

дарство теряет право определять законность использования субъектом насилия, а этот индивид, равно как и другие индивиды, решившие к нему присоединиться, более не являются участниками совместного договора с государством и его представителями. Для таких субъектов исчезают моральные ограничения на применение насилия и имеют моральное право рассматривать государственные силовые структуры как силы противника, и, следовательно, использовать против них любые средства, соблюдая лишь ограничения характерные ведению войн.¹ Следуя логике теории элит Гюстава Ле Бона, можно утверждать, что порожденное отсутствием целей социализма дальнейшее использование

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масс», которая доведет ее до полного развала и установит новую историческую мудрость, лишённую рациональности и достойных человека ценностей².

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HOMO ECONOMICUS IN THE POST-SOCIALIST TRANSITION: LOOKING FOR THE MOST APPROPRIATE THEORETICAL TOOLS

ABSTRACT. In the recent decades the limitations of the neoclassical economics have been increasingly analysed. The criticism primarily tackles its assumptions on the rationality of atomised actors, efficient markets, availability of perfect information, and static foundations. Post-socialist transition additionally questioned straightforwardness of Western economists applying neoclassical tools. It became evident that other factors like institutions and values need to be included and thoroughly researched. At the same time, other approaches to analysis, often including findings from other social sciences, have been taken into account as more appropriate.

This paper draws on the Eastern European transformation experience and focuses on the theoretical support that has been provided since the 1990s. Institutional analysis proved to be very adequate tool for the

¹ *Tony Honoré*. The right to rebel, Oxford Journal of Legal Studies 8 (1988)

² *Le Bon G.* The Crowd: A Study of the Popular Mind. Electronic Text Center, University of Virginia Library 1995.

exploration of persistence of informal constraints and their interaction with the formal ones. Certain aspects of convergence of New Institutional Economics and New Economic Sociology appear to be very insightful for the observation of transitional reforms. Furthermore, ex post analyses clearly recommend the Evolutionary Institutional Perspective that was for a long time neglected by the Washington Consensus proponents despite the Post-Washington Consensus ideas. Finally, even though the theory on the transition processes is still in its development, it has become evident that economics as a discipline benefited through transition processes.

KEY WORDS: Post-Socialist Transition, Eastern Europe, New Institutional Economics, New Economic Sociology, Political Economy

1. Introduction, problem identification and its relevance: Competing approaches to post-socialist transition economies

Only twenty plus years ago there was no theory of transition. This deficit combined with the consequences of the removal of the old regime is named «The *Tabula Rasa* of 1989» (Elster, Offe & Preuss, 1998, p. 25). Economists were fast in starting the research on transition, but had often analysed it only as an ideological shift towards democracy and the market economy, and thereby missed the social, cultural and historical dimensions of transition (Lemke, 2001; Aligicia, 2006; Pejovich, 2008) and the geopolitical aspect including the shift of central Europe and the Baltic states towards Western Europe (Roland, 2002). The overly simplistic discussions on reform were driven by a metaphor instead of a modern theory and knowledge of Western economic institutions (Murrell, 1991a) and the same as in simpler cases, (macro) economics was not enough (Mankiw, 2006; Lavigne, 2000, as quoted in Aligicia, 2006). The fact that transition itself makes additionally important is that it is considered to be a significant and rare window of opportunity that may trigger a large-scale reform (O. Williamson, 2000).

In the end of the 1980s and beginning of the 1990s transition affected the lives of at least 1.65 billion people in the world (Roland, 2000). The post-socialist transition in Central and Eastern Europe, China and Vietnam is considered to be a fundamental change in recent decades (King, 2002; Kornai, Matyas & Roland, 2008), and the new political structure in CEE is even treated as a reflection of «the main direction of historical progress over the last two millennia» (Kornai, 2008a, p. 8). The transition processes in Eastern Europe transformed the political and economic parameters of the continent (Gros & Steinherr, 2004). The analyses on this issue usually focus on the optimal

