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## Article

## Instytucionalistics

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KSP Journals, Istanbul

*Reference:* Černoalov, Aleksandr V. Instytucionalistics.

This Version is available at:

<http://hdl.handle.net/11159/665>

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Journal of  
**Economics and Political Economy**

www.kspjournals.org

Volume 4

March 2017

Issue 1

**Instytucjonalistics**

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**Abstract.** The article reveals new methods of planning and forecasting of possible consequences from implementation of institutional projects which can be used while making decisions on the necessity of their introduction. Possibilities of combining sociological and economic tools of the analysis for studying the object of institutional character by researchers-beginners have been considered. Conceptions, concepts and categories of the new institutional economic theory which founder O. Williamson was awarded the Nobel Prize in economics in 2009 are presented. The author's method of quantitative analysis which has been worked out for application in students' scientific papers is used.

**Keywords.** New institutional economy, Institutional efficiency, Institutional project.


**JEL.** B25, B41, C15.


**1. Introduction**

The current state of economic science is characterized by the fact that as a result of application of its methodology the realization of such important functions of management as planning and forecasting by managers in economic practice still happens within so-called "zero transactional expenses"<sup>1</sup>, that is within the traditional neoclassic which doesn't recognize the importance of institutes and considers its models outside the legal system ("rules of the game"). Economists and users of such products consider that business plans, marketing plans, plans of production development and other look-ahead documents will be fulfilled exclusively by rational, conscientious and honest managers and directors<sup>2</sup>. But is it so in fact?


Unfortunately, while making plans, we don't want to assume that contracts during the considered period can be reconsidered and foreign states can impose restrictions on the import of our goods or energy resources, that the opportunistic behavior<sup>3</sup> can be exercised by the contracting party, that the legislative base in any field of activity can be changed and so on and so forth. From the point of view of institutionalistics<sup>4</sup>, modern techniques of planning are characterized by the first part of the well-known theorem by R. Coase: "the ultimate result maximizing the value of production doesn't depend on legal system if transactional expenses are equal to zero" [12, p. 103]. But Coase, actually, called us not to confirm the correctness of this part of his theorem with our actions, and on the contrary, he wanted the


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economists to begin studying the world with positive transactional expenses, rejecting the neoclassic idealistic picture of the world.

The research question arises: what will occur if in techniques of planning to pass from the use of zero to positive transactional expenses (TRC)? Perhaps, we, after all, will decide and substitute neoclassical methods of planning for institutional ones. Then among actions of the business plan or the investment project, in our opinion, not organizational<sup>5</sup> but institutional project built in the framework of the functioning system of the norms of law of the given state and oriented at mental and socio-cultural peculiarities of its (state) institutional environment has to appear.

However, as it appears, neoclassical expensive methods of assessment of efficiency [1, 2, 13, 14, 18, 19] for institutional projects aren't suitable<sup>6</sup>. Therefore we see the most important purpose of this article in the necessity of presentation for economists of new institutional quantitative methods of forecasting which were developed by authors within the framework of the creation of the scientific school – institutionalistics. In this regard we want to offer the scientific and business community new ways of assessment of institutional efficiency of projects at the micro-level<sup>7</sup>, in particular, where the majority of experts in the economic sphere work, however, they are suitable for the macro-level, at which the government is engaged as well [7, 8, 12, 17].

## 2. Linguistic Explanation of the Concept “Institutionalistics”

The term “institute” has been used in social sciences for a long time; J. Hodgson considers, approximately since 1725 [6, p. 28]. However, even today there's no complete unanimity concerning the contents and the volume of this term. Of course, it is impossible to speak about institutionalistics, without establishing its connections with the concept “institute” and without defining its logical form and internal contents. Especially it concerns the intentions to carry out quantitative assessment of the efficiency of institutional structures and projects. In this regard we think it necessary to precede this article with the section in which the linguistic nature of the concept “institutionalistics” is considered.

As it was declared in the introduction, “institutionalistics” is to represent a separate area of knowledge in an institutional paradigm which focuses attention on the development of quantitative methods of analysis. This approach realizes the message, addressed to economists-researchers by R. Coase in his Nobel lecture “Institutional Structure of Production”: “Sometimes my statements were interpreted as if I were an opponent of mathematization of the economic theory. It is incorrect. Actually, so far as we start revealing real factors influencing functioning of the economic system, difficult interrelations between them will obviously demand mathematical processing ..., and economists ..., writing in prose will reasonably take the leave. There would rather come these times!” [3, p. 342].

