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THE ROLE OF THE INSTITUTION OF PROPERTY IN THE ECONOMIC TRANSFORMATION AND DEVELOPMENT PROCESS IN CENTRAL AND EASTERN EUROPE¹

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ABSTRACT. *In the present paper, the emphasis is laid upon the evolution of the institutional change process that occurred in the countries of the Central and Eastern Europe, after the fall of the communist regime in the area, the main purpose being that of grasping its significance for the economic development. The transition process has generated structural modifications in these countries, which were especially reflected at the level of the formal institutions (adjustments regarding the functionality of the free market, the contractual relationships, the compliance of the law primacy and the property). Obviously, certain transformations were manifested within the informal institutions as well (the organizational culture, specific customs of the geographical space) and although the influence of the latter, for sure, does have repercussions to a certain extent on the economic development, the evolution of the informal institutions is the one which is determined, to a greater extent, by the dynamics of the formal ones. That is why, the main purpose of this paper is to achieve an empirical analysis, which will take into account indicators such as: the level of compliance with the private property right, the GDP/capita, the governmental expenses for the protection of the property and the application of the law. Based on this analysis, is expected that the research results to highlight the manner in which this specific institution will influence the growth paths in the Central and Eastern European countries and consequently, to lead to the increase of the awareness degree regarding its importance.*

KEYWORDS: institution of property, institutional change, economic development process, Central and Eastern Europe.

JEL classification: O1, O5, R1.

Introduction

The institutional theories emphasized the fact that, in general, there is a direct relationship between the solid institutional construction and the development, of reciprocal emphasis, in the sense that the developed countries gain advantages on their way towards the economic advance, as a result of the institutional efficiency and coherence, while the emerging countries are affected by institutional fragility, thus determining the emergence of the so-called “poverty trap”. The institutions should become, for any nation, the main references of the development study since they represent a network of formal and informal rules, meant to introduce order in the economic and social life and edify a mechanism for the application and monitoring of these rules, in view of efficiently using the available national resources. The institutions constitute the environment which can influence, positively or negatively, the development of the economic and social activities of a country, the difference being made in terms of the coherence of the measures applied (Frunză, 2011, p.142).

Since the ‘90s, the majority of countries from the Central and Eastern Europe have seen in the European Union a support, and in the process of European integration, a chance for their economic re-launch. More exactly, they hoped to reach a high welfare level that facilitates any burden, either public or private, and facilitates the social adjustment (Colaresi and Thompson, 2003, p.386). The challenge was not a simple one, as it many times appears in the economic writings, implying a passage from the planned economy to the one based on the market coordinates, but a much more complex one, within which, the creation of essential

institutions, supposed to efficiently respond to the mechanisms of reaching the dynamic balance states at the micro or macroeconomic level, was becoming a must.

Among the institutions with major impact on the economic development, can be mentioned those regarding the private property, the contract, the free market. However, their influence on development cannot be analyzed independently from the other factors which lead to this process: macroeconomic stability, a low inflation and a strong convertible currency, competition, private majority economy, free initiative, focus towards the exterior world, functional system of financial and banking institutions, different investment funds, stock exchanges, elastic labor market within which there are work relations appropriate for development, political stability etc. (Redek and Susjan, 2005; Pranab, 2005). The more numerous the factors mentioned and correlated in a well-defined set, the faster is the development of a country. Therefore, starting from these considerations, in addition with the emphasis of the important role that institutions play in economic growth trajectories, the paper aims to analyze what the institutional transformation meant in the countries of Central and Eastern Europe, especially from the perspective of the institution of property, and what influence it has on economic development in this area. To capture better the performance differences in this direction it is used a dynamic analysis (period 1996-2009), upon which there are reflected the repercussions of the size of government spending for property protection in Bulgaria, Estonia, Hungary, Latvia, Lithuania, Czech Republic, Poland, Romania, Slovakia, Slovenia, on respecting it, respectively on the level of development, measured by GDP.

1. Literature Review

The neoclassical economic theory (“mainstream”) has not incorporated the institutions, explicitly and systematically, as a specific field of analysis. However, the issue is no longer in terms of improving the processes of resources allotment, either internal or external, political or economic, but it involves the population and the communities with their specific characteristics, the study of markets being reducible to the analysis of the “rational actor” behavior (Brue, 1994).