speed of transition: «big bang» approach (Sachs, Berg, Balcerowitz, Murphy, Shleifer and Vishny) versus a gradualist strategy (Roland, Svejnar, Portes, Murrell) or both depending on the area (Blanchard, Kornai, Fischer); and understanding reforms (Rodrik, 1996; 1993; Rodrik&Wacziarg, 2005; Merlevede, 2003; Estrin, 2002; Campos &Coricelli, 2002). In the initial transition period the focus was on a neoliberal approach mostly implemented by applying the Washington Consensus ideas and the result of it was predominantly considered to be «an unprecedented peacetime disaster» (King, 2002, p. 5). In South Eastern Europe this topic is additionally specific since there has been a triple transition: from communism to political democracy, from economic isolation to an open market, and from a set system of order to ethnic conflict and social unrest and its implications (Horowitz, 2003; Kaldor, 2007). Combining these two factors proved to worsen the overall situation, i.e. applying the neoliberal approach to post conflict recovery has shown to be inappropriate due to numerous intrinsic contradictions resulting in rising corruption and crime (Zupcevic, 2007). On the other hand, the case of the Soviet Union presented the dismantling of the last great multinational empire (J. Williamson, 1992). Furthermore, the geopolitical factor has played an important role despite the fact that it was underestimated in the beginning of transition (Roland, 2000). Besides the non-existing theory for transition, the decision on using the neoliberal approach was mainly a consequence of the Western economists' limited understanding of the local circumstances and their inclination towards «quick fixes» and quick wins that were expected to be achieved by mass privatisation and instant liberalisation. The local experts were either pushed aside as non-knowledgeable or followed the prescriptions from the West without questioning them. The atmosphere in the general public and among the elites in the society gave a tacit support to the experts' passive behaviour. In the beginning of the 1990s new ideological «facts» emerged describing the pre1990s era as a complete darkness. That oversimplified and banal approach, that was completely socially acceptable then, made socialism uninteresting for analysis and made the retroactive change of biographies and events possible. That «photoshop-effect» was at that point highly desirable by most of the incumbents, and by some business people and citizens as well.

Roland (2000) and Kornai (2008a) argue that research on transition, in order to capture the reality and benefit from different angles of specialisation, must interact with various other fields of economics and in that way simultaneously develop more general

lessons for economics. Rodrik (2010, p. 40) makes it clear that economists have the same cognitive biases as other scientists do: «overconfidence, and the tendency to join the herd, and proclivity to overlook contradictory evidence». As a result of that, they tend to promote and be involved in «universal blueprints only loosely grounded in theory and evidence». Furthermore, there is a tendency among economists to observe the problem only from their own area of expertise (Aaron, 1994; Rodrik, 2009). In order to avoid fragmented views and inefficient recommendations, Rodrik (2009; 2010) emphasises the need to consider local circumstances, include local knowledge, use experiments and above all be pragmatic. In order to explain a divergence in the performance of post-socialist countries, research on transition was forced to take a broader view than markets and elections only, and hence under the governance umbrella incorporate corruption, legal frameworks, accountable institutions and underlying factors like trust (K. Mueller, 2010). To sum up, post-socialist transformation was at the beginning faced with very limited theoretical support, while at the same time

«post-communist societies faced a complex, multi-level process, in which constitutional, legislative, institutional factors and informal social networks, cultural values and attitudes were all part of the problem... ‘awesome challenge’ of simultaneously reorganising the political, economic and legal systems and redefining the national, ethnic and cultural identities.» (Aligicia, 2006, p. 36)

This article seeks to identify and elaborate on the most adequate theoretical tools for exploring the post-socialist transformation in Eastern Europe. Section 1 presents an overview of the limitations of neoclassical economics for the analysis of Eastern European transition. Section 2 seeks to explain the advantages of the New Institutional Economics for the exploration of transitional processes by emphasising the importance of institutions and interaction of formal and informal ones. While presenting New Economic Sociology, Section 3 compares it with NIE and questions their ongoing convergence. Section 4 concludes by pinpointing the major insights that can be drawn from New Institutional Economics and New Economic Sociology.

2. The applicability of neoclassical economics on Eastern European transition

It is widely claimed that understanding economic arrangements is essential for a proper understanding of social organisations and

therefore it is misleading if economists are not involved in the analysis of large social changes. That fact is connected both with the afore-mentioned non-cooperative attitude of the economists and economists' denial of knowledge from other fields. Both trends seem to be changing. In that sense, Ben-Ner and Putterman (1999, pp. 3-72) strongly argue that the neoclassical acceptance of a purely economic man ignores the realistic complexities in human behaviour and psychology stating that in the natural selection theory scientists proved that a self-interested agent is impossible. They notice many modifications of a rigorous rationality concept that have been made in order to adjust it to the real world observations. At the same time they provide reasons showing the need for those modifications. The first reason is the high cost of market institutions in case only self-interested individuals participate in the market and as a consequence, values that indirectly determine the costs of the market operations. The second reason is the need to include values in the predictions based on game-theoretic models of preferences in order to solve the impasses found in the theory. And the third reason is the essential insertion of the value-institution linkages into economic analysis as inevitable in addressing contemporary problems in society that include families, firms and states, and can be found under the «crisis of values» umbrella. While trying to avoid universal economic rules dealing with both bounded and unbounded rationality concepts, Jaklič and Zagoršek (2003) advocate the holistic approach to rationality as the most appropriate for transition countries. This complex approach treats rationality as bounded and contextual and therewith acknowledges the role of values, institutions and tradition combined with limited information availability.

Aaron (1994) also warns that the way economists in their evaluations of policies and institutions take values, habits and social norms as given and beyond analysis and public policy influence is misleading. When comparing economists' utility assumptions with actual behaviour and modern psychology, Aaron (1994) claims that the idea that people behave as if their preferences were stable, egoistic, and rational, cannot explain human behaviour in most of the cases. That resulted in buoyant economic and other social sciences' analyses of irrationalities, paradoxes and anomalies. Aaron (1994) lists four simplifications that he finds seriously questionable. First, the assumption of egoistic and linear utility functions is not in accordance with plausible psychology. Second, the economists' view of the world changing gradually without any sudden transformation does not take into account many events where many requirements need to be

fulfilled at once in order for the necessary jump to happen rather than continuous linear function. Third, the exclusion of complex dynamic processes does not consider the path dependence possibilities. And finally, the fourth factor listed by Aaron (1994) is the exclusion of variables by many analysts that is contrary to their common sense, but they do it mostly because of the measurement or scientific adequacy problems. In line with that, the neuroeconomic research (Zak, 2008) shows that humans assess the utility of a variety of options, but then derive the economic value based on social interactions. It is therefore proposed to call them «homo reciprocans» instead of homo economicus because they are considered to be reciprocating beings highly influenced by emotions. As for transition societies, the well-known term is «homo sovieticus» ironically coined by Zinovyev. He tried to portray a somewhat hypocrite personality typically found in the Eastern bloc that was greatly defined by the artificial premises of socio-political system on one hand and personal conformism and opportunism on the other. Recent research (The Economist, 2011) in Russia suggests that after more than two decades of transition Homo sovieticus hasn't disappeared. Quite contrary, he has mutated and reproduced and has become more cynical and aggressive. In addition, being dissatisfied with the current situation, he feels nostalgic for the previous regime and predominantly regrets that that period of social safety, perceived public morality and better living standard finished.

Mansbridge (1999) identifies two trends that claim a bigger importance of the values than of the self-interest in predicting the behaviour of the firms, families, political and economic systems. One is focused on the role of institutions, and the other one on the application of economic analysis on noneconomic venues. Mansbridge (1999) confirms that analysis based only on rationality and self-interest will not be accurate or adequate for explaining and predicting human behaviour. When researching the relations between values and institutions, it is necessary to identify the proximate and ultimate resources of the value systems of the actors whereby former ones are context- and path-dependent and the latter depend on actors' structure of thinking, and emotive and cognitive capacities.

Besides the human psychology dimension, the dimensions of time and general dynamics seem to be missing in the common economic assumptions. North (2005, p. 16) states that an ergodic¹ economy would had timeless and static foundations, but the world we live in

¹Ergodic means: lacking any definite plan or order or purpose; tending in probability to a limiting form that is independent of the initial conditions. North uses this term very often.

has opposite characteristics. This statement mainly refers to two aspects: economics and institutions are changing; and as a consequence of that, they need to be analysed in their dynamics. That analysis requires different tools than the ones provided by the neoclassical paradigm and its methodological hypotheses and principles which are deemed to be inappropriate for the analysis of human nature and the real world. North (2005, p. 65) takes into account three fundamental deficiencies of neoclassical economics: «it is frictionless, it is static and it does not take into account human intentionality». North's (2005, pp. 76-77) criticism of neoclassical economics also touches upon the equation connecting absent government intervention with good economic performance and reminds again that the results in a certain market are rather a function of the constraints enforced that consequently create the incentive structure in that market. Moreover, North (2005, p. 24) does not find the rationality assumption to be necessarily wrong, but he considers it to be inappropriate for all the complex situations that are intrinsic to institutional change. He also believes that it does not treat appropriately the relationship of the mind to the environment. So far limited research has been done in order to understand the interdependence of the evolving social structure the human mind created (North, 2005, p. 84). When it comes to structural economic policy in the transition process, it becomes apparent that neoclassical economics neglected or assumed structural and historical factors that needed to be emphasised and were emphasised by institutionalist approach (Aligicia, 2006).

Murrell (1991a) questions if neoclassical economics can underpin the reform of centrally planned economies. Considering that capitalism is proved to be more successful than central planning, it seemed to automatically become the major source of ideas for changes. Yet, the institutions of capitalism vary and cannot be implemented instantaneously. The keys of capitalist successes need to be identified and appropriately interpreted in order to eventually apply them to former socialist countries. According to Murrell (1991b) economic theory plays a major role in helping reformers understand and select the interpretation of the experiences of both capitalist and socialist systems. Murrell (1991a) draws attention to the following issues that neoclassical economics does not provide appropriate tools and solutions to deal with: information asymmetry being more present in post-socialist than in regular market economy conditions, behaviour of the actors and expectations about the other actors' behaviour, positive correlation of free market and the welfare of the consumers

reflected in a variety of products offered, a second welfare theorem and solving the trade-off between equality and efficiency. Murrell (1991a) finds that when using neoclassical paradigm to compare the empirical evidence of socialist and capitalist economies the results might be misleading and based on the previous claims neoclassical economics «is not a strong candidate to provide underpinning for reform» (Murrell, 1991a, p. 73).

Moreover, Kornai (2008a) notes that mainstream economics ignores possible locked-in deficits of capitalism and leaves the criticism of it to the most extreme scientists. At the same time there is a belief that those minuses in the system can be resolved by appropriate measures and that there is no notion of possible inborn defects that cannot be overcome. Neuber (1993) also identifies the deficiencies of the neoclassical approach in Eastern Europe. When analysing the situation in the beginning of the 1990s he notices two key shortcomings: denial of institutional inertia and its implications and a reductionist view of politics. The institutional issue resulted in an unrealistic policy design and the political issue in radicalism, policy overshooting and radical destabilisation. Even though the market-enhancing institutions were included in the transition prescriptions, their lacking creation was not considered a condition *sine qua non*. Neuber (1993) explains it by the neoclassical assumption of markets operating in a frictionless world whereby institutions do not have an instrumental role. Aligicia (2006, pp. 27-28) summarises the applicability of the mainstream economics at the beginning of transition as «useful only for a limited set of problems...relevant primarily for a quantitative policy».

The neoclassical theory of efficient markets may be thoroughly applied when there are no transaction costs. Institutions matter when the transactions costs emerge (North, 1992). When analysing the contribution of the NIE to an understanding of the transition problem North (1997, p. 2) claims that «It would be little exaggeration to say that, while neo-classical theory is focused on the operation of efficient markets, few Western economists understand the institutional requirements essential to the creation of such markets since they simply take them for granted». In line with North's opinion, Roland (2002) warns that economists examined only economic factors and ignored deep institutional transformation that is closely linked with the economic transition. Opper (2008) notes a significant increase in research and measurements using NIE to explore transition economies and explains it as a way to substitute the deficits found in the neoclassical models. In his paper on the transaction costs of transition

in CEE, Pejovich's (2003a) starting point is that the process of transition is more of a cultural than technical issue, and therefore the results of the transition in CEE countries are not accidental. Moreover, Pejovich (1993) claims that Western economists, particularly the neoclassical ones, think only in terms of immediate adjustments to the new equilibria and by doing so do not take into consideration historical and social values that determine people's behaviour in the short and long run. This way despite their expertise they tried to implement an institutional change that is fully exogenous to the system. Their models did not include informal institutions like beliefs and behaviours deeply embedded in the transition society and as a result there were consequences impossible to predict by any economic model. Besides its lacking ability to solve transition problems, Ben-Ner and Putterman (1999, pp. 13-17) claim that strict neoclassical economics cannot help capitalist societies to solve the problems in their societies either. They remind that despite the capitalist triumph at the end of the century, social problems seem to be growing and typically ranging from crime and family instability over unemployment to social deprivation. It is noted that despite economic forces largely influencing decision making regarding social problems, economists have made insufficient tracks into the analysis of those pressing issues. This again implies the strict distinction between the rational choice perspective on one side and the creation and changes of values on the other.

There seems to be a consensus regarding the role and limits Western economists had in post-socialist countries, especially in the beginning of transition. This issue has been described from various corners by Pejovich, Niskanen, Neuber, Roland and Murrell. Niskanen (1991, pp. 233-238) claims that in former socialist countries it is impossible to use the same tools as for the market economies in order to provide the explanation of the differences between the two when observing the changes of the productivity and income in certain periods or among regions. This is due to the market economist's inclination towards rationales covering key development factors like investment, human and natural resources, and eventually government policies, rather than basic institutions of market economy that are usually taken for granted because they haven't changed significantly over time. Niskanen (1991, p. 233) considers «less visible or quantifiable differences» of the basic market institutions to be crucial for comparison, in other words «soft infrastructure». Furthermore, Neuber (1993) emphasises the interdependence of political, economic, institutional and cultural factors in the transitional policy environment and continues:

«The erroneous belief in the automaticity of market-based incentives and signals, especially when coupled with the advocacy of whole sale import of institutions that neglects the existence of surviving institutions, however much disliked, has led to vast underestimation of the difficulties and subtleties involved.» (Neuber, 1993, p. 527)

In accordance with that, North (1990, p. 111) states that focus on rational choice and efficient market ‘blinded’ the scientists to the evident consequences of incomplete information and complex environments. That combined with previously elaborated factors implies the necessity of cooperation of economists with other social scientists in order to achieve faster progress (Aaron, 1994; Roland, 2000; Rodrik, 2009; etc.).

Yet, Rodrik (2009, pp. 15-16) believes that neoclassical economic analysis is more applicable than commonly considered by policy practitioners. First-order economic principles do not make universal policy sets. While using local opportunities and being aware of local obstacles, reformers need to create institutional design that delivers first-order principles effectively. In the process of securing property rights, two main threats are identified: individual predators passively «helped» by the weak state and state that may extort private property for «public good» or as a means of aggression against other states (Dixit, 2004). Rodrik (2009, p. 15) stresses that «[t]here is no unique correspondence between the *functions* that good institutions perform and the *form* that such institutions take». Rodrik (2009, p. 16) further distinguishes between the tools necessary to start and to sustain economic growth. Whereas for the former usually limited reforms suffice, for the latter the reform package is more demanding since it requires a very solid institution building that will work in the long term. That institutional underpinning is also built over a longer period of time.

3. New Institutional Economics and its applicability

Until the 1990s new institutionalism seemed to be at the periphery of the mainstream economics, post-socialist transition processes gave it a rise and are considered as a key driver of its development and wider acceptance (Aligicia, 2006). New Institutional Economics may provide us with the background answer emphasising the key characteristics of both formal and informal institutions that may be applicable in every country. Focusing on institutional change as a whole process, and thereby considering the large scale reforms like

the ones in the former socialist countries, deepens the analysis and further connects it with transition economics. Subfields of New Institutional Economics have developed since the 1990s. The relevant ones for this analysis are Transition Economics (categorized by Roland) and Lawlessness and Economics (put forward by Dixit, 2004). Transition Economics covers a variety of topics connected with the transformation of a centrally planned into market economy, whereas Lawlessness and Economics is mainly concerned with property rights and contracts and in its purest sense investigates the economies characterised by absence or ineffectiveness of government. In addition to those two fields, Transaction Cost Economics is in line with NIE particularly by recognizing transaction costs and contrary to the mainstream economics it accepts that individual knowledge of the world is imperfect and that all feasible contracts are incomplete.

Economic development is no longer treated as an inevitable and to some extent accidental process of evolution from local autarky to specialisation. On the contrary, it is regarded as a reaction to the transformation of institutions that support social and commercial relationships (Klein, 1999, p. 461). It is also claimed that initial conditions can be overrated and that appropriate incentives can make a substantial difference, as shown by transition countries with less favourable initial conditions (Shleifer&Vishny, 1999). North (1990; 1997) claims that institutions and their changes shape economic performance by determining the cost of transacting and producing, and that they are established to reduce uncertainty in exchange (North, 1992). Roland (2004) notes that Adam Smith's question on the allocation of the resources has been revived by the institutional economists and that the interpretations of the institutions are at the same time endless. In line with that, Nye (2008) notes that the founders of modern economics guided by Adam Smith would easily determine each nation's institutions like property rights and stable rules. He believes that during several decades the availability of capital, natural resources, and technical development were probably overestimated as the determinants of economic performance, i.e. the reasons that made the difference between poor and rich countries. Besides that, there was a strong belief in planning, being it based on the socialist view or in milder cases Keynesian neoclassical standpoint. Helping poor countries through foreign aid was done predominantly by transferring capital, technical convergence or improving the quality of education. At their beginnings, development economists didn't pay attention to the institutions, but only to the aforementioned factors such as natural resources, capital accu-

mulation, poor economic policies, technological development, and inadequate education (Easterly, 2001). Further analysis showed significant deficits in these explanations. North's work in the 1970s showing that institutions of capitalism, or more precisely their growth-enhancing aspects, are in the long-run in charge of economic success was very controversial at first. The factors that were previously the focus, like technology transfer and capital accumulation, seemed to be relevant for the economic results and the relative advancement or downturn of nations in the short-run. Repeatedly, economists are considering institutions as the most significant issue for economic performance. The role of politics, law, demography, anthropology, history and cognitive science comes into focus and the interdisciplinary perspective is mandatory (Nye, 2008). Rodrik (2009, p. 154) is convinced that the central question is no longer «Do institutions matter?» but «Which institutions matter and how does one acquire them?».

The mantra «Institutions matter» started at least in 1997 (World Bank, 1997) and is the main argument of both older and newer-style institutional economics (O. Williamson, 2008). «Institutions matter» seems to be fully accepted now (Rodrik, 2009; Aoki, 2011; etc.). The studies showing institutions as a key determinant of wealth and long-term growth vastly contributed to the «institutions matter» stream (Hall & Jones, 1999; Acemoglu, Johnson & Robinson, 2001; Easterly & Levine, 2003; Rodrik, Subramanian & Trebbi, 2004). These studies proved that more developed countries nowadays had better political and economic institutions than in the past. Accordingly, they consider institutional quality to be key statistics of economic development. Nevertheless, it appears that it took a long time for economists to include institutions into economic models. This move is considered to be an upgrade for the economic models because it adds realism. Yet, that also means more complexity «because reality is messily complex» (Shirley, 2010, p. 5). The critics of the «institutions matter» stream claim the opposite, their view is that the discussion of the importance of institutions is dangerously oversimplified (Sachs 2003a; 2003b). The main criticism is rooted in strong correlation of economic growth and demographic variables with geographical and ecological variables, scarce natural resources and malaria transmission in particular. Still, it is claimed that «[I]nstitutions may matter, but they don't matter exclusively» (Sachs, 2003b, p. 28) and that good institutions surely matter, but bad ones can deteriorate the economic situation even if starting in favourable conditions (Sachs, 2003b). In general, it is worth noting that the opponents of the «institutions

matter» are at the same time proponents of the Washington Consensus approach.

O. Williamson (2008, p. xxiv) reminds of the key features of NIE projects: focussing on feasible alternatives, deepening the perspective of the actions of agents, better understanding of economic organisation's mechanisms, operational approach covering and attempting to optimise micro level of transactions, governance and rules of the game and therewith connected implications and policy recommendations. O. Williamson's scheme of institutions (2000, p. 597) ranges from institutions endogenous in the short term towards the medium-term ones like institutions of law, ending with the ones that require much longer time periods to change. The New Institutional Economics is mainly concerned with levels 2 and 3 from the O. Williamson's figure; the social embeddedness found in the level 1 is usually taken as given by the institutional economists. Level 3 is concerned with the reorganisation of transactions among governance structures, and usually undergoes re-examination in the one year to ten years period. Level 4 is subject to the neoclassical analysis wherein the firm is usually seen through the production function.

Following the findings that countries can reach middle-income levels despite some corruption, but further growth requires much better institutions (Easterly 2001, pp. 234-235, pp. 245-248; Rodrik, 2003, pp. 16-17), Dixit (2004) also warns that the design or reform of formal institutions should ensure that they interact well with existing informal ones and that it may be necessary to accept some transitional worsening of performance. Ensminger (1997) confirms that claiming that formal institutions may not reach their objectives if existing informal rights are not overridden. While describing the new institutional economics as «a boiling cauldron of ideas», O. Williamson (2000, p. 610) also notes that the informal institutions, or institutions of embeddedness from his model of NIE, «are an important but underdeveloped part of the story». The common explanation for this area remaining under-researched is the fact that due to its nature economists left it to other social science disciplines, particularly to sociologists (Opper, 2008). Besides inequality of wealth and income as one field, Roland (2000, p. 344) recognizes social behaviour, norms, and capital as the other important field that is lacking research on transition. Informal institutions have mainly spontaneous origins, and because of those evolutionary origins they are characterised by inertia, it takes even centuries and millennia to change them. Roland (2004, p. 128) stresses that «[I]n order to have a meaningful understanding of institutions as *systems*, we need to

understand interactions between different institutions....institutions may themselves be viewed as the interaction of fast-moving (political) and slow-moving (cultural) institutions». Apart from political institutions, democratic and participatory culture is proved to be one of the key factors for long run economic growth. Furthermore, because of the speed of the change of political institutions, the system of values and beliefs plays an additional role in possibly ensuring complementarity with formal institutions (Jellema& Roland, 2011). In transitional societies formal institutions are usually underdeveloped, vague and partially absent, and those shortcomings are usually compensated by the informal institutions and that may result both in efficient and inefficient outcomes (Vehovec, 2002b). Informal constraints «come from socially transmitted information and are a part of the heritage that we call culture... Culture provides a language-based conceptual framework for encoding and interpreting the information that the senses are presenting to the brain.» (North, 2008, p. 37). Culture is an even murkier concept than institutions are, Lal (1999) claimed, and also noted that even the Chicago School started acknowledging culture as a part of the social capital even though until a few years ago it was completely ignored. Furthermore, Chicago Booth School of Business emphasises behavioural economists and psychologists working there as an issue of excellence and ability to widen the conventional research horizons (Economist, 2010, July 3, p. 29).

4. New Institutional Economics versus New Economic Sociology

In the last decade Aligicia and Boettke (2009, pp. 106-108) note an increased interest in the intersection between economics and sociology that mostly resulted from a lacking satisfaction of both economists and sociologists regarding the ways that social questions are addressed by the others. It is therefore proposed that socio-economics should replace neoclassical economics. Along those evolving avenues, it is worth exploring if the transition processes have also contributed in bringing closer New Institutional Economics and New Economics Sociology. While warning that «the study of economics was needlessly truncated», O. Williamson (1998, pp. 77—78) emphasises two background conditions that take part in the criticism of the mainstream economics: embeddedness concept by Granovetter and the attributes of human actors by Simon, both pointing out the nature of the individuals and groups; and as a result of that norms, customs and modes of conduct that differ among societies and have implications on the economics, decision-making in

particular. Economists claim that sociology is included in New Institutional Economics. Yet, although economic sociologists welcome the idea of inclusion of institutions in mainstream economics, they still view the new institutional economics analysis through the lenses of neoclassical economics and its focus on efficient markets provides a framework with certain deficits such as inattention to social structure and to the beliefs of individuals (Granovetter&Swedberg, 2001). Yet, they also note that in the 1990s North asserted the central role of actors' belief systems for economic outcomes. The networks usually play a key role in the emergence of the economic institution; their importance diminishes once the development is «locked in».

Economic sociologists believe that this reductionist concept of economic action is exaggerated because it does not connect economics with other social sciences. Furthermore, they consider economic sociology tools more appropriate to deal with numerous empirical issues in real world circumstances (Granovetter&Swedberg, 2001, pp. 8 -11). Regarding economic actions as socially situated or embedded, economic sociologists (Granovetter&Swedberg, 2001, pp. 11 -14) emphasise networks of relationships rather than atomized actors. They believe that a network view encourages a gradual analysis of the causal process rather than focus on one decisive factor that turns out to be the foundation of a too simplistic theory. This way, social mechanisms are correctly identified and the concept of networks is considered to be very close to empirical reality. It avoids conceptual errors from mainstream economics and New Institutional Economics. Economic sociologists claim that explaining the life cycle of social institutions through their alleged efficiency is inadequate compared to the findings of social structure mapping. They also explain the popularity of NIE views through «their apparently parsimonious solution of otherwise intractable problems» (Granovetter&Swedberg, 2001, p. 12). Institutional Aligicia (2006, pp. 32–34) supports the notion of the strong role of networks in the society and claims that once this is accepted the analysis of the formal institutions solely seems like studying only the tip of the iceberg. In light of post-communist transition, Aligicia (2006) notes that networks of cooperation from the communism period can easily become corruption networks in the new system, and vice versa, former opposition networks can become entrepreneurial and proactive in a positive manner. The notion of embeddedness is also used in the other, similar context of business-government relations; Evans (1995) named it «embedded autonomy». He basically states that government should keep its autonomy from the private sector, but government can

receive important information from the private sector only if it is in a constant relationship with it.

Regarding the social construction of economic institutions, economic sociologists (Granovetter&Swedberg, 2001, pp. 14-18) welcome a relatively recent idea of including institutions in mainstream economic analysis, especially in NIE that is supposed to require social analysis. Yet, they consider it only superficially social because economists do not consider why and how the actors in their own view behave. They rather focus on a revealed preference. On the other hand, Nye (2008, pp. 72-73) sees the concept mainly through the time dimension by considering that new institutional economists usually treat institutions as exogenous to most people's behaviour in the short term, and almost completely endogenous in the long term.

Granovetter (2001, p. 61) claims that «anonymous market of neotransactions of all kinds are rife with the social connections described.» He argues that economic behaviour and institutions are to a large extent influenced by social relations and distinguishes between two extremes: over socialized and under socialized conception of human action. Yet, despite the opposite views their common denominator is the atomization of actors; in the undersocialised account it comes from the self-interest, and in the oversocialised account it is the result of adopted behavioural norms. Despite the contrary views it should be noticed that both theories deal with the concept of atomized actors. Whereas in the undersocialised view atomization is caused by narrow self-interest, in the oversocialised view it is primarily founded on internalized behavioural patterns, and current social relations influence behaviour only to a minor extent (Granovetter, 2001, Ch 2). In the article commonly seen as a starting point of New Economic Sociology Granovetter (2001, p. 55) notes that even when economists deal with social relations thoroughly, they do not take into account historical and structural embeddedness of relations. They instead categorize relations according to current positions or roles and that exclusion from the wider social context results in a «paradoxical effect of preserving atomized decision making even when decisions are seen to involve more than one individual... the use of an oversocialised conception –that of actors behaving exclusively in accord with their prescribed roles- to implement an atomized, undersocialised view» (Granovetter, 2001, p. 55). Ben-Ner and Putterman (1999, pp. 3-69) significantly relax the undersocialised view assumptions through preferences perspective. Ben-Ner and Putterman (1999, pp. 3-69) still consider that *homo*

economicus dealing with maximisation issues and thereby often cooperating with other self-interested individuals should be central in the economic methodology. Yet, both the limits of their rationality and their other- and process related preferences need to be taken into account. Contrary to the self-regarding preferences, other-regarding preferences are connected with the consumption and the outcomes of other people, and process-regarding preferences are synonyms for values, sometimes also labelled as behaviour and ethics. The process-regarding preferences may also be explained as a way in which people behave and reach outcomes of interest. The focus of Ben-Ner and Putterman's work are process-regarding references and to a lesser extent other-regarding preferences. Both of these groups of preferences are highly influenced by the genetic predispositions and the environment in which individuals have lived. Preferences, cognitive abilities and habits, and the level of the bounded rationality are considered to be determinants of behaviour. Moreover, the underlying idea of social embeddedness is found in Whitley's (1997) business system approach, a framework in which significant international differences in corporate governance and doing business in general are predominantly explained by nationally specific social institutions.

Based on some current trends in NIE it may be argued that NIE has come closer to some of the major assumptions of the Economic Sociology, oversocialised behaviour in particular. This convergence (Table) is increasingly seen in the works of the last decade. In that regard, despite the differences in approaches and their findings, selected works in Ben-Ner and Putterman's (1999) volume on economics, values, and organisation unanimously confirm the necessity to widen the perspective of analysis of *homo economicus* by not only including process-regarding preferences, but making them endogenous. Brousseau et al. (2011b, p. 16) claim that further developments are needed in order to obtain essential additional knowledge of institutional elements and evolution, and this exploration will necessarily include other social and human sciences. The emphasis of including other sciences seems to be overwhelmingly present throughout this review of scientific contributions.

In the overview of the works of NIE scholars on the fundamental assumptions and their consequences for institutional change, Brousseau et al. (2011b, pp. 4-7) distinguish between prosocial and self-interested behaviour. Pro-social behaviour, contrary to self-regarding optimizers, includes pro-social preferences like altruism and fairness that seem to strengthen institutional stability. Pro-social behaviour is seen through two perspectives. The first one is still

rationally oriented and is explained as homo economicus with deviations in behaviour (authored by Benabou and Tirole in 2006; as presented in Brousseau et al. 2011b, pp. 5-6). The «extended» model of a self-interested agent whose real world behaviour is explained by deviations or anomalies was previously noticed by Aaron (1994) and Ben-Ner and Putterman (1999). The second perspective of pro-social behaviour is explained in two ways: «preference based» (authored by Gintis et al. In 2005; as presented in Brousseau et al. 2011b, pp. 5-6) and «belief based» (authored by Binmore in 2010; as presented in Brousseau et al. 2011b, pp. 5-6). The former is focused on other-regarding preferences rooted in human behaviour that are strongly related with the affiliation to a certain community, i.e. social preferences influence the actor's utility function. And the latter explains pro-social behaviour as significantly dependent on the beliefs of the expected behaviours of other actors and consider it to be based on Nash equilibrium. A common issue for both approaches is endogeneity of creation and stability of «natural» inclination to cooperation and membership in a certain group. North's stream seems to be in between these two perspectives regarding institutional stability, because it does not explicitly analyse pro-social behaviour. Instead, it claims that institutional stability is rooted in human beliefs.

Table 1

**POSSIBLE CONVERGENCE OF NIE AND NESPARTLY
INFLUENCED BY TRANSITION PROCESSES**

Neoclassical economics	New Institutional Economics	New Economic Sociology
Static, timeless	Dynamic	Broader social context
Based on four development factors	Based on institutions: interaction of formal and informal rules	Socially, historically and structurally situated economic actions
Rationality and perfect information	Bounded rationality towards bounded and contextual approach to rationality	
Undersocialised view	Emerging oversocialised view	Oversocialised view
Atomised actors	Acceptance of networks and communities	
Revealed preferences	Self-, other- and process-regarding preferences: exogeneity towards endogeneity	Emphasis on process-regarding preferences (values, behaviour, ethics) and their endogeneity

Table 1

Neoclassical economics	New Institutional Economics	New Economic Sociology
Self-interested behaviour	Prosocial behaviour: 1. Homo economicus with deviations in behaviour 2. a) Preference-based: other-regarding preferences + community affiliation b) Belief-based: depending on expected behaviour of other actors	
Efficient markets, no government intervention	Institutional prerequisites for efficient market	Embeddedness of market economy in non-market institutions

Based on Ben-Ner and Putterman’s work aimed at moving beyond self-regarding and other-regarding preferences towards a theory that incorporates value-motivated agents, Sugden (1999) proposes that in order to have a theory of values that is useful for economics, it should be naturalistic, have explanatory power, and make values endogenous. Neoclassical economics supposes exogeneity of preferences, hence takes them as given without explaining them. Yet, at the same time it assumes their transitivity, completeness, and convexity, and that small range of variations of preferences increases the explanatory power. In order to satisfy the naturalism condition, