

## FRAMEWORK FOR RESEARCHING THE MODELLING POSSIBILITIES OF INSTITUTIONAL BEHAVIOR

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### ABSTRACT

*This paper will try to conceptualise the primary structural elements of the exemplary model of institutional behavior as a framework for bounded economic rationality, based on the sublimation of the key recommendations from the extensive scientific literature and heterogeneous indicators of institutional development. Its hypothesis states that this model should be based on a) homogeneous framework of interaction between domestic political, economic and other social institutions, and b) the role of external institutions, which, in their totality determine the economic choices and the corresponding effects, and c) application of the principles, conclusions and explanations that offer institutional economic theory.*

**KEY WORDS:** *Institutions, institutional changes, economic development.*

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### 1. INTRODUCTION

One of the most important, the most complex and the most controversial issues of transition in post-socialist countries is selection and combination of various forms and mechanisms of social and economic regulation. It results from the problems of wider social regulations (political, institutional, social, moral, etc..). Most economists (apart from neo-liberals<sup>3</sup>) agree that pluralism of economic institutions is essential for economic growth and sustainable economic development, especially in various combinations. At the theoretical level there are disputes regarding the boundaries and fields of economic institution's effects, their social orientation and engagement, defining the institutional balance and the like. In most transition countries, the situation is approaching institutional dysfunction in almost all social and economic areas. Thus, the issue of modelling institutional behavior is a top priority for a consistent development strategy.

After years of "divorcing" the economic and political science, their interaction has been modelling again in the recent decades. In addition to that, political processes are viewed as endogenous in terms of structure models, and economic models are applied to analyze the political process (the theory of social choice, etc..). That is an attempt of effective synergy of economists and political scientists, based on rational choice theory as a common methodological basis.

There is broad agreement in academic circles that institutions play a key role in economic development. K. Polanyi (1992) has correctly observed that economic history is a chronology of institutionalized elections and exchange. Despite the large number of papers about institutions in economic literature, it seems that there are no consistent and systematic explanation, based on which we could accurately model the institutional behavior as an alternative form of limited economic rationality. That would include different types of institutions, a level of their construction and influence indicators. Exclusively the broadest notion of social institutions as a major structural parts of society (Macdonis 1991, p. 11) and „*relatively stable sets of ideas and actions,*

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<sup>3</sup> Alibi-neoliberal economists constantly refer to F. Hayek, who has distinctly written that it is necessary to act accordingly to the rules, because without them the market coordination would not be achievable.

aimed at carrying out important social tasks“ (Coleman & Cressey 1984, p. 9) branches in various types: economic, political, ideological, legal, cultural and other.

Despite all the theoretical propositions, definitions and empirical evidence, seems that a strong conclusion as to why the institutions are important for economic growth still does not exist. One of the reasons is the lack of operational framework and possibility of accurate institution measurement. In this regard, Acemoglu (2009) points out that the term „institution“ is very broadly used and defined in literature, a wide variety of institutional forms that can be relevant to economic outcomes. Baron and Hannan (1994, pp. 1141-1142) suggest the ways through which historical, cultural, political, social, and psychological and other factors of influence can make some equilibrium (a state of balance) more sustainable than others, and indicate the need for learning and introducing the source of resistance to changes in the societal systems. In this way, they suggest the need for analyzing the distance traveled (*path-dependent*) of development that is very important for the prediction of events and various comparative assessment of institutional levels.

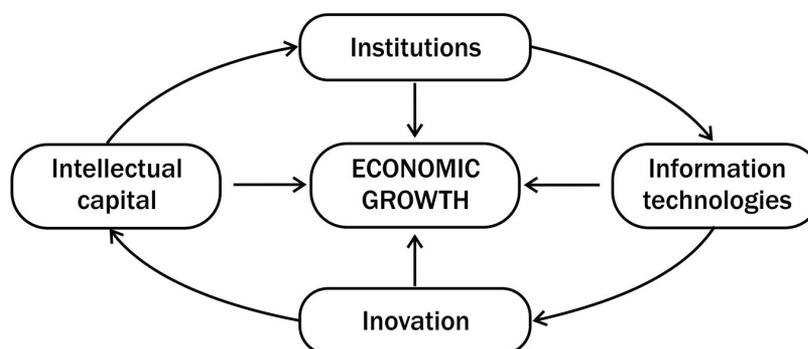
## 2. THEORETICAL APPROACH

Institutional changes and economic growth are probably the most important components and assumptions for economic development. High and sustainable growth rates are often the major drive for improving the general well-being. Representatives of neo-institutional economic theory (D.North and others) proved that long term economic growth could not be achieved without a progressive, pluralistic, politically desirable and legally protected institutional environment. In other words, high and sustained rates of economic growth are clearly not the cause but the consequence.

Rapid changes in economic reality of the past 20 years, caused by exponential technological and related organizational changes, as well as global processes, have resulted in paradigmatic modifications of economic growth model. Neoclassical growth model by R.Solow (1956) has emphasized the key role of technical progress in relation to the previous emphasis on the role of physical capital accumulation and the growth of a labor force. Solow has calculated that four fifths of U.S. growth per employee comes from technical progress. Lucas (1988) has pointed out the role of human capital, Barro and Sala-i-Martin (1997) have underlined the role of technological diffusion, Barro (1990) has emphasized the role of public infrastructure, Romer (1990) the incentive for innovation, and so on.

Modern theories of economic growth as the main cause consider: institutions, innovation, information (and other) technologies and intellectual (human) capital. Conditionally, it is possible that "model 4i" explains the causes of economic growth (Figure 1).

Figure 1: Conditional model of "4i" sample of economic growth



Source: Author's creation.

One of the major global problems is a wide gap between rich and poor countries, and certain layers of society, and individuals within them<sup>4</sup>. This raises interest for researching the role of national institutions, which are believed to represent the main cause of this "big gap". In addition to the many well-known economist, IMF (2005) has advised the necessity for economic development to improve and constantly strengthen the quality of national institutional framework. The main reason is that bad institutions inevitably distort rational use of production inputs such as labor and capital, degenerate the adoption and the use of ideas by leadership states, and demotivate their own population. This means that understanding a consistent institutional system, institutional arrangements and channels, necessary for real and well functioning of the institutions, are essential for creating the appropriate policies that would facilitate achieving the economic growth and sustainable development.

For better understanding of this discussion, one must understand the meaning of institutions. D. North (1981) defines them as „*rules of the game in a society or, more formally, the restrictions that are human, made by humans to shape their own interactions.*“ As a result, institutions structure incentives are in human exchange, whether it is political, social, economic or other (North 1990). In other words, the choice of individuals is defined and limited by institutions. Social (political, traditional, moral, cultural, etc.), and economic institutions directly and indirectly affect the structure of economic motives in society. North (Ibid., pp. 36-37.) points out that institutions can be interpreted as an informal constraints and formal rules. Informal institutions are "codes of conduct, norms of behavior and conventions, derived from socially transmitted information and are part of the heritage that is called culture."

Inherited culture in different societies shows why formal institutions lead to different results in different circumstances. Formal institutions include political (and judicial) rules, economic rules and contracts. Their hierarchy, according to North (1990, p. 47), from the constitution, through statute, common law, to specific bylaws, and individual contracts, defines limitations, from general rules to their particular specifications. Acemoglu, Johnson and Robinson (2004) have proved that the company will prosper from the economic institutions that facilitate the accumulation of factors of innovation and the efficient allocation of resources, and vice versa.

IMF (2005) has broadened the North's definition of institutions, emphasizing the relationship between economic and political institutions. The term „political institutions“ refers to the institutions that shape the incentives of political executives and distribution of political power, including the ability to create economic institutions and to distribute resources in society. By determining relative abundance of different social groups, economic institution can have a feedback effect on the formation of political institutions. Quality economic institutions are most likely to thrive in the "rent-free" environment, where small groups have not been able to seize a monopoly in a particular "industry" (meaning service industries) or economic activities, ie. they will not be able to gain privileged access to natural and other resources. Also, there is a great possibility that good economic institutions will be accompanied by good political institutions. Further, if political power is generally accepted, subject to review and recallable, and when used in terms of refraining from monopolizing and balancing the interests of society, it is much less likely that those who have the political power will use their position to acquire their personal profit.

### 3. CONDITIONAL INSTITUTIONAL MODELLING

To explain the questions above, it is necessary to model institutions as socio-economic technologies and their relation to politics and economics, freedom and violence (as basic forms and manifestations of certain framework), reforms, and crisis. In this regard, it is useful to accept the views of Acemoglu et al. (2004) on the role of institutions in society and economy, which we understand as follows: reduction, relativization and control over political domination over economy re-

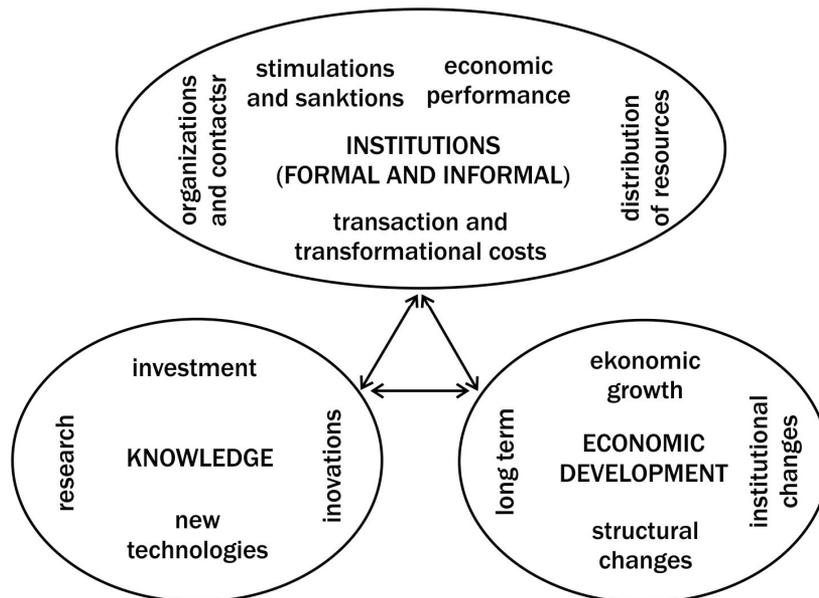
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<sup>2</sup> While most of the population barely survives, the "Bloomberg" agency has announced that 300 world richest people in 2013. increased their assets by a total of 524 billion. U.S. dollars.

quires dominance of institutions over politics and economics. Thereby, *homo politucus* appears to be a missing link between *homo institutus* and *homo economicus*.

Since many theoretical and empirical studies have established a direct connection between institutional development and economic development (D. North et al.), as well as the level of knowledge and economic development, these authors (Ibid.) have presented the logical assumption that mentioned causal relations can be joined in a relationship knowledge– institutions– economic development, with a mandatory category of investing in knowledge (Figure 2).

Figure 2: Conditional modelling of sustainable development



A. Stulhofer (1995, p. 954) rightfully claims that without answered questions on creating the norms and institutions, and methods of their maintenance, it is not possible to successfully explain the dynamics of social relations. That is the main reason why economists have decided to overcome neoclassical abstractions<sup>5</sup> and reject the dogma of cultural variables exogeneity. We should mention Olson's evidence of inconsistency between individual rational interests and group activities, indirectly accepted by North, pointing to the issues of collective action and the opportunism of the dominant groups. Stulhofer cites five key characteristics of institutions, which may be important for modelling institutional behavior:

- a) institutions are permanent and organized social practice, a set of interactive activities,
- b) institutions include norms<sup>6</sup>, which direct, regulate and restrict given activities,
- c) institutions imply a system of sanctions that ensures the effectiveness of norms,
- d) institutions include a role system, strictly defined tasks, responsibilities and interpretative framework,
- e) institutions have important influence on the social structure because they act cohesively.

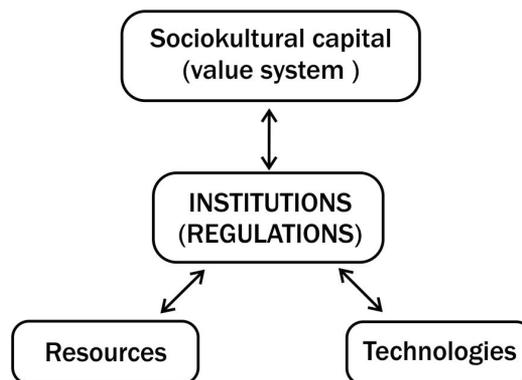
<sup>5</sup> Neoclassical orthodoxy is burdened with forced study of balance issues, which is closely connected with the rational behavior of economic agents. One of the main methodological differences between neoclassical and neo-institutional analysis is the basic "unit" of analysis: in neoclassical that is an individual, and in neo-institutional that is an institution (Dugger 1979, p. 905).

<sup>6</sup> The norms are interpreted as a socially constructed system of expectations, which directs individual actions, and is based on external mechanism (formal and/or informal) of sanctions, and internal mechanism of socialization (the process of identification). For clear classification of social norms see Elster (1991, pp. 112-113). Stulhofer (Ibid., p. 957) points out that norms are building material of institutions, and that institutions are guarantee of sustainable norms.

For our research, an interpretation of the social capital concept is very important. Stulhofer (p. 956) argues that relationship actors/institutions can be characterized by autonomy, coercion, authority and historical continuity of institutional change, and that behavior of actors is determined by the strength of institutional influence. Institutions affect the individual rationality through external constraints (laws, regulations, etc..) and internal constraints (socialization). According to Stulhofer, rationality is rooted in the value system, called the *socio-cultural capital*<sup>7</sup>, which represents the "fabric of informal institutions," and consists of the adopted norms, ideological beliefs, values, beliefs and other social structures. The relationship between social capital and formal institutions is a very complex, especially in terms of the strong relationship (*path dependency* – interpreted by North 1990, p. 112) between past and present institutional structure.

In accordance with Stulhofer's reasoning and scheme (Ibid., p. 961) and schematic system that is essential for Nureev's economic growth (2007, p. 350), we have constructed a customized, simplified scheme (Figure 3), which can serve as a starting point for modelling institutional behavior.

Figure 3: Socio-cultural capital as an element of institutional behavior



#### 4. INSTITUTIONAL FUNCTIONS AND RATIONAL ECONOMIC BEHAVIOR

In all areas of society should be active and continuous operation of unique (constitutive) rules, which apply equally to all and make indiscriminate and unprivileged regulation, coordination, organization and limitation of the human behavior. These institutions are the best manifested by its functions. The role of institutions in society and economy is a necessity and a priority, as a kind of meta-foundation and meta-mechanism. All "development" models that had ignored the institutions have proven to be unsustainable. The rules are to be followed. This is the basic objective function of effective institutions, which in their totality constitute the infrastructure of rules in the society and economy. Contrary to the effective, the infrastructure quasi-rules have emerged in some transition countries ("foisted nonsense" - T. Veblen), which tolerate imitation-interest and dysfunctional (vertical) institutional order, metaphorically called "institutional nihilism" by V. Drašković and M. Drašković (2013, pp. 11-24), Rodrik et al. (2004) "institutional fundamentalism."

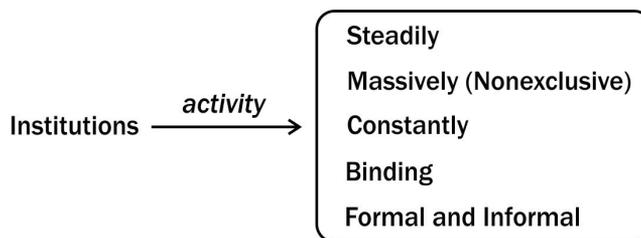
Institutions perform several basic tasks<sup>8</sup>:

<sup>7</sup> We do not agree with the author's theory that the socio-cultural capital is the broader concept than the social capital, which he has explained by appropriate images (Ibid., p. 958). The issue has a discussion character, but in any context, in our view, the social system is a broader concept than socio-cultural, because in addition to intangible (including institutionalized: power, influence, etc.) it contains a material resources.

<sup>8</sup> It is difficult to classify all theoretical modification tasks, performed by institutions. Thus, for example A. Greif (2006) argues that institutions create behaviors (actions of individuals and organizations), which in practice must harmonize with beliefs; W. Neale (1987, p. 1183) states that institutions determine relationships as rules, in a way that regulate

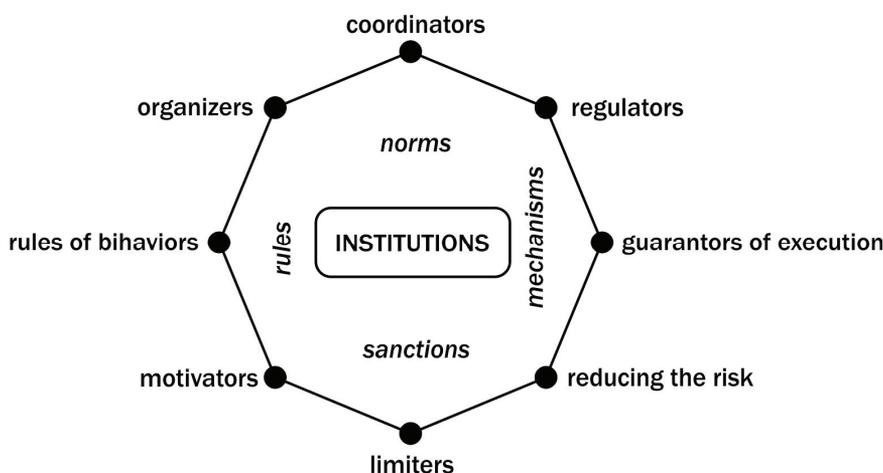
- a) increase of the transaction efficiency and thus reduce transaction costs (Williamson, 1981) through the coordination of economic activity, ensured by harmonization of interests between economic entities (horizontal) or on the property rights basis (vertical),
- b) enable the realization, networking and coordination of economic relations, resources, subjects and activities; increase the communication efficiency between community entities (trade, etc.); economize time and efforts in making decisions; contribute adapting the changes, minimizing the uncertainty and entropy; provide reliable protection of opportunistic behavior,
- c) limit the choice possibility (behavior) of economic entities and reduce the likelihood of collectively irrational outcome of individual irrationality, and
- d) maintain the hierarchical structure of authority (which in principle allows the imposition of asymmetric conditions of trade and access to resources ie, the possibility to abuse through organizational), monopolization of decision making (Michels 1967). This means that institutions, in their quasi-manifestations, may represent particularism as the promotion of political, economic and other interests of privileged social classes.

Figure 4: Characteristics of institutional action



Source: V. Drašković, M. Drašković 2013, p. 41.

Figure 5: The role of institutions as continuous intermediaries between collective pattern and individual behavior



Source: Ibid., p. 42

Depending on the orientation of institutions towards the above mentioned tasks, according to research by North (1990, p. 9), Putnam (1993, 1994) and other authors, institutions can be (according to Stulhofer Ibid., p. 977):

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what can and can not be done, as a public view they provide information necessary for meaningful participation in social life, and the sanctions are applicable in the case of non-compliance with given code of conduct;

- *horizontal* (universally oriented towards objectives a, b, and c), characterized by universal reciprocity, limited solidarity and developed forms of trust, numerosity and connectivity of informal and formal associations and their members (propulsive and affirmative institutional environment that Putnam calls *civil society*), and

- *vertical*, aimed at fourth objective (d) and dedicated to the issues of power and redistribution, characterized by closeness, nepotism, opportunism, suspicion, familial cooperation, the priority of loyalty and the lack of organizational forms (demotivation, civil uncooperative and discriminatory institutional environment with major or minor elements of violence, that E. Banfield calls "amoral familism"). It is the inefficient and irrational monistic institutional order, formed by reduced system of management, collapse, amorphousness and ambivalence of economic system, inadequacy of the rule of law, creating a large gap between reality of crisis and rhetoric of "reform" and forcing privileged interests.

Stulhofer (Ibid., p.p. 972-976) lists three basic steps in creating a rational or irrational institutional behavior (such as limited framework for economic rationality):

- *first step* is a rational response of actors ("rooted rationality") on the internal and external constraints of a specific social context, which is historically given,

- *second step*, which can be channeled into two diametrically opposite evolutionary direction, namely: a) positive structuring and improvement of social capital towards the continuous and offensive development of informal institutions (through the building and rebuilding of the internal and external constraints), which favor the formation of a broad cooperative horizontal institutional order and dynamic reform of institutions and their adaptation to the developmental needs of society, and b) negative structuring of social capital towards discontinuous, defensive, narrowly cooperative, imitative and vertical institutional order, with existing discrimination, monopolization and the rigidity of institutions, causing distrust, opportunistic behavior, erosion of social values, obstructing institutional changes, having elements of coercion, instability, clan and authoritarian monopolizing of institutional power, all of which consequently leads to a lack of socio-economic development, and

- *third step*, which involves parallel, multilevel and relatively stable existence of horizontal and vertical evolutive institutional order, where the first is characterized by the reproduction efficiency, and other is reproductively inefficient.

The above elaboration suggests that modelling of institutional dynamics a) must take into account the creation, evolution and maintenance of two different types of institutional structures (horizontal and vertical), b) that it is largely compatible with North's (1990) modelling, which considers the change of institutional framework (as a set of informal institutions) as a consequence of the organization impact (as formal institutions), where existing configuration (positive or negative) of institutional framework (as a set of values and rules) causes certain transaction costs of functioning the political and economic markets (Ibid, pp. 8-9, 135-40), which restrictively influence the institutional change, and c) that elimination of the forced (repressive) institutional order can be achieved only through discontinuous change, which implies a radical normative and institutional reforms, applying the consistent and fair sanctions, establishing the critical mass of civil society values (Tullock 1995).

## 5. QUASI-NEOLIBERAL MODEL OF "INSTITUTIONAL" BEHAVIOR IN TRANSITION

A successful transition in post-socialist countries assumes radical changes in the attitude and forms of business, ownership, mechanism regulations, and political and legislative regimes. Actual and radical institutional changes are the general framework and precondition for all other changes. They enable and enhance economic stability, growth and development. Economic inefficiency in transition is defined, among other things, by institutional vacuum and increased transaction costs of adaptation on the market conditions of economy and creating new institutions.

In theory and practice, there have been great doubts and different interpretations of objectives, methods, time, results and the costs of transition. They are the result of uncoordinated desires and interests with actual possibilities, one-sided ideological formation of prejudice from civilization needs, relationship issues and limits of state and market institutional regulation and dissenting opinions of the gradualism supporters and shock therapy. Causes of the aforementioned dilemmas are more visible than the consequences. In a way, they discredit the idea and practice of transition and indicate the reality – that they could be implemented only to the extent enabled by existing social, economic, political and institutional conditions and constraints.

Ignoring the essence of neo-institutional economic theories and institutionalization as a practical process and specific socio-economic development "technology", using its potential weaknesses of a systemic nature (possibilities for manipulation), quasi-reformers have imposed the individual "efficiency" on the social efficiency. Using various non-market methods and procedures<sup>9</sup>, they have transferred a significant part of the social (state) property into private property. In this 25 years long process, many social institutions have failed, primarily management, control and property origin. Consequently, economic institutions have failed too.

Neither the practice nor references of neo-institutional economic theory, nor many other theoretical studies were not sufficient enough to accepting orderly social (state) action "from the top" towards the massive delusion about transition process through dominantly profitable, privileged methodology of thievery. "Shock therapy" and strategies of alleged institutional "transplantation" of western role models have failed in most cases. Even if there were good intentions (and there were not, only profitable), the realization of any rules of conduct can be multivariate, depending on institutional and cultural environmental factors, but primarily on interests of the dominant political party (or coalition) in power. Strategy of "growing institution" (Stiglitz) and "transplanting the institutions" (Polterovich) does not fit in here. The causes are always the same - social, political and interest, but also methodology of reproducing institutional dysfunctionality (paternalism, nepotism, passivity, tradition of violating the legal norms, possibilities for unpunished manipulations, abuse and compensation, log rolling, lobbying, annuity-oriented behavior, etc.).

L. Polishchuk (2008, p. 28) explains that institutions does not get the desired results in various environments, and that is usually explained as "inadequate" local conditions. Good institutions should reflect the local specifics and have the character of a social good, because institutions reduce transaction costs and support the production and exchange. According to Polishchuk, the reason for this "incongruity" is that institutions may be used in aimless fashion, when the motives and character of its applications are in contradiction with their essence. Untargeted ways of implementing the institutions are: their unpunished abuse and exploitation, asymmetric information, institutional manipulation, institutional submission by some interest groups and their use for covering up certain operations.

D. Rodrik (2005) has proposed a conceptual framework of "good institutions", providing a primary economic principles: protection of property rights, contract enforcement, market competition, appropriate incentives, reliable money, debt sustainability and economic efficiency. Mutual influence of political and economic institutions must establish "*the right balance between disorder and dictatorship*", and therefore they should be together considered. Starting from here, Rodrik has proposed the classification of "market viable institutions" (Table 1). It is a synergy of economic and political institutions. His taxonomy can be understood in four dimensions, namely "market-creating", "market-regulating", "market-stabilizing" and "market-legitimising" institutions. Rodrik believes that the market requires extensive regulations to minimize abuse of market power, internalization of externalities, information asymmetry, and to establish standardization and safety products etc.

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<sup>9</sup> Getting favorable inflation and other loans, quotas, licenses, using trade and natural monopolies, inflationary profits, creating quick and big lobbying, earning on annuity and social security, with low risk and avoiding commitments, as well as making money on some of the speculative ways (financial pyramids, money "laundering", currency smuggling, gray economy and war profiteering)

Table 1: Rodrik's taxonomy of "good Institutions"

<p><i>Market-creating institutions</i></p> <p>Property rights, and Contract enforcement</p>	<p><i>Market-regulating institutions</i></p> <p>Regulatory bodies, and Other mechanisms for correcting market failures</p>
<p><i>Market-stabilizing institutions</i></p> <p>Monetary and fiscal institutions, and Institutions of prudential regulation and supervision</p>	<p><i>Market-legitimizing institutions</i></p> <p>Democracy, and Social protection and social insurance</p>

A warning that inadequate institutions can have a destructive effect on the valorization of economic resources has not been respected. Strengthening and concentration of privileges and consequent enrichment of individuals, criminalization of the economy and society, social stratification, impoverishment and apathy of mass population, the promise of a better life and costly improvisation of economic "reformers" have been unstoppable trend. They have led to the conversion of the former vices into ideals. Transition has been paradoxically substituted by rhetoric of reform, the market – by monopolies and black markets, the private sector – by privileged rich, entrepreneurship – annuity-oriented and grey economy behavior, democracy – by party lobbying and nepotistic log rolling, political pluralism – by totalitarian monism of the ruling party and/or coalitions, institutions – by system vacuum (institutional, organizational and normative).

Establishing an efficient economic institutions has been blocked by various barriers (V. Drašković 2001, p. 73):

a) slow and inadequate implementation of institutional changes, with socio-pathological and pragmatic signs of interest, which contributed to the disorganization, demotivation and apathy of most economic agents and the monopoly-lobbying enrichment of minority in frequent suspicious activities,

b) time<sup>10</sup>, structural, qualitative, quantitative and functional delay of institutional changes on other transitional changes, instead of being their support, stimulus and guarantee,

c) large gap between formally established economic institutions and essential economic behavior, which was far from regular norms,

d) hasty<sup>11</sup> formation of economic institutions,

e) wrong implementation of institutionalization, with no real strategy; Simply, it was not possible to implement a parallel transition and institutionalization with huge appetite of "reformers", in unfavorable economic environment.

The aforementioned obstacles have prevented institutional and any other competition, especially in the key areas of access to resources. In many cases of establishing institutionalization, violence has been imposed instead. The nature and extent of the business, the wealth of nouveau riche businessmen and characteristics of the "market" under their control, often had been dependant on the nomenclature level between certain quasi-entrepreneurs and/or on the degree of circumventing the legislation, rather than on their entrepreneurial skills.

<sup>10</sup> North (1994, p 79) has insisted on a time line of institutional change, because this has increasee the propulsive power of other changes, many of which were out of control or were just rhetorical in character.

<sup>11</sup> Apart from the speed of institutionalization (which inevitably bears the stamp of formalism) much more important is its quality, adaptability, safety and efficacy of action (regulation).

The application of quasi-neoliberal model of institutionalization in transition countries has led to a large polarization: freedom and enrichment of minorities, and the consequently reduction of economic choice and impoverishment of the majority. Rather than enabling the development and institutional innovation, it has led to the imitation of crisis and improvisations, which has generated a long list of the obstructing mechanisms. State dictate was replaced by dictate of a "new entrepreneurs" (nouveau riche rich). A retrograde request of time was in power – enrichment at any cost. From the previous times were taken slogans, promises, political parties' dominance, reproduction of crisis, reform apologetics and palliate, negative selection of personnel, etc. This led to further social disintegration and collapse of the middle class, years of reproduction crisis, boom of speculative trade, the development of social pathology, neglect of production, employment and investment, degradation of science, education and morality. A system of alternative institutions was created. There were a variety of socio-pathological phenomena, gray economy, long-term application of wrong monistic recipes of neoliberal "shock therapy", compensating strictness of formal rules by their violation, corruption, violation (deprivation) of property rights, establishing various stereotypes of behavior, influence of informal norms of behavior (escalating institutional conflicts), etc.

## 6. CONCLUSION

Institutional pluralism as a development principle is an organic and integral feature of developed societies and economies. It has proved to be a form of motion and solving many contradictions between public and private interests. It is based on a dynamic equality and mutual harmonization between variety of rival institutional forms of regulation and coordination of human activities (social and economic). Aforementioned suggests that institutional pluralism is an elementary principle which must be assumed in modelling process of institutionalized behavior.

Defining and analyzing the problems of mutual relation and interdependence of the social environment and economy, especially the perennial problem of political influence on the economy, is not possible without institutional analysis. Pluralistic modelling of institutional behavior and its selective and flexible application in practice can help understanding the transition from totalitarianism to democracy, from crisis to progress, from monopolistic dictates to the cooperation of interests and freedom of private initiative in the mass proportions, from non-economic subordination to economic motivation, from privileged economy to the knowledge economy, and from quasi-neoliberal monism to the horizontal institutional pluralism.

The practice of developed and developing societies and economies shows that the most important condition for ensuring economic freedom and property forms – a strong and pluralistic institutional constraints of executive power in the field of property relations, ie. material and status value, as well as the political power.

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