

## **THE RECONSTRUCTION OF THE INSTITUTIONAL SYSTEM DURING THE PROCESS OF TRANSITION TO THE MARKET ECONOMY**

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**Abstract:** In the socio-economic system, the institutions represent a real structural frame on which the entire economic edifice is standing, inclusively the mechanism of functioning of the economy. The economic processes cannot take place in a normal way without an institutional system made up of a complex network of rules and organizations. Because the transition to the market economy also implies the edification of a new institutional system based on new principles and realities, one also imposes a theoretical and practical analysis of the institutions, of their transformation and adaptation to the new circumstances in order to make the normal economic life possible.

**Key words: institutional system, transition, reform, privatization**

After the Second World War and up to the middle of the 1980s, there was a strong rivalry between the Soviet Union and USA. For 40 years, “this cold war” has pushed the two great powers one against the other in a forceful fight for influence and for nuclear weapons. Moreover, at a certain point the lack of trust between USA and the Soviet Union was so strong that the concept “reciprocal guaranteed destruction” became a prevalent theme in the international relations.

In the middle of the 1980s, the world started to change, because the economic and political structures of the Soviet Union and of the communist countries from Eastern Europe started to fall apart. In 1989, there were some peaceful revolutions in Poland, Hungary and Czechoslovakia. In Romania, in 1989, there was also such a revolution which led to the elimination of the old totalitarian regime. The Berlin Wall, which separated Germany in two parts from 1961, was knocked down and the country reunited. Afterwards, even the Soviet Union was dissolved in 15 independent states from which the largest one is the Russian Republic. 10 from these 15 republics once formed the Commonwealth of Independent States (CIS). In December 1991, the Cold War was over.

Why do we reflect upon the political-historical rivalry in an economic context? There are two reasons:

- the first one, the 40 years fight between SUA and the Soviet Union was fundamentally a fight between two economic systems: market-based capitalism (USA system) and the centralized socialism (Soviet system);
- the second reason, the Cold War was suddenly over at the end on 1980s, because the Soviet and East-European economies fell down. As a conclusion, one can say that 1991 was the year when the market triumphed over.

What about now? The independent states from the former Soviet Union and the other communist economies from Eastern Europe are fighting to accomplish the transition from the centralized socialism to one of the forms of the market-based capitalism. In some countries as for example Serbia and Bosnia-Herzegovina, the economic reforms were on a second level as compared to the political and ethnical violences and rivalries which were about to blow out for centuries. In other countries, as for example Poland and Russia, the worst problem is still the economic transformation.

The transition from the centralized socialism to the market-based capitalism does not have a historical precedent. Although many countries have realized the transition from a system based on the market economy to a centralized one, the opposed thing has never been accomplished. The process was no doubt, and it will continue to be very hard, with many ups and downs. Between 1989 and 1992, the industrial production went down by 40% in countries as the former Eastern Germany, Albania, Poland and Romania and in Russia by almost 30%. In all these countries, the flourishing persons experienced the situation where their annual real income was close to the income of the persons from the developing countries. So, for many people this became a matter of survival: hot to get enough food and gas in order to survive through the winter.

Up to 1995, things have changed, but there are still many uncertainties and many other problems have remained unchanged, even if the productivity has grown in many countries from Central and Eastern Europe. The highest success was registered in Eastern Germany where the real productivity has grown with over 9% in 1994, the fastest growth rate from any region from Europe. A fast development of the infrastructure took place, the inflation went down and the exports became higher and higher, and all these contributed to the success of the region. But the situation in Eastern Germany is unique because it was absorbed by Western Germany which was prosperous, developed, modern and which transformed the development of the Eastern part for her primary purpose.

Starting with 1993 and 1994, countries as Hungary, Poland, The Czech Republic, Bulgaria and Romania have also started to obtain a basic macroeconomic stability and to develop. Poland experienced the fastest economic growth from this group (aproximatively 4,5%). Impelled by foreign investors, by privatization and by the partnership from the contracts, the polish private sector registered up to 1992 over a third from the total pf the national production although there were still some problems.

Russia and the former countries of the Soviet Union registered a lower production; with all these, the conditions have improved, and the perspectives are higher than those from the previous years.