What should matter is the recognition of the fact that the institutions affect the economic results. Only the protected institutions, supported by rules of ethical functioning, lead to this goal². When the legislation is not well designed and applied, the sanctions are not very demanding, and on the market there is asymmetrical information, there is the tendency of breaching the formal institutions. The studies that emphasize the implications of the institutions’ breach on the productive activities were carried out by Rose-Ackerman (1975), Besley and McLaren (1993), Mookherjee and Png (1994), Economides *et al.* (2007), Baumol (1990), Murphy *et al.* (1991), Hirshleifer (1995), Grossman and Kim (1996). Therefore, the weak and unprotected institutions undermine the economic growth and, as a result, the governments of the countries in course of development should make efforts in view of their consolidation, in order to provide a larger horizon for the efficient functioning of the markets. Where the market has difficulties because of the high transaction costs, the institutions should be recognized in order to act in the sense of their reduction (Pejovich, 1999; Prasad, 2003). The society must treat with the appropriate importance the institutions that govern the functional markets in order to benefit from the advantages produced by them. Then, the

² Trygve Magnus Haavelmo, an influential economist whose main field of research was focused on econometrics and the economic theory, supports this idea (*A Study in the Theory of Economic Evolution*, 1954).

supplementary institutions must control the operation of markets in order to reach a stable and equitable economic growth (Eggertsson, 1990; Bajt, 1993; Dowding and Desmond, 1995; Brunetti *et al.*, 1997; Acemoglu *et al.*, 2002). Therefore, it is essential for the development of the Central and Eastern European countries to take into account the structure and quality of their institutions, no matter the system they choose to rely on – German, Japanese or American³. However, we wonder, can the states that are still going through a transition period, reach the level of these models? It is a question which, no matter how optimistic we are, we can hardly believe in a positive answer. And this is due to the fact that such countries have institutional specific characteristics, mainly given by the ideologies of the communist regime. Thus, we ended up believing in the slogan “history matters”, through which these states are dependent on the past or on the path followed (“path dependence”⁴) in a significant proportion (Andreev, 2003, 2006; Rona-Tas, 1998).

Currently, we admit the fact that institutions are important and we are convinced that some institutional arrangements are fundamental or are more basic than the others. In this regard, a special attention must be given to the institution of property since, if it is appropriately administered, it leads to lower transaction costs and promotes the co-operant behavior, allowing the individuals or organizations to gain profit from the commerce. When the property rights are certain, the individuals have stronger incentives to try to make profit, sign contracts, solve eventual disputes, invest both in physical capital and in the human one as well, exploit the innovations (Knack and Keefer, 1995; Shleifer, 1998; Kasper and Streit 1998; Hodgson, 2003; Boudreaux and Aligică, 2007, pp.29-30). All these can however be accomplished in the conditions of the existence of a clear, coherent and stable legislation, this generating the so-called “development state” (Leftwich, 1995; Offe, 1996). The government has, in this sense, a significant role since it must dispose of the capacity to institute and defend the institutions of the economic competition, at the same time while eliminating corruption and promoting the public-private partnerships. For this, an institutional change is necessary.

The institutions become resistant to change at least for two reasons: 1) because of the uncertainty associated to the new institutional design and 2) because of some national or international regulations which may induce considerable transaction costs and can impose high institutional standards (Hodgson, 2000; Blyth, 2002). Essentially, the modification of an institution and even more the creation of a new one may prove to be expensive or impossible, taking into account the fact that the actors have invested resources and have adapted their routines, the expectations and relationships between them, according to the evolution of the institutional arrangements (Williamson, 2000; Tsarouhas, 2005).

The former communist countries of the Central and Eastern Europe, together with the adhering to the European structures, have become more capable to formulate and implement politics and they enjoyed a higher autonomy degree as regards the private business, either local or foreign, through the institutions and by complying with the EU rules. Still, the capacities of many of them to determine the courses of economic development are still rather

³ The issue refers to the variety of capitalist systems. The types of Japanese, German and American capitalism differ as regards a few institutional characteristics, but they were all influenced by success along history. The American system is based more on the pure market force, while the other two on tradition, state and stable and long-lasting business relations.

⁴ The concept of “path dependency” refers to the fact that the institutions existent at a certain moment are, to a great extent, determined by the previous institutions, resulting an incrementalist historical evolution. More exactly, the institutional choices made in the past can persist, influencing and constraining the actors even later. It is that hysteresis (the drawback of effects in relation with their causes). In the economic theory, the term refers to the persistence or irreversibility of effects. In a different order of ideas, path dependence signifies the fact that the final balance is not independent from the economy evolution path.

limited (Pierson, 1998; Dimitrakopoulos, 2001). The changes within these countries are different: some are slower, other are more sudden, according to the start positions in the transition process. Regarding this subject, there have been a series of opinions expressed in different studies:

- North (1990): the basic sources of institutional change reside in the modifications that may occur in the preferences and in the relative prices. The most successful transition economies are those that have comprehensible and stabilized reforms. The faster reforms are better than the slower ones;

- Iancu (2000, p.152): „if the changes of institutions are made within the same economic and social organization principles, they are within the limits of a reform. If the changes are however deeper, if they transcend the current principles of organization of the economy and the society, the adaptations are called transformations and they gather the amplitude of a revolution of the economic system bases”;

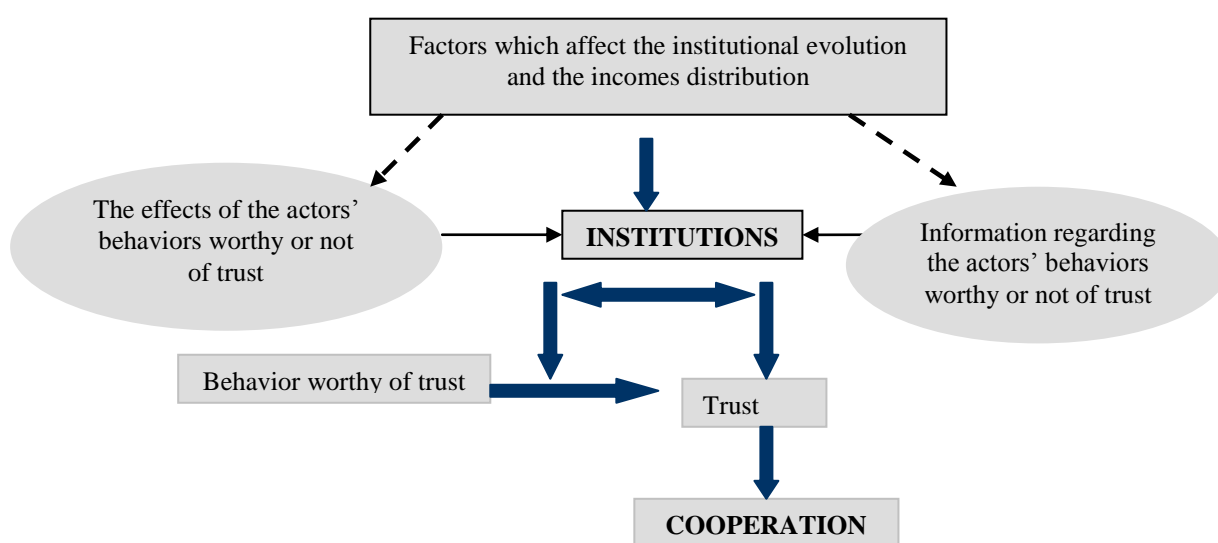
- Havrylyshyn and Van Rooden (2000): the progress in ensuring the macroeconomic stabilization and the implementation of the economic reforms at the large scale remains the main determinant of growth in the central and East-European countries;

- Havrylyshyn (2001): the initial unfavorable conditions should not become an excuse for the lack of action since they result from a lesser political will and capacity for reform;

- Ratajczak (2005): the role of the initial conditions in explaining the growth variations is surprisingly small. The difference between the performance of the Central and Eastern European countries is best explained through differences of structural reforms (ever since the beginning of the transition) more than the initial conditions;

- Kornai (2006): the implementation of institutional changes is more difficult and more time-consuming than the one referring to the macroeconomic changes such as stabilization, liberalization or inflation reduction;

In the future, the institutional changes will probably occur as a result of the modification of power relations between actors or of the incomes they want. Schematically, this can be represent such as in *Figure 1*.



Source: adaptation after Farrell and Knight, 2003, p.546

Figure 1. The Relationship between Institutions-Trust-Cooperation

In such a context, the transformations regarding the trust will produce mutations according to the dimension and form of cooperation between the individuals.

2. Great Institutional Transformation in Central and Eastern European Countries

The end of the socialist period has determined an institutional vacuum in the Central and Eastern Europe. In this region, the transition process has mainly represented the search of a new set of institutions. The leaders confronted themselves with two issues: 1) how to choose new institutions and 2) to what extent the new rules of the game should replace the old ones (Pejovich, 1994). Gradually, the law, the institutions and the property structure were reformed, rather difficultly, to allow the settling of private property. The transformation, in order to consider it efficient, must rely on the market relations, which ensure a competition environment, stable and responsible. In the end, how can the industry be modernized, privatized and restructured without market signals that guide the process? Moreover, if the countries in course of development are poor because their current institutions stipulate a weak basis for giving incentives, which generate growth, what type of institutions should they form? And how can they reach that point? The essence of answers to these questions resides, according to the opinions shared by the majority of contemporary economists, in the promotion of private incentives and initiatives towards the modern economic growth through the accumulation of capital and the capital and work conversion in the market production (North, 1994; Greif, 2005, 2006).

D. Rodrik (1999) distinguishes between two alternative approaches for the “acquisition” of institutions. According to the first one, it is possible to “import the institutional plan” from the developed world. Following this approach, the privatizations of companies would be accompanied by a set of administrative reforms which would include the adoption of laws (often based on the same fundamentals as those from the developed countries), establishing an independent judicial system etc. The second approach emphasizes the idea that the local conditions will require, in many cases, a unique plan, specific to the institutional context. The importance of such an approach can be understood and appreciated through a real warning, suggested by D. North (1990, p.32): “the economies which adopt the formal rules of another economy will have very different productivity characteristics, caused by the discrepancies between the informal norms and the entry into force. The result is that the transfer of the formal politics and of the rules of the successful Western states to those from the Central and Eastern European countries does not represent a sufficient condition for a good economic productivity”. Although the institutions are crucial for supporting the growth, the latter, in order to be achievable at considerable quotas, must not wait until the institutional transformation is generated on a large scale.

