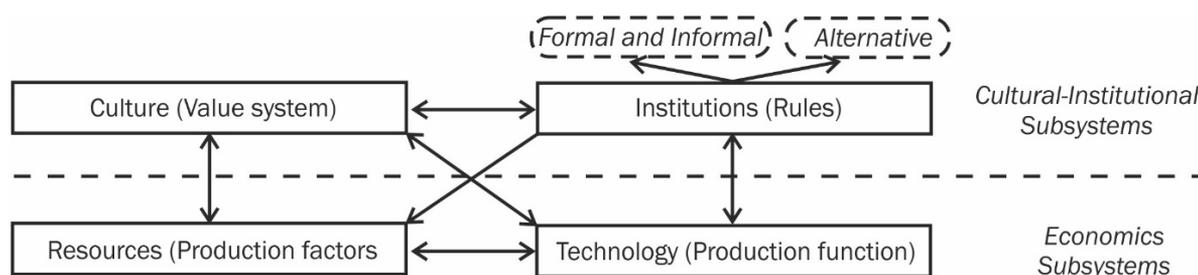
- institutions are permanent and organized social practice, a set of interactive activities,
- institutions include norms which direct, regulate and restrict given activities (thereby the norms are interpreted as socially constructed system of expectations, which directs individual actions, based on an external mechanism (formal and/or informal) sanctions and internal mechanism of socialization (the process of identification ). To overview the classification of social norms see more in: Elster, 1997, Stulhofer (Ibid., p. 957) points

out that norms are the building blocks of institutions, and the institutions guarantee the maintenance of norms.

- institutions include the system of sanctions, which ensure the effectiveness of norms,
- institutions imply a role system, strictly defined tasks, responsibilities and interpretative framework, and
- institutions provide an important influence on the social structure because they act cohesively.

The analysis of institutional models has showed that economic development includes not only an economic subsystem, but also the broad spectrum of non-economic variables, including formal and informal institutions, cultural and other systems of values, as well as all forms of opportunistic behavior, that is established by alternative institutions (Figure 2). In some countries, various formal institutions (economic, legal, political and other) can not be considered only as an instrument for achieving specific objectives. Because they need to include the existence of precise limits between permissible and impermissible. These limits are defined by certain standards of social behavior arising from general moral norms, and cultural and social traditions. Thus, institutions have an instrumental character, as well as an inner value character, because they make the foundation for the commitment to the general objectives that go beyond personal interests.

**Figure 2:** Interrelated developments in the social system



Source: adapted from Hayami and Godo, 1997, p. 11

Bounded rational behavior (institutional or any other type) directly contradicts opportunistic behavior (Delibasic, 2014, p. 15). The latter is caused by the existence of alternative institutions (shadow institutions), which have been shown to have a destructive influence on the valorization of economic resources. Opportunistic behavior has several negative meanings in economic theory (see more in: Williamson, 1993, p. 115). However, it generally represents the action of economic agents in accordance with their own interests, not taking into account the moral norms, but it contradicts the interests of other agents.

The institutional structure is a subject to various manipulations by private and/or group interests in all cases with loose borders with inner values. For example, the typical case where the nomenclature of government, or the political institutions, ignore the interests of the people, allowing the action of alternative institutions, by which they achieve the interests of privileged individuals and/or small social groups. In such cases, the legal system (laws, rules, standards, and procedures) is abused and undermined. In other words, the case management is dominated by autocratic institutionally irresponsible "games without rules" that marginalize "games with specific rules."

During the period of transition in the SEE countries, the entire system of hindering factors was operating. It caused the creation of a non-functional conglomerate system and institutional

failure, especially in the state regulation. This was caused by an affirmation of institutional monism of neoliberal type, characterized by numerous market deformations and limits, favored by the policies and representing the basis for strengthening of alternative institutions. Generally, any institutional monism is a fertile ground for the manifestation of opportunistic behaviors and affirmation of alternative institutions, representing a form of informal institutions. This is especially important for understanding D. North (1991, p. 36). According to him, different societies with the same formal institutions have different results - due to different effects of informal institutions. This is particularly reflected in the countries with excessive market power and in the conditions where the ruling elite uses political power in the unethical way and obstructs the functioning of the rule of law. In these cases there is a blockade of action and development of socio-cultural capital and the reduced activity of formal institutions.

Alternative institutions are a classic example of a conflict between privileged individual behavior and existing institutional structures. M. Draskovic, S. Bauk and M. Delibasic (2016) argue that their establishment and operation is enabled by the existence of informal and privileged combination of two basic institutional monisms (the market and the state regulation). This combination of institutional monisms has been dictated by the so-called "new elites", leading to institutional deficit in general, and institutional pluralism in particular. Alternative institutions have illegal, personified, sociopsychological, and destructive character. They extremely affect the real institutional changes in a dysfunctional way, leading to institutional fiasco. It was the practice in the SEE countries, where alternative institutions dominated over formal and other informal institutions, producing a long-term institutional vacuum, and thus deforming institutional structure of society. This has significantly influenced the reproduction of social and economic crisis.

The aforesaid has enabled a number of quasi-institutional behavior, which led to the increase of non-market forms of appropriation and other deformities. In the absence of real institutional control and institutional change, and even institutional adaptation, all of these factors coexist in a system of limited access to resources eventually will turn into a quasi-institutional monism, which ignores the massive social interests, subordinating objective regulators to the party control, imposing the narrow lobbying interests and subjective regulators of behavior. Many economists have warned that inadequate institutions have a destructive effect on the valorization of economic resources. Hence, to identify and overcome the mentioned phenomena, processes and behaviors, it is necessary to consider and analyze the relevant elements of institutional behavior recommend by the NIT and the convention theory.

### **3. GENERAL HYPOTHETICAL MATRIX FOR RESEARCHING AND INSTITUTIONAL MODELING OF THE BASIS FOR ECONOMIC DEVELOPMENT**

Given that this is a study of numerous elements and attitudes towards the above-mentioned key issues from several respectable NITs and the convention theory, we decided to show it hypothetically and matrally. In the general hypothetical matrix for institutional modeling and researching the factors of economic development, vertically are listed the key analytical questions, and horizontally are listed the views and recommendations, as well as relevant theoretical answers to them (Table 1). Everything was done according to D. North (2006, p. 163) statement: "In order to improve the institutional structure we must first have a clear understanding of the sources of such institutional structure." Thereby were taken into consideration the views of K. Shepsle (1986, 1989) about the "institutional equilibrium" as well as affirmative interpretations of the institutional pluralism by several authors (Jarzabkowski, Smets, Bednarek, Burke, G. and Spee, 2013; Kraatz and Block, 2008).

**Table 3:** Hypothetical model matrix for researching the basis of economic development

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
Public choice	
Institutional pluralism	
Property rights	
Relationship between politics and economics	
Relationship between formal and informal institutions	
Level and impact of alternative institutions	
An attitude towards state regulation	
An attitude towards opportunism	
An attitude towards rationality	
An attitude towards social and cultural capital	
An attitude towards experiences of current development path	
Form of order and an attitude towards resources' access (open or restricted)	
An attitude towards violence	

Source: self creation

The research process for a particular country requires separate analyses for the NIT, and separate analyses for the convention theory.

#### 4. MATRIX OF THE NIT ELEMENTS RELEVANT FOR INSTITUTIONAL MODELLING OF ECONOMIC DEVELOPMENT

Below is the original hypothetical matrix for research and institutional modelling of economic development. It is consisted of selectively chosen ruling views and recommendations from the basic research parameters, which are refined from the relevant neo-institutional theories.

**Table 4:** Model matrix for researching the NIT elements

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
<i>Public choice</i>	The mechanism for decision-making at the political level should be fundamentally changed and improved. The development of economic policy depends on it. Also, a new system of political decision making should be established, similar to the system of marketing decision-making. People do not change when leaving the market and paving the path to the political scene, they act the same way in social roles as well as in any private role: guided by reflections on personal benefits and realization of their own interests. The choice of economic subjects in any economic system depends on a social choice, directly or indirectly, sooner or later, by its nature. Since people act in the political sphere following their personal interests, it directly indicates the link between business and politics, demystifying the notion of the state

	<p>(government) as the sole protector of (state) social interests. "Rational" politicians support programs that contribute the growth of their popularity, prestige and opportunities to achieve victory in the next elections. They seek political rent through the political processes. There are cases when the government is unable to ensure the efficient allocation and use of social resources. That is called <i>government failure</i>. Therefore, it is necessary to constantly control the activities of the government and correct it in accordance with the socio-economic and political conjecture. The government failure (insufficiency, fiasco, misfire) is affected by the scarcity and asymmetry of information, the existence of powerful groups of influence, groups with special interests, active lobbyists, strong bureaucracy, imperfection of the political process (rational ignorance, lobbyism, manipulation of voting rules as a consequence of imperfect rule book, vote trading, seeking political rents, political-economic cycle, etc.) and restrictions regarding the possibility of control bureaucracy. The influence of the majority on the political decision-making depends not only on their preferences, the level of democracy, the specificity of the political conformation, the power of certain social groups, and the corresponding influence on politics, but also on the voting procedures (i.e. a rule book that it's based upon), which is not neutral.</p> <p>Political power in the so-called "democratic societies" is "naturally" switched (with the logic of organized interests of small privileged groups) to the hands of political leaders, as the representatives of those groups, who win the elections over unorganized and unprotected (or poorly protected) interests of large latent groups, which is the opposite to the rule the majority (and thus the real democracy). This way, relatively small lobby groups (or individual branches, clusters, etc.) often receive various benefits and privileges (tax, customs, monopoly, information, etc.) on account of the million consumers and taxpayers, which serves as the basis of their unjust enrichment.</p> <p>High quality statute need to precisely define: equal justice for all, human and other rights and obligations of citizens, the level of economic freedom, the structure of the institutional environment, the power limits of basic economic institutions (state and market regulation), specifications and protection of property rights, moral and other restrictions of economic freedom, contract validity and insurance, regulation of natural and other monopolies, and all the other situations where the state should intervene (economic aid, transfers, restrictions, taxation, external effects, etc.).</p> <p>This way, the theory of social choice gives direct and indirect recommendations against influential latent groups with "special interests."</p>
<p><i>Institutional pluralism</i></p>	<p>The development requires institutional pluralism of economic institutions, through various combinations. It is an imperative in overcoming numerous contradictions between the public and private interests, in establishing a dynamic equality and harmonization of mutual competition in a variety of institutional forms of regulation and coordination of human activities (social and economic). Institutional pluralism (as a combination and synergy of all institutions) is a condition for the formation and sustainability of market-oriented structure of every economic system. It contributes to the functional reduction of transaction costs and an increase of economic efficiency. Representatives of the NIT advocate a specific form of institutional pluralism in the economy: for the synergy of command hierarchy and regulation within the company and market regulation as their own environment. They insist on "<i>coevolutionary process</i>" of ideology and institutions. According to them, institutional synergy of the market and state regulation has no rational alternative.</p>

<p><i>Property rights</i></p>	<p>Specified and protected property rights essentially bring multiple restrictions into economic behavior. In reality, there are numerous restrictions and resolutions of property rights. The restructuring of property rights leads to changes in the system of economic incentives. Entities respond to these changes of behavior. Underdevelopment of property rights causes underdevelopment of the market, and an increase of the negative external effects, and thus the economic slowdown.</p> <p>No one shall be privileged in accessing the resources, thus the possible privileges may only be the result of manipulation and social pathology.</p> <p>Every act of exchange is essentially an exchange of authority groups: making the deal in the market, exchanging two sets of property rights.</p>
<p><i>Relationship between politics and economics</i></p>	<p>The institutions regulate the social and economic relations. They actually reflect through the relationship between the politics (ideology, party influence, form of government, democratic institutions, etc.) and the economy (economic activities, structures, entities, behavior, economic institutions, etc.). Therefore, institutions influence all other forms of social superstructure.</p> <p>Relations between politics and economics are intertwined in a real life, absorbing certain ethical, cultural, and civilizational values, through which are implemented certain policies as a social consensus within the society.</p> <p>The institutions have a positive impact on the reduction, control and relativization of the political dominance over economy.</p>
<p><i>Relationship between formal and informal institutions</i></p>	<p>Informal institutions (customs, traditions, norms, and religion) are not a subject of study of the economic theory. They are accepted as a fact, changing slowly – for hundreds and thousands of years, and many of them are formed spontaneously.</p> <p>Formal institutions (property rights, politics, law, judiciary, bureaucracy) may hinder or stimulate the production possibility boundary. They are evolutionary built in the process of institutional competition.</p> <p>In the society there are also alternative institutions that operate in greater or lesser extent and they are a major threat to the institutional structure.</p>
<p><i>Relationship to state regulation</i></p>	<p>There are doubts in the effectiveness of state regulation of the economy, which is questioned in the process of government decision-making. State (public) sector is not an ideal economic mechanism, because, among other things, it is unable to perform the transformation of resources into social goods in a way that meets the demands of consumers of those goods.</p> <p>In all forms of activities, people are driven by their own interests and preferences. Therefore, political decisions may to a greater or lesser degree correspond with the interests of the population (i.e. a criteria of economic efficiency and social justice).</p>
<p><i>Relationship towards opportunism</i></p>	<p>In the real market it is not possible to fully control the contracting parties, due to the opportunistic behavior. It represents a major threat for the company business, leading to uncertainty in behavior between the contractual partners. It occurs before or after the contracting, focused on achieving own goals of economic agents, and is not limited by moral consideration.</p> <p>It is necessary to control the opportunism in order to reduce transaction costs. This can be achieved through the satisfactory management mechanisms, including the vertical integration of the management hierarchy.</p>
<p><i>Relationship to rationality</i></p>	<p>Real institution reliably regulate and rationalize individual behavior to the extent of increasing interactional rationality between individuals. The specifics of institutional rationality is dictated by three factors: a) holism, according to which the institutions are primary, and individuals are secondary, b) limitations of information, and c) dependency on social factors (socio-cultural capital). Rationality of institutional man includes the minimization of transaction costs</p>

	<p>in in conditions of fraud and coercion. Rational behavior is placed in the context of universal norms and rules of conduct, acting either restrictively or motivationally. Therefore, economic rationality objectively manifests as bounded.</p> <p>Due to incomplete information, institutional behavior is characterized by procedural or bounded rationality, which is based on the selection of under-informed individuals who have subjectively developed their models, which differ from the models of other individuals. An individual is not able to make an objective optimal choice. To be "limitedly rational" means to be rational in the context of limited human capacity, and complexity of the environment. Therefore, chosen alternatives that are satisfactory but not optimal do not assume the knowledge on future events, nor the maximization of utility.</p> <p>From institutional perspective, a key source of bounded rationality of actors who choose in the conditions of true uncertainty is not a lack of information, but the fact that a decision-maker is generally faced with the information overload compared to his limited abilities to process them. Therefore, an importance of routines, habits, unwritten and written heuristics (rules in decision-making) is growing. A final result of choice depends on the selected procedure of decision-making. Although the institutions appear as exogenous in the processes of rational behavior and choice, they are extremely important. Especially is significant the pluralism of institutions.</p>
<p><i>Relationship towards socio cultural capital</i></p>	<p>Socio-cultural capital is a set of social values, adopted norms of behavior, ideological beliefs and other social structures. As a set of intangible social resources and informal institutions, it has great importance, because in a certain way it makes the connection between formal and informal institutions, or the macro institutional dynamics. Since institutions reflect the hierarchical structure of authority, which is a necessary condition for the effective punishment of violations, it can also affect the negative processes of decision-making monopolization and the abuse. Secondly, it creates the possibility of affirmation of imposed asymmetrical conditions for accessing the resources and strengthening the alternative institutions, allowing the particularism as a specific promotion of economic, political, social and other interests of privileged social groups and individuals.</p>
<p><i>Relationship to the experiences of the previous Path Dependency</i></p>	<p>Institutional innovations strongly rely on the current <i>Path Dependency</i> (i.e. latter events depend on former). Therefore, institutional innovations are not possible in terms of the dominance of alternative institutions, or informal mechanisms of choice. Relatively inefficient economic systems show that "history has significance." Dependence on the past development is determined in the part of institutions primarily by the social factors. It is expressed on two levels: individual institutions i institutional system (such as economic). Very important factors of influence on the modern development are: network effect, coordination effect, the effect of cultural factors (mentality, education and social consent), and the effect of the longterm social capital (i.e. quasi-irreversibility of the original socialization). Closely related is also the effect of rejecting the new, which raises the question: how is it possible that bad institutions dominate over good ones, or why is negative institutional inertia (a.k.a. "institutional trap") prolonged?</p>
<p><i>Relationship to access resources and violence</i></p>	<p>It is necessary to study the methods of limiting the violence in the society, and various forms of social pathology, which include: non-market rents appropriation, vote trading, corruption, the use of privilege, coalitions of interests, ignoring the masses, protecting their own people, etc.). That can be achieved in two ways: <i>the first</i> is political manipulation of the economy in order</p>

to build a privileged interest groups, and *the second* is institutional stimulation of political and economic competition, aimed at creating stimulating developmental conditions. The first corresponds with the so-called *limited access* (to the political and economic resources), and the corresponding "natural state" with numerous factors of economic and political development. The second method also corresponds with so-called *open access* and appropriate institutionally developed state.

In countries with limited access, there are individual organizations and elite groups, which extract the rent due to privileges and certain tacit, "special rights", or personal "connections". Therefore the system is disbalanced with volatile order, the politics is linked to the economy and dominates over it, the minority (the alleged "elite") manages the majority, deformed informal and alternative institutions (which are extremely personified) are dominating, and organizational structures are very unstable.

Limited access (inequality) is ensured by the deficit of the rule of law, insufficient guarantees of rights and freedoms, and the lack of competition in the political and economic system. Place in the hierarchy determines the position of individuals in relation to the law and the nature of a governance. Civil society and democracy have not been developed, the opposition is weak, and there is a partial provision of services by the state. Bureaucracy is poorly controlled and unprofessional. All this has a negative effect on economic growth, and on the adaptive efficiency.

There are three conditions for the transition from the "natural state" (limited access) towards open access: a) the subordination of elite to the rule of law (equal treatment for everyone by the law), b) the existence of unlimited and stable organizations, which do not depend on the state nor of the specific individuals, and c) consolidating the control over armed forces and technologies of violence and demolition (curbing violence).

The logic of "natural state" stems from the methods of solving the violence: elite (members of the ruling coalition) coordinate the privileges, including property rights and access to certain types of activities. Creation and appropriation of rents is manifested as the "glue" that holds the coalition together. It increases the cost of privilege, because elite turns into more productive, thanks to their organizations based on networking (hierarchy of personal relationships). Such organizational method drastically reduces the efficiency of society, economy, and politics. It produces a deep and intricate web of corruption, which is the most common in patron-client relationships. Its sustainability is based on the elimination of strong internal institutional structures.

Open access in the economic system protects the political system from manipulation of economic interests, and it guarantees the equality of citizens and the shift of power in case of abuse. The political system should restrict access to the means of violence. Along with the judicial system, it ensures respect for the prohibition of the use of violence. This allows strong and transparent institutions that provide impersonal democratic and party competition, preventing illegitimate use of violence.

## 5. MATRIX OF THE CONVENTION THEORY ELEMENTS RELEVANT FOR INSTITUTIONAL MODELING OF ECONOMIC DEVELOPMENT

Below is the original model matrix designed to analyze the matter in question. It consists of selectively chosen ruling views and recommendations from basic research parameters identified from the respectable French convention theory.

**Table 5:** The model matrix for researching the convention theory elements

<i>Research parameters</i>	<i>Dominant views and recommendations</i>
<i>Public choice</i>	No form of argumentation of the so-called "institutional worlds" has a universal character, because it contradicts other forms of argumentation, whose analysis allows to explain the nature of the critical situation. Each of the coordinated forms in some sense is a <i>constitutional agreement</i> , whose character is manifested only in the process of dispute with other forms of institutional coordination.
<i>Institutional pluralism</i>	An existence of numerous institutional "worlds" (subsystems) is conditioned. Proposed is their synergism, which maintains and provides dynamic balance and compromised harmonization of their relations. It neutralizes possible expansion of individual subsystems at the expense of other subsystems (i.e. it eliminates institutional monism). This is not the case of the market imperfections per se, but the characteristics of complex economic reality where all institutional "worlds" coexist. In the so-called "critical situations" (conflict and/or non-conflict relations between the various institutional subsystem) it is possible to use different ways of the coordination, not just one as a supposedly "naturally given and objective." There are a lot of important causes underlying the economic motivation, as well as many ways of economic coordination.
<i>Relationship between politics and economics</i>	The central place of institutional analysis belongs to the politics, because it is an ambience of mutual interaction between economic agents which initially bears a political character. Conventions act as the representatives of a common world, and institutions as mechanisms for monitoring the rules and objects of the structure, and thus simplifying the process of forming joint worlds
<i>Relationship to state regulation</i>	Free market and government intervention are not the only universal forms of coordination. Essential is the existence of the prescribed norms and rules of conduct (in addition to the convention - an agreement). State regulation must ensure satisfaction of political adaptation (or suitability) and criteria of the common good in the society.
<i>Relationship to rationality</i>	Rationality is given a relative and interpretive character, because people in everyday economic activities, in addition to their own rational budget, also must apply and respect different conventional frameworks, through which they understand the intentions and actions of other people. This requires cognitive, and evaluational ( <i>interpretative</i> ) efforts. Interpretative rationality is the ability of harmonizing economic activities through oriented behavior, comprehensible to all participants in the transaction. It includes the ability to form correct expectations from another entity's action, or the proper interpretation of his intentions and plans, allowing others to understand (interpret) his intentions and actions. The rational-economic individual is positioned in the simplest institutional

	<p>environment, where nature of institutions influence the substance of individual rationality. He must be able to assess the characteristics of the collective that interest him, which are the use factor for him. Therefore, it is essential that homo economicus, in addition to rationality, knows linguistic interpretation of the processes.</p> <p>Rational behavior draws resources from institutional environment and participates in its transformation. Uncertainty and lack of information can be reduced using agreements (conventions), through introduction of the general procedure of evaluation (<i>interpretability</i>) as a prerequisite for coordination. Rationality is just one of the incentives of market exchange. For this reason, to indicate these actions, the term <i>reasonable</i>, not rational, has been used.</p>
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## 6. CONCLUSION

In the context of affirmation of institutional pluralism, representatives of the NIT recommend strong institutions, including the state and market regulation, which are limited in the realization of their own functions. Institutions guarantee that state and market regulation can coordinately perform their function. This means that strong and pluralistic institutions, as "rules of the game" (North, 1990), serve as a means of protection from any kind of opportunity behavior, among others from all forms of non-market behavior, abuse of state regulation, and various stalling of institutional activity.

An institutionalized selection and institutionalized exchange are the conditions for sustainable economic development. However, the degree of institutional changes in the economy and society is often limited by opportunistic quasi-institutional behavior, especially in relations: pluralism-monism, formal-alternative, changes-status quo, horizontal-vertical, mass-individual, legal-privileged, political-economic, etc..

Numerous restrictions in economic reality (including institutions) influence economic behavior, which therefore has a nature of bounded rationality. Limited are intellectual capital, information, and access to the resources. If one adds opportunistic behavior, uncertainty, risk, previous development, socio-cultural capital, unprotected and unspecified property rights, increase of transaction costs, incomplete contracts, influence of politics, alternative institutions, and global environment, etc., it becomes clear just how big is a gap between the theoretical models of institutional behavior and its actual implementation.

Theoretical research has confirmed the initial hypothesis that the institutional modeling of basis for economic development need to be based, inter alia, on the elements and recommendations of respectable NIT, and the convention theory, at key research issues (parameters). The aforesaid has been presented in the originally created research matrix for the hypothetical modeling of institutional behavior. Thus it was started from the relevance of the five key characteristics of institutions, which have been listed in the Introduction.

There have been proposed two original hypothetical model-based matrices for broader and deeper study of the institutional basis for economic development in each particular country. It consisted of selectively chosen ruling views and recommendations from the basic research parameters, identified from the two groups of relevant theories: the NIT and the convention theory.

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