Institutionalistics as well as statistics, econometrics, ethnometrics, economics presupposes development and application of the quantitative analysis for economic researches of the institutional direction. In this sense the term is used by authors for the first time as it doesn't belong to any known scientific categorial notion: neither to sociology nor to political science or law.

From the point of view of Professor Senkevich V. I. (linguist) the idea of institutionality can integrate numerous phenomena of the language/speech in various areas of knowledge. The mentioned above idea initially arose in economic science (T. Veblen, W. Mitchell, D. Clark, D. Kommons) and is fruitfully being developed by economists now [5, 6, 12, 19]. The term ‘institute’ comes from Latin *institutum* translated into Russian as «установление», «учреждение»; «институционализация (институализация)». In the valency of the term ‘institute’ extensional (in fact evolutionary) essence of institutionality is revealed. Institutionalistics is spoken about where there is a moment of formation

(development), but not functioning [5, p. 130]. That is why everything that has become the result of formation and development should be described and estimated by the researcher observing the results of such a process or phenomenon.

“What is becoming becomes real (is established itself) – Professor Senkevich V. I. continues. – We have nothing to do but consolidate, fix, note, register (in memory, on paper, in law, etc.) everything that has arisen – results, phenomena, stages and formation moments” [5, p. 130]. And if all this concerns the subject of the institutional paradigm which is described by the logical pair “rule – action” (unlike the neoclassical one “expense – result”), then naturally “institutionalistics” which uses quantitative methods of research must have a radical basis coming from the word “institute”.

The procedure of institutionalization is applied to event-driven and factual reality, that is, to life. Unlike reality where something is constantly being done and transformed (i.e. receives the form), in reality that is something (substance) which continuously is occurring and changing. In this regard there is a need not to issue, but imprint (seize) the events of moments, giving them a stiffened state, “to put them on the account”, to describe them qualitatively and quantitatively [5, p. 130]. That’s why the methodology of institutionalistics is required to realize the latter function of this scientific research.

### 3. Research Objective, its Object and main Scientific Hypotheses

M. Lokshin in the journal “Questions of Economics” formulated the concept of a scientific method as follows: “... it is a set of methods for studying phenomena and acquisition of new knowledge, as well as judgment and specification of the already gained knowledge” [3, p. 48]. The development of institutionalistics from this point of view is a scientific method of learning the phenomena of an institutional order. “With all this going on – M. Lokshin continues, the scientific method is based on collecting empirical proofs amenable to measurement with the help of special principles of maintaining reasoning” [3, p. 48]. Such a special principle of reasoning in institutionalistics is the formulation and the proof of the theorems creating its conceptual basis and allowing researchers to form special methods of collecting and processing empirical data.

Research process in any science (including institutionalistics) can take various forms, but at the same time it consists, as a rule, of the following stages:

- 1) formulation of a research question or a group of questions which are to be studied and which are within an object of research or at the turn of several sciences. For institutionalistics it is a logical pair “rule – action” meeting a condition of minimizing transactional expenses. It is especially important for young Belarusian researchers to consider the existence of such a stage because as abstracts of theses show, they often omit it and begin their work using already ready techniques, alongside sorting out or trying to find these or those research questions for it;
- 2) analysis of the available information on this subject: here we can claim that institutionalistics is an absolutely new direction of research promising considerable volumes of scientific novelty to the competitors for scientific degrees;
- 3) putting forward hypotheses (as a rule, the main and several subsidiary) and predictions resulting from them, that is theoretical and hypothetical answers to the research questions raised. Checking the reliability of answers formulated in the form of hypotheses on research questions is the purpose of each scientific research;
- 4) collecting, analysis and data processing – at this stage institutionalistics offers to use specific methods of economic, sociological and mathematical character which allow to check directly correctness of the answer to a research question;
- 5) interpretation of the results and the formulation of conclusions finishes scientific research.

Thus, scientific research, from our point of view, is a process, consisting of a great number of the stages including differentiated actions of a scientist both aiming at learning and receiving objective, detailed and substantial display of the assorted part of reality in nature, public, economic or cultural environment. The research objective synthesizes hypothetical answers to research questions of descriptive, cause-and-effect and essential character. The working hypothesis of the research project has to answer them. Descriptive questions in institutionalistics realize answers of rather quantitative parameters of the process of interrelation between the qualitative level of the institutional project and the parameters of the institutional environment corresponding it. Cause-and-effect questions define the degree of closeness of dependence between the specified phenomena (the project and the environment). Research essential questions explain the mechanisms of dependences between the condition of the institutional system defining the standard characteristics of the institutional project and existing conditions of management in the specific economic system.

The list of the group of hypotheses formulated on the basis of theoretical base of the new institutional economic theory is as follows:

*The main hypothesis* presupposes that the assessment of efficiency/inefficiency of the organizational project is based on the introduction in the analytical work of economists of the category of transactional expenses which form research techniques oriented at limited rationality of the subject of management within the operating institutional environment and increase the credibility of predicted and planned work. *Auxiliary hypotheses* allow revealing the structure of scientific research.

### 4. Techniques of the Assessment of Institutional Elasticity of the Project

In this section we are already at the fourth stage of scientific research which is to show those specific methods of data processing which institutionalistics has at its disposal. However, before passing to their description, we'd prefer to give some definitions.

The institutional project represents a set of some formal rules and standards. The first stage of research consists in transition from the procedure of description of the institutional project to the process of its identification, allocation of variables, establishment of the kind and parameters of the economic-mathematical model. For the subsequent analysis and modeling of the institutional project taking into account some simplification under the established restrictions two factors are chosen, which influence its characteristics as the third factor transfers modeling into three-dimensional space. Further the process of econometric modeling develops using the correlation analysis and creating regression models of the institutional project [8, p. 50; 12, p. 132; 16, p. 46; 17, p. 83]. Only the so-called "flat modeling" has been mastered so far in the framework of institutionalistics: further development of this direction we connect with the use of more developed mathematical tools and here scientists-mathematicians can help us whom we invite to mutual cooperation.

*The second stage* of work is connected with modeling of operating conditions of the institutional project, that is, with the need of implementation of all listed above stages of modeling, but concerning the institutional environment. Formalization of the model of the institutional environment seems to be even a more complex challenge than formalization of the institutional project. And here much depends on the skills and innovation of the subject of modeling, its ability to get into essential processes of functioning of the institutional environment and to give them adequate characteristics. It is also necessary to take into account that in social sciences the application of models isn't a guarantee or prerequisite of the high level and quality of research. In the given field of knowledge it is difficult to speak about accurate proofs in a strict sense of the word. However this fact doesn't testify that it is

necessary to refuse from quantitative research. Any measuring result has its payload.

As an indicator of institutional efficiency serves the coefficient of elasticity of the institutional project ( $Ei$ ) to the operating institutional environment which in general is represented as follows:  $Ei = \alpha_{ij} / Iis.$ , and for applied calculations [8, p. 50; 12, p. 132; 16, p. 46; 17, p. 83]:

$$Ei = [\pm] piM \sigma i / \sigma M$$

Besides, the formula of the calculation of institutional elasticity demands an assessment of changes of fluctuations of price norms within the framework of that object where its implementation is supposed. In the calculations of the coefficient of institutional elasticity the results of the qualitative analysis of the efficiency of functioning of formal rules in the institutional environment are also taken into account. As a result of graphic comparison of regression models of the institutional project and the corresponding environment and the carried-out calculations the parameter of correlation between the regression models created as a result of introduction of the innovative institutional project according to the requirements of the target function  $TRC \rightarrow \min^8$  to the conditions of the institutional environment is defined. If, for example, it makes  $piM = 0.69$ , and the average quadratic deviation considering the changes of price norms as a result of introduction of the project in the organization makes:  $\sigma i = 17\%$  while  $\sigma M = 15\%$ , then the value of the coefficient of institutional elasticity (according to the above-stated formula) will be equal to:  $Ei = [+ ] 0,69 [17 / 15] = 0.77$ .

## Notes

<sup>1</sup> Expenses of implementation of exchange operations in the conditions of the market are introduced into scientific circulation by the Nobel Prize laureate of 1991 R. Coase.

<sup>2</sup> It means that economists in their activity rely on the neoclassical model of the economic person characterized by full rationality and aimed at invariable maximizing usefulness at implementation of any kinds of activity.

<sup>3</sup> According to O. E. Williamson it is necessary to consider opportunism as “constant aspiration for realization of somebody’s own interest (...) it refers to the cases of incomplete or incorrect transmission of information, aiming at deceiving, misleading, concealing information either to forge it or to confuse the case in a different way” [20, p. 30].

<sup>4</sup> A new direction of the institutional theory, developed by the author with the aim to improve the methods of quantitative analysis in applied institutional research at micro and macro levels.

<sup>5</sup> The organizational project with zero TRC doesn't take into account the condition of the legal system.

<sup>6</sup> Not only the efficiency according to Pareto, but also utilitarian efficiency, the efficiency according to Hicks and Hodgson [12, p. 34], and also other types of efficiency should be considered.

<sup>7</sup> An example of the implementation of calculations on the basis of the specified technique s is given in this article.

<sup>8</sup> See the theorem of institutional efficiency [12].



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