Therefore, the different performances of the economies which went through the transition period are explained through the efficiency in responding to the requirements of the market and of the new institutions created. Even if most opinions are connected to the fact that only the institution of the private property may lead to the democratization of markets, the experience of the countries from the Central and Eastern Europe is a special one. As we know, at the end of 1989, these states disposed of specific institutional and economic characteristics: the state property was excessive; the economy structure was not a balanced one, putting too much emphasis on the development of industry, the traditional services and sectors being neglected; the financial system was underdeveloped; the trade with the developed countries almost did not exist. Here must be mentioned that although the former communist countries depended on each other for making trade (since they were isolated from the West), there were

however differences between them, reflected in their size, the political status and other factors. In this respect, we have the situation of the Baltic states which, being very small, depended much more on the exportation of some members of the Council for Mutual Economic Assistance, such exportations attracting almost 41% of the GDP in Lithuania, 37% in Latvia and 30% in Estonia, compared to 6% in the former Czechoslovakia and 4% in Romania (Balcerowicz, 2005, p.235). These variations had significant implications on the GDP dynamics, after the beginning of transition. The communist inheritance has left strong marks on the Eastern Europe especially: fragile institutions, weak laws, financial chaos, very low standards of living, incorrect reforms, distorted market relations, crises of the balance of payments etc⁵. It will be possible to eliminate all these inconveniences through the consolidation and efficient functioning of institutions (O'Driscoll and Hoskins, 2003).

The countries of the Central and Eastern Europe build their institutions under the strong influence from the exterior, especially from the Anglo-Saxon sphere. Despite all that, the new institutions will not be imposed by higher authorities since they must not only pass an efficiency test, but they must also be socially accepted, all the more so as the cultural and system inheritance especially influences the informal institutions. Moreover, the political development from the first transition years has had repercussions on the manner in which the new institutions were created, and obviously, on the privatization process. The post-communist transition has produced more innovation policies, such as mass privatization, the reform of pensions and fix taxes. According to these, the future institutional frameworks are being outlined.

“The great transformation” that both Polanyi (1994) and Kornai (2006) speak about has meant, in the countries of the Central and Eastern Europe, changes following the development direction of the Western civilization (in the economic sphere, the direction of the capitalist economic system was followed and in the political one, the democracy direction); a complete transformation was achieved, parallel in all the spheres: economy, political structure, legal system and society stratification; the transformation process occurred in peaceful, non-violent circumstances, with an incredible speed, within a time horizon of ten to fifteen years, and one of the effects which appeared had in view the adoption of foreign examples. I partially agree with the things mentioned by the authors since I consider that transformation, the passage from one economic system to the other, did not suppose a relatively short period of time. Although, people often speak about the finalization of transition, there are still major deficiencies which make the way to progress and economic performance difficult and whose solution will still require time. This extraordinary transformation is based on the idea that freedom and prosperity can be best achieved through the adoption of institutions and practices which have proven to be successful in the Western Europe, since the Second World War until now. The people from the Central and Eastern Europe want “to return to Europe” (Lipton and Sachs, 1990, p.75). In this regard, they decided to eliminate the remains of the communist system and to build an economy mainly based on the private initiative. With such a task, the transformation is far from being easy, all the more so as in this region there are many individuals who are still forced to operate outside the law and do not have access to the essential mechanisms: the legal property, the mechanisms for the organization of business in productive ways. What complicates this process resides in the

⁵ The structure regarding the socialist property placed the industry, the services and, with the exception of Poland, agriculture, in the hands of the state. The central planning led to taking erroneous decisions about how the resources must be used, leading towards seriously distorted economies. All the East-European management bodies have directed the investments towards the heavy industry and the capital goods were left on account of the light industry, of services and consume goods (Please see Lipton and Sachs, 1990).

fact that the individuals cannot easily break from the mentalities specific to the communist period. A Russian philosopher, commenting about the communist inheritance, explained that “anyone can change an aquarium into fish food, but it is much more difficult to transform fish food into an aquarium.”

3. Data and Research Methodology

Given the fact that the institutions evolve and change throughout time such as the economic performances, as research method I chose a dynamic analysis, which take into account the years 1996, 2000, 2009. Considering that, as it is concluded from the exploration of the specialty literature, property represents one of the institutions with a major impact on the economic performance of Central and Eastern European countries and not only, the research demarche follow the dependency connections which are formed between the numerical variables: the level of compliance of the property rights, the GDP/capita, the governmental spending for the protection of property and law. In order to identify if there is a connection between the variables taken into account, it were used the regression, correlation and the principal components analysis. The data regarding the countries was collected from different sources: Eurostat, The International Monetary Fund (IMF) - The Government Finance Statistics, International Property Rights Index (IPRI).

In order to test the hypothesis of independency between the considered variables, it was use the chi square test (χ^2) based on which were formulated the following hypotheses:

Hypotheses 1: between the considered variables there is an independence relationship;

Hypotheses 2: there is a dependency relationship between the variables.

4. Results and Findings

In *Table 1* there are synthesized the main connections between the mentioned indicators.

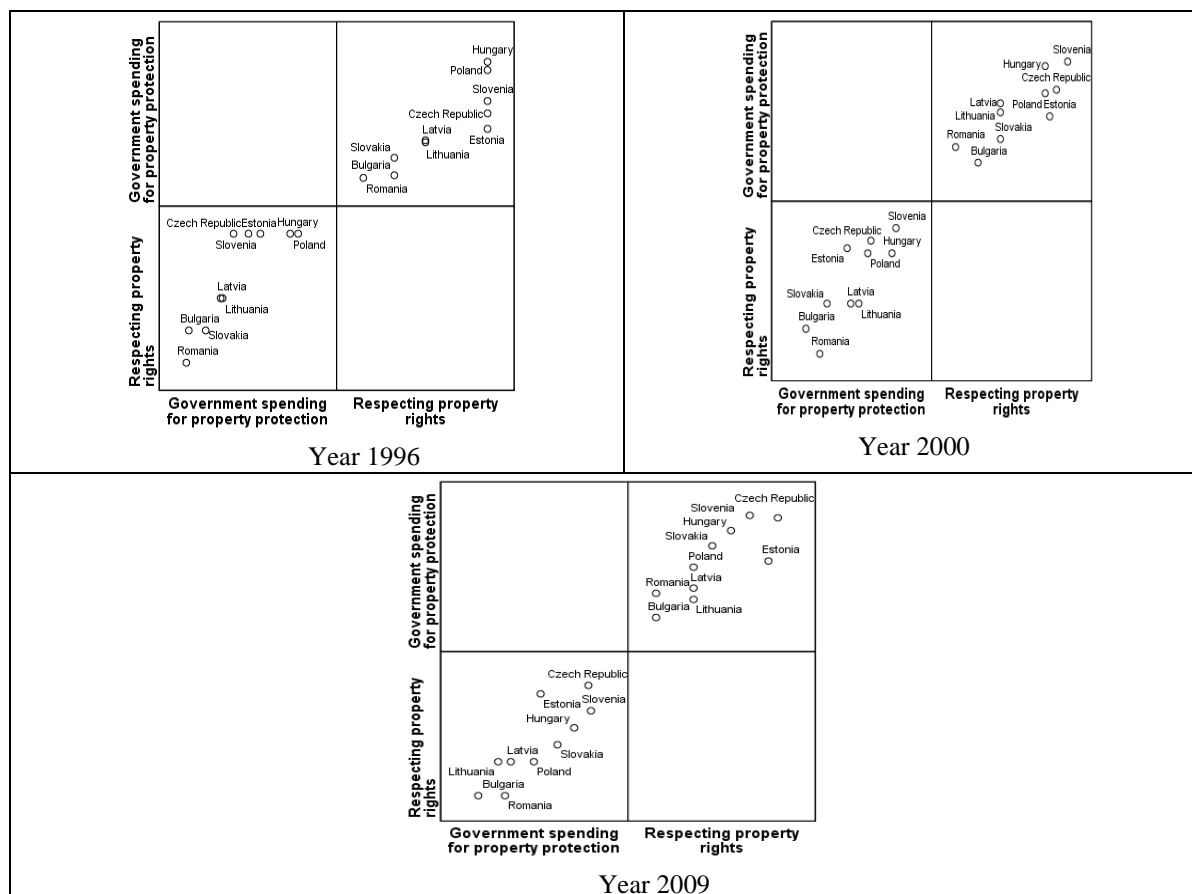
Table 1. Correlations results, 1996, 2000, 2009

		Government spending for property protection - (%) of GDP	Respecting property rights	GDP/ capita, in PPS	Mean	Std. Deviation
Year 1996	Government spending for property protection - (%) of GDP	1.000	.873	.527	39.9900	7.81600
	Respecting property rights	.873	1.000	.612	56.0000	15.77621
	GDP/capita, in PPS	.527	.612	1.000	46.6000	17.07630
Year 2000	Government spending for property protection - (%) of GDP	1.000	.835	.800	37.9400	6.64015
	Respecting property rights	.835	1.000	.862	58.7000	16.83944
	GDP/capita, in PPS	.800	.862	1.000	47.6000	16.89970
Year 2009	Government spending for property protection - (%) of GDP	1.000	.888	.936	43.1500	7.53352
	Respecting property rights	.888	1.000	.906	59.5000	21.40223
	GDP/capita, in PPS	.936	.906	1.000	63.0000	14.64392

Source: author's calculations based on Eurostat, IMF and IPRI data, 2010.

Analyzing the data from the table, can note that between the independent variable *Government spending for property protection* and the dependent one *Respecting property rights* there are the strongest connections (in 1996, the determination ratio being of 0.873, while in 2000 it experienced a slight decrease in intensity (0.835) and in 2009, its value increased up to 0.888). This means that the two variables are interconditional in a proportion of over 80%. As a result, the larger the allotment of expenses with the property protection, the more will the institutions authorized in the field act through the means that they have at their disposal so that the proportion of property violation decreases.

In *Figure 2*, there are presented the associations between the two variables.



Source: author's representations based on Eurostat, IMF and IPRI data, 2010.

Figure 2. The Correlations between Variables: Government Spending for Property Protection and Respecting Property Rights, 1996, 2000, 2009

Thus, the group of countries that distribute several funds in view of protecting the property (Hungary, Poland, Slovenia, Czech Republic, Estonia) remains relatively constant in the analyzed period, the degree of property and law compliance being higher. The only country which diminished its expenses to a certain degree is Poland (from 51% in 1996 to 42.2 % in 2009), being outclassed by Slovakia, which became aware of the importance of allotting funds in this direction and reached a percentage of 46.9% in 2009, compared to 34% in 1996 and 32% in 2000. In addition, the KMO statistical values confirm the direct connection that is established between the variables taken into account (*Table 2*).

Table 2. Kaiser-Meyer-Olkin statistics, 1996, 2000, 2009

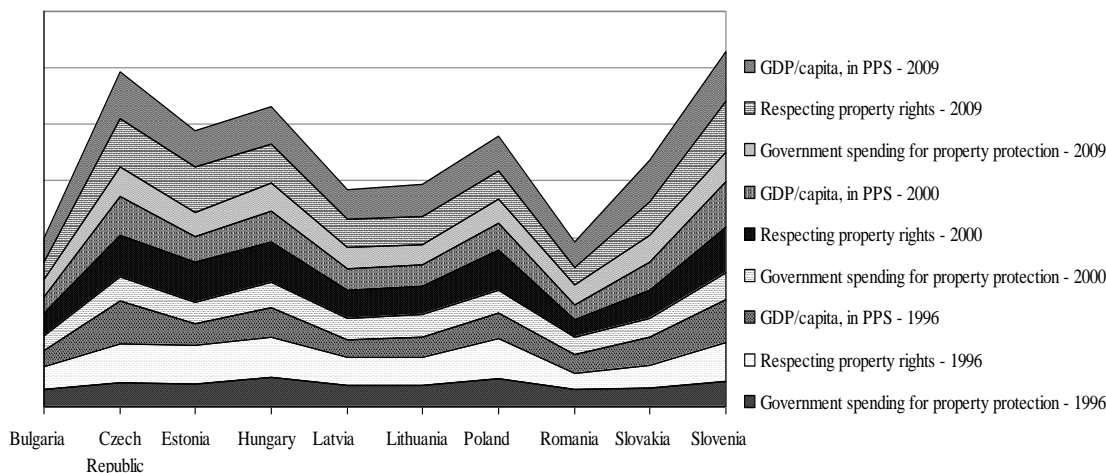
	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	Approx. Chi-Square	df	Sig.
Year 1996	.637	13.648	3.000	.003
Year 2000	.760	18.927	3.000	.000
Year 2009	.770	27.832	3.000	.000

Source: author's calculations based on Eurostat, IMF and IPRI data, 2010.

We notice that the calculated χ^2 afferent to year 2000 is of 18.927, and the one in 2009 is of 27.832, to which corresponds a level of significance Sig. =0.000, smaller than 0.05

which means that it could be ascertained with a probability of 95% that there are statistical connections between the considered indicators. Thus, hypothesis 1 is rejected and the formulated hypothesis 2 is accepted.

In order to see more clearly the dynamics in time of the analyzed indicators and the interconditionality between them, below it is presented the *Figure 3*.



Source: author's representation based on Eurostat, IMF and IPRI data, 2010.

Figure 3. The Dynamic of the Three Variables (1996-2009)

Analyzing the data in the *Figure 3*, can observe a very strong relation of determination between the variables. Thus, between the countries where there is a growth of *Government spending for property protection*, an immediate effect is reflected to a higher degree by *Respecting property rights* (it is the case of Hungary, Poland, Slovenia). In addition, there is a connection between *GDP/capita* and *Government spending for property protection* in the sense that the higher the first, the bigger the tendency of allotting a higher amount for *Respecting property rights*: for example, in Slovenia – GDP/capita=76 PPS (in 1996), 80 PPS (in 2000) and 88 PPS (in 2009) and the expenditures for *Respecting property rights* of 45%, 47.4% and 53.3%; in Czech Republic – GDP/capita=75 PPS (in 1996), 68 PPS (in 2000) and 82 PPS (in 2009) and expenditures for *Respecting property rights* of 42.6%, 41.8% and 52.8%). There are also exceptions from this rule (e.g. Hungary, that in all the three years of analysis, has obtained a GDP/capita in PPS smaller than Slovenia's and the Czech Republic's, respectively 52 PPS (in 1996), 55 PPS (in 2000) and 65 PPS (in 2009) and directed funds towards *Respecting property rights* of 52.6%, 46.5% and 50.1%. This emphasizes the fact that this country has been aware of the importance of protecting the property rights on the way towards economic development and, as a consequence, has acted in view of consolidating the institutions which regulate the law and property primacy.

The general conclusions drawn from the statistical analysis are:

1. Based on the empirical studies carried out, there is a direct relationship of proportionality between the variables *Respecting property rights* and *Government spending for property protection* (the foundation of specialized institutions that defend the rights). The results obtained have led to the conclusion that, if the states that have a lower GDP/capita (Bulgaria, Romania) do not stipulate, in their development programs, enough amounts for the property protection and they do not support institutions, they will not be able to benefit from

the advantages offered by a functional economy, and, therefore, that cannot escape the poverty trap in totality;

2. The uncertain property rights can lead to the countries being caught in a poverty trap. Some of the analyzed states may not escape the trap of poverty even when the government allots an optimal quantity of resources for the protection of the property rights. If there are states which however eliminate the poverty trap, through a relative significant growth of expenses destined to the protection of rights (the example of Romania), they will generally have lower levels of income per capita in comparison with the countries with well applied property rights;

3. The dependency ratio between the property rights compliance and governmental expenses for property protection has slowly decreased in the interval 1996-2000. The phenomena which have led to the appearance of this situation are without a doubt, complex. The possible causes could be the growth to a smaller extent of governmental expenses for the protection of property rights compared to the growth of the GDP/capita, in the majority of states subject to analysis. The context of privatizations and retrocession from the former communist states is favorable to the occurrence of the phenomenon of property laws compliance;

4. The standard deviation mean from the compliance of property has increased since 1996 until 2009, as a result of the reasons previously specified;

5. The breach of the property rights imposes the constitution of governmental institutions in order to implement property rights protection policies.

Conclusions

The role of institutions and their evolution in the process of transition of the Central and Eastern Europe towards a market economy is a subject which could have benefited from more attention, both in the theoretical discussions and in the practice of economic policy. It was believed that the adoption of institutions similar to those from the West will be a relatively simple process and it will solve in a short period of time, the problems of technological delays and of economic inefficiency. However, the last years have proven that they are not even by far easy tasks and that the development and important structural changes, from the central and East-European countries, have divergent results. In principle, the role of institutions is assigned a special attention in order to explain what has happened until now and what should be done to accelerate the recovery process in these states. As I have noticed throughout the paper, the lack or the weak points of the law rule and of the compliance of the property right represent the main obstacles for economic growth in the case of the emerging European societies. These economies need functional markets, which represent both a result, and a condition for development.

To a large extent, the development differences between the countries from the Center and Eastern Europe were produced under the effects of the economic restructuring politics, especially adopted after the fall of the communist regime. For example, several types of applied reforms were emphasized, which determined their distribution into: the countries of “shock therapy” (Poland), countries with a slow evolution of reforms (Romania, Bulgaria), countries with a stable progressive development (Slovenia, Czech Republic). As a result, even if the majority of analyzed countries started from relatively similar institutional bases, the difference as regards progress will be made in terms of coherence and efficiency regarding the different reform measures, which mainly focus on property, on respecting the law rules, an institutional and functional regulation framework, which is transparent and non-bureaucratic

etc. For this purpose, the institutions must interact between themselves, support each other and complete each other, the property rights must be clearly defined, correctly and efficiently applied, emphasis must be put on the property and contract protection, and mentalities must be changed. The institutional development is, before all, an exercise of social transformation, and, as a result, it needs a systematic support.

Even if the states started from different economic and institutional positions, in the conditions of the transformation of the European economic system, according to the market criteria, they should develop an Europe in which the rule of law to prevail, and this thing, especially since the experience of the countries from the Central and Eastern Europe show that the elaboration and implementation of the majority of reform programs were dictated by political interests. People have not understood sufficiently well that the formal institutions are indispensable for the promotion of market relations, of price formation and of the exchange based on mutual advantages. Often, the fact that the mentalities, invoked as obstacles of the economic success, are maintained and perpetuated through the intervention of the state in the economy, is much too easily neglected.

Therefore, the institutions are important for the economic growth since they influence the investments in physical and human capital, in technology and in the production organization. Although the cultural and geographical factors may also be essential for the development, the differences between the economic institutions represent the main sources of discrepancies between the countries as regards prosperity. They do not only determine the global growth potential of economy, but also a series of actions related to the distribution of resources and welfare in the future. In other words, the institutions influence not only the dimensions of the whole, but also the manner in which this whole is distributed between the different groups and persons in the society.

The governments that understood that the success of liberalization imposes the protection of property and the liberty of initiating private business have been successful in forming a strong private sector which strengthens the competition and channel the resources towards productive capital investments. Another important factor of liberalization was the opening of international trade. On the short term, the opportunity to trade with the West ensured immediate competition, significantly diminishing the internal monopole power of the “juggernaut” state companies. On the long term, the international trade has the key for the economic recovery of the Eastern European countries. The increase of exports in Eastern Europe is vital for the region modernization since it insures the finances for the imports of capital and technologies. The high path dependency has influenced the slow rhythm of institutional formation and quality and, implicitly, the drawback in economic development.

In order to find which rules and norms can affect the property, it is important to discover their current or potential blockage factors. However, the diversity and uncertainty that define the institutional change determine the impossibility to formulate a final and universal answer as regards this issue. What it can certainly claim is the fact that the property rights are characterized by the ability to adjust and adapt according to the change of circumstances. The real danger resides in the fact that the failures accumulated from the implementation of incorrect politics will lead, sooner or later, to the general elimination of the idea that the safe property is essential for economic growth and for human development. I believe that there is an appropriate way through which this destructive possibility can be stopped, and namely, the implementation of more realistic and better-informed strategies, according to the specificity of each country. Allocating the public expenses towards directions that guide the growth paths in the right track, towards progress, represents a viable option. Such a direction is that of guaranteeing the property, of respecting the laws and the contract,

on a free market. The success of some states essentially depended on the extent to which the transformation of political and economic systems occurred, especially after the '90s.

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THE ROLE OF THE INSTITUTION OF PROPERTY IN THE ECONOMIC TRANSFORMATION AND DEVELOPMENT PROCESS IN CENTRAL AND EASTERN EUROPE

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SANTRAUKA

In the present paper, the emphasis is laid upon the evolution of the institutional change process that occurred in the countries of the Central and Eastern Europe, after the fall of the communist regime in the area, the main purpose being that of grasping its significance for the economic development. The transition process has generated structural modifications in these countries, which were especially reflected at the level of the formal institutions (adjustments regarding the functionality of the free market, the contractual relationships, the compliance of the law primacy and the property). Obviously, certain transformations were manifested within the informal institutions as well (the organizational culture, specific customs of the geographical space) and although the influence of the latter, for sure, does have repercussions to a certain extent on the economic development, the evolution of the informal institutions is the one which is determined, to a greater extent, by the dynamics of the formal ones. That is why, the main purpose of this paper is to achieve an empirical analysis, which will take into account indicators such as: the level of compliance with the private property right, the GDP/capita, the governmental expenses for the protection of the property and the application of the law. Based on this analysis, is expected that the research results to highlight the manner in which this specific institution will influence the growth paths in the Central and Eastern European countries and consequently, to lead to the increase of the awareness degree regarding its importance.

REIKŠMINIAI ŽODŽIAI: institution of property, institutional change, economic development process, Central and Eastern Europe.

TURTO AGENTŪROS VAIDMUO EKONOMINIAME TRANSFORMACIJOS IR IŠSIVYSTYMO PROCESE CENTRINĖJE IR RYTŲ EUROPOJE

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SANTRAUKA

Straipsnyje bandoma pabrėžti nustatyto (institucinio) pakeitimo proceso vystymąsi, kuris įvyko Centrinės ir Rytų Europos šalyse, po komunistinio režimo pasitraukimo šiame rajone, svarbiausias tikslas suvokti jo reikšmę ekonomikos plėtrai. Perėjimo procesas sukūrė struktūrinius pasikeitimus šiose šalyse, kurie ypač atsispindėjo oficialių įstaigų lygmenyje (laisvosios rinkos funkcionalumo reguliavimas, sutartinių santykių, teisinio pirmumo ir turto sutikimas). Aišku, tam tikros transformacijos buvo paskelbta neoficialių įstaigų viduje (organizacinė kultūra, specifinės geografinės erdvės pirkėjai) nors pastarųjų įtaka tikrai turi atgarsius tam tikru lygiu ekonomikos plėtrai, taigi neoficialių įstaigų vystymasis daro įtaką didesnio masto institucijų dinamikai. Štai kodėl mes atlikome empirinę analizę, kuri atsižvelgs į indikatorius tokius kaip: paklusnumo lygmuo su privačios nuosavybės teise, BVP/turtas, vyriausybinių išlaidos turto apsaugai ir įstatymo paraiškai. Mes tikimės, kad tyrimo rezultatai pabrėš būdą, kuriuo ši specifinė įstaiga darys įtaką vystymuisi Centrinės ir Rytų Europos šalyse ir prives prie supratimo laipsnio dėl jų svarbumo padidėjimo.

REIKŠMINIAI ŽODŽIAI: turto agentūra, nustatytas (institucinis) pakeitimas, ekonomikos plėtros procesas, Centrinė ir Rytų Europa.