Passing from the administrative commanding system to an economic decentralized market system and its integration in the European structures implies not only adjustments of the production apparatus, but also some deep transformations in all the spheres of the human activity and very big transformation. Such transformations stand for a constructive destruction process at the level of the socio-economic system.

For the economists involved in the study of the transition to the market economy, the institutionalist theory became an important scientific and current instrument, both for its explicative capacity regarding the causes of the economic crises, as well as for the supply of concepts and methodologies which can help to accomplish the economic reform projects.

The institutional system is composed of a complex system of rules and organizations which together with the economic instruments make up the functioning mechanisms of the economy. Without a system of rules and organizations which together with the economic instruments should form the functioning mechanisms of the economy, the economic life would not be possible, and the activity of the economic agents could be paralyzed. That is why, the formation and the functioning of the institutions means passing from anarchy to order, by introducing and respecting the rules and regulations which guide the economic and social life. The economic results of the production also depend on the social, economic and political rules which govern the economic activity and the society.

The institutional system is a consequence of the labour division, and its purpose is to reduce the uncertainty between the relations in the frame of the society by creating and setting a stable structure in the human interaction which are materialized in conventions, codes or conduct norms for individuals or groups, statutes, the legislative and contractual system. The changes of the institutional system also imply modifications of the formal rules, of the informal constraints and of the effective assessments. These changes take place in a continuous, smooth way because of the fact that the institutional system also includes the informal constraints represented by customs traditions, codes of conduct, moral norms etc. which are persistent in time, unlike the formal ones which can change relatively fast.

Besides the rules of accomplishing the human behavior, in the frame of the goods and services, there are also expenses with which the human interactions are accomplished, which are entitled costs of transaction, in which there are also included the measurement costs for the value attributes, costs for the protection of the rights, costs for the assessment of the rules and agreements stipulated through contracts. These measurement and imposing costs represent the cause of birth of the political, social and economical institutions. As a conclusion, only if the theory regarding the rules of the human behavior is combine in the frame of the changes with the theory of the transaction costs, one can obtain an explanation which is not subjective of the problems regarding the emergence do the institutions, their purpose in the functioning of the society, as well as the change of the institutions as compared to the change of the economic-social system.

So, the classical and neoclassical economists, adopting the hypothesis of the natural and free of charge existence of the institutions and implicitly the consideration of the zero transaction costs, excluded the necessity to include the problem of the institutions in the economic analysis.

The transaction costs can fairly explain the origin of the organizations as well as the foundation and the functioning causes of the economic-social institutions which form the economic market environment. This happens because in the real life, one does not always make rational choices and the private economic operators do not always behave rationally. The economic operators have an opportunist behavior in the frame of the market relations in which corruption, burglary and organized crime frequently appear, situations which grow the transaction costs and limit or even hinder the normal, profitable reciprocal costs.

If in capitalism the institutional system was spontaneously born and developed, for centuries, in socialism the institutional system was projected and built in a relatively short period, according to its needs and to the principle of the centralized order, the state power being a function of the authority of the single party.

In the frame of this institutional structure there were presented many institutions of the capitalist economy – prices, money, banks, taxes and fees, discounting rules through accounts and others. These institutions served for the purposes and the methods of the socialist economy, taking only some functions from these institutions. For example, one used from the system of prices its calculation function and not the signal function for the actual status of the resources, and from the banking system one used the control function of the economic unities. The introduction and the maintenance of these functions was possible as long as some of their functions can provide the functioning of the socialism mechanism and assure the centralized control of the party-state and of the economic-social processes.

After the political revolution and after the reforms carried out, in Romania and in the other East-European countries a sui generis institutional structure was created: and it contains on one hand, elements of the socialist etatist economy which are still persisting, but are in decline, and are encouraged and sustained by the antireformist, bureaucratic state forces and political entities made up of the ones who have lost their privileges; and on the other hand, elements of the capitalist economy which are strong from the perspective of their efficiency and are sustained by the small owners and by a small part of the middle class society.

The modification of this economic and institutional mixture in the transition period does not stand for simple improving or adjusting processes, but for structural transformations where the market elements replace the socialist one quite rapidly and in the frame of a specific political process. The transition to the market economy cannot be carried out by the affiliation to the new political, democratic institutions which form a cluster of economic institutions where the old, socialist ones prevail.

So, the abolition of the centralized planning from the former socialist countries, led to the lack of information and connection channels between the economic entities, without being replaced by other institutions, and this has led to important imbalances of the economic system.

In order to remove this gap, one has chosen the prices liberalization, as the first and the most important action strategy in the reform, taking into account that the liberalized prices will constitute the new market institution which will be able to replace the centralized planning by taking over the function of allocating the resources. This hypothesis which was founded on the neoclassical theory of competition proved to be wrong as long as in the real life, the structure of the market was not brought to a minimum competitive position, except for some agricultural sectors and some segments from the field of services, but in the Romanian economy the monopolies and oligopolies prevailed, while on the other hand the state property from all fields was predominant, except for agriculture.

The prices liberalization, although in decisive step of the reform, not only that held to a shock in the economic system, but it also led to unexpected imbalances in the behavior of the economic operators. So, because of the prevalence of the monopolies and oligopolies which control or impose, without any restrictions, the level of the prices and the level of the offer on the market, the allocation of the resources is carried out according to the criteria of the rent monopoly, by increasing the prices and decreasing the production, and not according to the efficiency criteria, by minimizing the costs and increasing the productivity in the frame of the real competitive market.

That is why the decentralization of the decisions requires another, elements which is extremely important, that is a corresponding decentralization of the

responsibilities through privatization. In the private sector, the mechanisms of accomplishing the supply and the demand for goods are related to the specific institutions of the market economy, that are: the ownership right, the transfer of the ownership rights through exchange, the contract between the parties involved in the exchange, using some specific instruments as the prices, the money in order to perform the exchange. The ownership right on a certain thing (rights which are guaranteed through law and are recognized by the society) provide the individual with the right of excluding all the other individuals from taking advanced of the benefits offer by the respective good. It also leads to the rivalry in consumption. When the individuals exchange goods and services with the help of the market, they actually exchange, against payment, the legal rights for the benefits offered by the respective product.

The definition and the protection of the ownership rights has a special importance not only because of its incentive elements which make the economic operators responsible for the obtained results and their partners but also for the “hygienization” of the general economic life in order to formulate and accomplish the correct supply and demand according to the competition.

Because of the confusion and the ambiguity with which the ownership rights are treated, as well as the lack of defense from the police and justice, the transaction costs can be very high and the business risk is also so high that the market exchanges are decreasing, and are replaced by the underground economy. Romania and these countries which are in the process of transition to the market economy, and which are not strongly involved in changing the structure of the property and of the control system, and of respecting the ownership rights, are confronted with these facts.

According to the ownership rights, these countries can be characterized through the following aspects:

- the insufficiency in defining or explaining the legal ownership rights;
- the lack of protection of the ownership rights from the part of the public authorities (police, justice, city halls) against the abuses, thieves, robberies, frauds, the infringement of the contract clauses etc..;
- the inexistence of a strict control carried out by the owner (state) in the economic unities from the public sector, which allows most on the persons which are officially involved in the management of these unities to adopt harmful behaviors or actions as for example: the lack of responsibility in improving the economic results of the unities; making a common cause with the claims of the employees in obtaining unjustified salary benefits, taking part in different ways bin the decapitalization of the economic unities by transferring the values of the state unities to the private sector.

So, as a consequence, one has to impose in the process of accomplishing the economic reforms the necessity of classifying the ownership rights and the improvement of the structure of the control by providing different strategies and solutions. From these strategies and solutions, the following objectives stand out:

- the legal constraint or consolidation to respect the contracts;
- the improvement of the bureaucratic apparatus and the application of some incentives according to the degree of accomplishing the public interests;
- the transformation of the situation of the bureaucrats so that they could be partners in the property by owning some shares;
- eliminating the control of bureaucracy and relocating the control right, either through the political system in the case of the public sector, or through the system of shareholders in the case of the enlargement of the private sector through privatization.

As a conclusion, privatization is still the only way to attain such objectives which can provide an increase in the efficiency of the control structures in order to settle the demand and the supply through the simple, natural market mechanisms of the market.

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