



Formal and Informal vs. Alternative Institutions

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ABSTRACT

The subject of this article is to investigate the cause and effect relationship between legal (formal and informal) and illegal (alternative) institutions. The aim of this paper is to point out quasi-neoliberal causes of the permanent crisis transition, which caused major problems and deformities, creating a new dogma and new "elitist system". The specified relationship is determined through profound contradictions between individualism and collectivism, liberalism and dirigism, permissible and incomprehensible, private and group interests, irresponsible "rules-free games" and "rules-defined games". The basic hypothesis is that the main goals of the so-called. Of the "reformers" were of high interest, as evidenced by their enormous wealth and stratification in society. Our descriptive and critical analysis showed the correctness of the hypothesis. It is fully consistent not only with the long-standing media reports of scientific analysis, but also with visible practical manifestations. In conclusion, it is noted that alternative institutions have played a key role in realizing the interest motives of the "reformers".

INTRODUCTION

A challenge of transitional changes appeared almost three decades ago in the post-socialist countries when they were burdened with "Legitimacy of the past and uncertainty of the future" (H. Wagener 1993, p. 27). However, a rational and efficient response was not found in most of those countries. We believe that the main cause lies in unsuccessful institutionalization, that is, in the action of alternative institutions (from the shadow).

There are very few articles in the economic literature that directly establish the existence and/or analyze the functioning of alternative institutions. While this is understandable for Western authors of economics, it seems that authors from transition countries unjustifiably neglect (ignore) the existence and functioning of alternative institutions. The fact is that they are associated with quasi-institutional actions (from the shadow, criminal), and therefore it is not easy to investigate them. However, there are many institutional and other indicators that directly or indirectly indicate their existence and negative impact on social and economic development in most transition coun-

tries. Among them are: the rule of law index, distribution of resources, index of economic freedom, the innovation capacity index, the corruption perceptions Index, the global competitiveness Index, the degree of inequality, etc.

1. LITERATURE REVIEW

Alternative institutions, as a relatively contemporary phenomenon, are not directly the subject of research in developed countries, because their existence and functioning are not (sufficiently) expressed, and therefore not scientifically researched. However, it is possible to look for some clues to alternative institutions in some western research, such as:

- "*Exploitative approach to the state*" within the "*interest approach*" (North, 1981, p. 22), theory of social (constitutional) choice (Buchanan, 1990),
- theory of "*rent-seeking motivation*" (Krueger, 1974; Posner, 1975; Buchanan, Robert and Tullock, 1980; Tullock, 1996; Rose-Ackerman, 1999; Acemoglu and Verdier, 2000; Congleton and Hillman, 2015),
- theory of externalities (Buchanan and Tullock, 1997),
- theory of "*predatory state*" (Evans, 1993; Robinson, 1999; Przeworski and Limongi, 1993; Marcouiller and Young, 1995),
- theory of "*total institutions*" (Goffman, 1968, p. 41),
- the influence of powerful administrative-bureaucratic groups (Mc Auley, 1991, p. 26),
- theory of "*violence*" ("*system with limited access to resources*" - North, Walis and Weingast, 2009),
- theory of opportunistic behavior and bounded rationality (Williamson, 1985; 1985a), and
- the „*rational bandits*“ theory, who rule a predatory state, making most of the population deprived (Olson, 2010).

In other words, the existence of alternative institutions is not particularly compatible with the social and economic practices of developed countries. Unfortunately, it is usually a characteristic of poorly developed countries. This is evidenced by numerous sociopathological phenomena (corruption, non-market and illegal enrichment, interest-lobbystic log-rolling, monopoly, etc.), which are the subject of various economic, sociological, and other scientific researches, as well as various forms of market restrictions (externalities, government controls, market failures, asymmetric information). There are numerous reasons for this, from the path dependency (i.e. latter events depend on previous events: work habits, mentality, achieved level of industrial development, method of regulation of economy, level of investment in science, democratic achievements and traditions, economic, market and other freedoms, party pluralism, the development of economic, legal, and other institutions, network effect, coordination effect, the effect of cultural factors (mentality, education and social consent), and the effect of long term social capital (i.e. quasi-irreversibility of the original socialization), through foreign influences (the war environment, globalization, politics, economics, geopolitics, geoeconomics), to the reduced application of neo-liberal economic policy, which ignored the Pareto principle and allowed the dominance of economic freedoms over institutions (rather than their complementarity). This has led to the institutionalization of privileges of privileged individuals, procedural forms of domination, and sophisticated forms of totalitarianism.

2. CRITICISM OF INSTITUTIONAL MONISM

It is an opportunity to recall the controversial and apologetic interpretation of R. Kapelyushnikov (2019), who erroneously and ideally argues that in the theoretical "approach" of many Western authors (North, Walis and Weingast, 2009; Acemoglu and Robinson, 2012) formal institutions (economic and political) represent not only the main but in fact the sole driving force of the "histor-

ical process" (meaning the social and economic development - author's remark). According to this view, which Kapelyushnikov ambitiously calls the "Pan-institutionalism", Western authors supposedly absolutize the importance of formal institutions (essentially: state institutions, political and economic). This means, in his view, that they relativize the objective existence (and role) of informal institutions. In a way, this means that Kapelyushnikov indirectly imputes to Western authors the idea of giving a dominant importance to institutional monism (i.e. the decisive role of state regulation).

We think this is wrong at first glance. Because, according to D. North (1981, pp. 7-8), the basic "blocks" of institutions are: a) property rights (as incentives for individual activities), b) specification and protection of property rights (by the state), and c) ideological (conditionally: political) influences on the behavior of individuals (which in fact are only a part of informal norms of behavior). North also emphasized the importance of coercive means for the implementation of rules and norms of behavior.

Furthermore, in the same article, it is noticeable that Kapelyushnikov, overwhelmed by the formalization of the research problem, completely "forgets" not only the positive results of the theory he criticizes, but also the culture, which in a conditional sense is a substitute for an informal institution (interpretation by Alesina and Guliano, 2015), but also the objective existence and functioning of alternative institutions. They are often the subject of our research, and they certainly exist in Russia, which is the largest transition country.

We must remind you that the aforementioned (and many other) authors differentiate "good" from "bad" institutions (Rodrik, 2007), extractive and inclusive regimes (Acemoglu and Robinson, 2012), "Limited Access Orders" (to resources) and "Open Access Orders" (to resources) - North, Walis and Weingast, 2009). Thus, both substantively and metaphorically, they referred to objective conditions and their basic characteristics in which alternative institutions could exist and operate. Undoubtedly, the protection of property rights is a major factor that has served them to differentiate good institutions from bad institutions.

Also, keep in mind that North, Walis and Weingast (2009) noted and described in detail the existence of anti-competitive economic institutions in the societies with "Limited Access Orders". They attributed them to the conscious actions of the elites (especially those in government structures). Although they do not mention the existence and functioning of alternative institutions, they do analyze social violence, privileges, bastard feudalism, rent-seeking, redistribution, the rule of law for elites, and others. Due to all this, we conclude that the actions of elites lead to the creation of violence in society (which is carried out precisely through the mechanism of alternative institutions). The violence analyzed by these authors comes from elites, not the people. It directly leads to redistributive effects (that is, "conflicts," in J. Knight jargon, 1992), which go in favor of the ruling elites.

The foregoing statements confirm that we cannot agree with the one-sided and undoubtedly ideologized criticism of Kapelyushnikov (Ibid.), who clearly imposes institutional monism of the dirigist type. Seemingly, his only "originality" is the attempt to terminologically define the purported priority of formal institutions ("Pan-institutionalism"). Without any intention to justify and/or favor the views of Western authors in any way, it seems that Kapelyushnikov's reasoning and over-argumentation have fallen into the trap called "criticism for criticism."

In addition, the framework of an article (written by anyone, even by Kapelyushnikov) is certainly not sufficient to consider the complex of very significant issues of an entire economic area such as the "new institutionalism" proposed by O. Williamson (1975). It is interesting that Kapelyushnikov correctly states some Western authors' understanding of the negative role of elites and nomenclatures in power (Acemoglu et al., 2005), as well as privileged individuals (Clark, 2009), but fails to rise above the outlined ideological matrix and notice the conditions for the creation, strengthening, and functioning of alternative institutions.

3. NEOLIBERALISM AS AN IDEOLOGY OF ALTERNATIVE INSTITUTIONS

In the era of the strongest waves of neoliberalism (more specifically: quasi-neoliberalism as an ideology of alternative institutions and a particular form of quasi-institutional monism), we criticized it harshly, competently, and argumentatively, to the same extent as dirigism (another polarized form of institutional monism). We have always advocated institutional pluralism, which objectively exists in various combinations in all developed countries. Moreover, every criticism and theorizing, aimed at any monistic glorification of particular institutional order - is doomed to fail, because practice (in addition to the theory) convincingly denies them.

In the most the so-called "transition" countries (to which SEE countries also belong), the interest motivation of the "reformers" and nomenclature in power resulted in their enormous enrichment. From the beginning, it has been accompanied by the strengthening of alternative institutions, quasi-institutional violence, and quasi-institutional control. And all this is possible only in the conditions of immoral misuse of formal and informal institutions.

Demagogic and vulgar rhetoric on economic freedoms (and their "satellites") has essentially led to their massive marginalization. As a result, the abused "liberalization" dominated over real "institutionalization" and turned into quasi-institutionalization. The quasi-neoliberal macroeconomic recipe was purely ideological in nature (a market mask for non-market appropriation). Objectively, it could neither create a sound microeconomic environment nor solve the problem of reconciling the freedom of choice of individuals with collective interests. It was merely a theoretical and ideological basis for the creation and strengthening of quasi-institutional monism, the natural result of which was the gradual domination of alternative institutions. In this way, real institutional changes were prevented. They can act only under conditions of quality institutional control and institutional competition - key promoters of economic development.

The "alternative institutions" created anti-institutional action, intentional blockade of real institutional changes, promotion of quasi-institutional and meta-institutional changes, turning institutionalisation into its opposite.

Extensive sociopathological milieu	Subjective behavioural regulators	Inefficient formal and informal institutions	Powerful mechanism privileges
Insatiable economic appetites of the government and "new elites" (demonic enrichment)	ALTERNATIVE INSTITUTIONS		Deformed and reduced choices of economic agents, the economic reality, and the institutional structures
Opportunistic behavior			Poor control mechanisms
Deficit of the rule of law			Weak and non-transparent institutions
Conditions where the ruling elite uses political power in the unethical way and obstructs the functioning of the rule of law			Combination of two basic institutional monisms (the market and the state regulation)

Disabled institutional control and adequate competition			Paternalism, nepotism, the tradition to obstruct legal norms, and the possibilities for safe and well-organized manipulations and compensations, log-rolling, lobbying, and rent-oriented behaviour
Deficit of market institutes, market infrastructure and culture, market cartelized	Disabled individualism and economic freedom for all (in a mass scale)	Pseudo-institutional violence (political, economic, and party) of an organized minority (over a disorganized majority)	The domination of political (party) interests, totalitarian party control over significant economic processes and policies

Figure 1. Institutional environment system of alternative institutions

Source: own creation

M. Delibasic (2016, p. 150; 2018) points out that 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, established by alternative institutions (Figure 2).

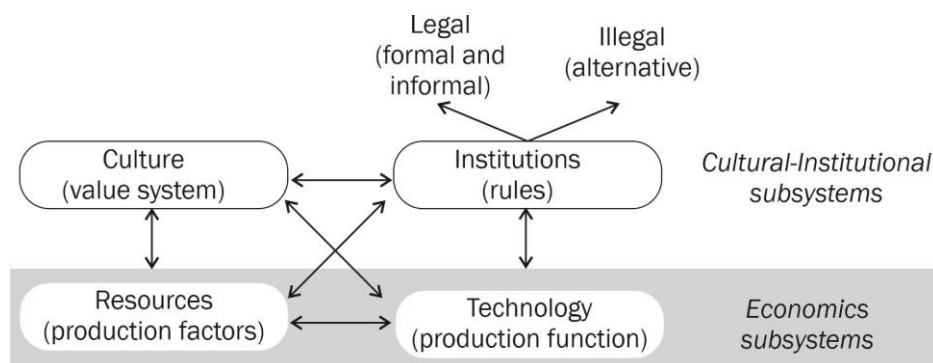


Figure 2: Interrelated developments in the social system

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

Neoliberalism, as the ideological foundation of alternative institutions in transition countries, has failed to satisfy a single element of the so-called "least common multiple" of economic success: integration into the world economy, high workforce mobility, high savings and investment rates, and the government's ability and commitment to achieve economic growth. Not even the most liberal countries in the world are in favor of an uncontrolled market, and especially not in favor of institutional monism. Quasi-institutional monism and the greater role of alternative institutions – are out of question! But, how to dominate global relations over underdeveloped countries if developed countries recommended their own recipes?! Delayed acknowledgments (after the global financial and economic crisis of 2008) for the mistaken beliefs in the efficiency of free markets (Nobel Committees M. Spence, A. Grispen, J. Williamson et al.) seemed burlesqueous and cynical.

Alternative institutions have an illegal, socio-psychological, and destructive character. They are primarily and exclusively personified, either individually or collectively. As such, they have, with their strengthening, directly and very strongly influenced the blockade of real institutional changes (primarily in the domain of formal institutions, which have a collectivistic character, and should express and protect collective interests). Therefore, it is necessary to analyze the functional relationship between the individual and the collective, through the prism of the creation and operation of alternative institutions. We believe that the uncivilized and dogmatic distortion of this relationship has significantly contributed to the institutional fiasco in many transition countries, which has resulted in the domination of alternative institutions and the deformation of the institutional structure of society.

4. THE RELATIONSHIP INDIVIDUAL-COLLECTIVE vs. ALTERNATIVE INSTITUTIONS

Institutional pluralism is a rational combination (synergy) of complementarily conditioned individualistic and collectivist actions, arrangements, efforts, and choices. It enables healthy and productive institutional competition. Ignoring institutional pluralism and forcing any form of institutional monism leads to the creation of perverted individualism of interest (of the rare and the privileged). Throughout the transition period, quasi-neoliberal dogma, utopia, and an illusion of individualism were applied in many countries. It is methodologically, epistemologically (understood as the difference between truth and "belief"), and ontologically in constant (inevitable) conflict with the theories of neoinstitutionalism (which promote institutional pluralism).

The aforementioned monistic dogma was essentially based on "market fundamentalism", which was ideally suited by the abstract and amoral story of a minimal state. Long ago, we have proved the methodological unsustainability of this primitive, vulgarized, and orchestrated "story" because it is not known whether it refers to a social, economic, political, or legal state. Minimizing each of them means reducing particular state functions.

In addition, the story of the "minimal state" ignores J.S.Mill's understanding of the balance between individual independence and social control, then the correct understanding of R. Nozick that the "minimization" of the state is justified when it is "*limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on,*" as well as A. Smith's statement: "*The public interest is better promoted by each person caring for his own welfare.*" The practice has shown that K. Popper's paradoxes can not be solved without the presence of efficient and developed institutions. Although they point to the need for a "mini-state", they do not prove that there are defined boundaries of such a state. On the contrary, they create conditions for new forms of totalitarianism and economic reductionism (Draskovic, 2017; 2018).

The boundless quasi-neoliberal dynamics of experimental deregulation breached the moral and institutional limitations of economic reality and rational human behavior. Because of that, transitional reforms need to be seriously implemented. Government structures have opted for recombined institutions, which have enabled the establishment of various forms of quasi-institutional relations. Forcing institutional monism (market type) has caused enormous consequences of the crisis. Various market restrictions have contributed to the boom of uncontrolled market forms, which do not have any common elements with the institution of effective market regulation.

There was a logical consequence - the crisis elements were *reproduced* (low standard of living, social stratification, poor motivation system, unemployment, decline in production and all economic indicators, rapid social pathology, criminalization of economy and society, systemic corruption, gray economy, insufficient government rights, etc.). That has deformed and reduced economic reality and the general institutional structure. These conditions are characterized by an insurmountable gap between suppressed massiveness and privileged individualism, which exists paral-

lently with the debt dependence growth, inefficient models of governance, systemic corruption at all levels, and many other social costs of anti-development strategy.



Table 1. The logic of creating and strengthening alternative institutions

Source: own creation

Our criticism has no political nor ideological motives, it is purely scientifically driven. We recognized the transitional quasi-neoliberal "shock therapy" as a wrong and velvet revolutionary path, which supported the individual interests of a small number of privileged individuals. Many traditional values and living standards of the population have been sacrificed and destroyed. The evolutionary development, based on the interests of the state and the people, has been ignored, which is contrary to the interests of political parties, groups, and individuals. It is indisputable that they exist in every society where there are elitist (nomenclature) and citizens' interests. The individualism of all (on a massive scale) is reduced to the individualism of rare, privileged, privileged, and non-market selected individuals.

CONCLUSION

The post-socialist process of pulling a snow job on the people (neoliberal, party, identity, and others) has shown that *dirigism*, as institutional monism, does not have to originate solely from state (collectivist) sources but can also originate from private (individualistic) sources. Thereby, it is clear that both sources are the result of a systemic and institutional fiasco, which allows the dominance of privileged choices and alternative institutions. The aforementioned fiasco causes many misuses, manipulations, and all the resulting consequences.

The imposition and domination of individualism over institutionalism was interest-driven: due to the redistribution of national wealth and the enormous illegitimate benefits of privileged individuals from the segment of government nomenclature. The organized use of privileges has led to monopoly rents, great enrichment of minorities, and impoverishment of the majority. A privilege mechanism was activated through alternative institutions, through which the latent exploitation of large groups was realized, which were collectively alienated from propagated individualism and massively "freed" from real economic freedoms. In paradoxical ways, individual "efficiency and rationality" is superior to social efficiency.

Alternative institutions are essentially the result of total government control over formal institutions and macroeconomic policies. Any total control brings with it the challenges of misuse, which was the case in many transition countries. Even the renamed incarnations of compromised neo-liberalism are based on the same ideas, centered on alternative institutions which control the mainstream financial flows and the corresponding illegal ("metaphysical") constructions.

The propaganda of "absolute truths" (neoliberalism) has always been an introduction to apologetics, misuses (quasi-neoliberalism), the creation of alternative institutions (the promoter of the interests of privileged nomenclature), and the paradoxical realization of the concept of omnipotence.

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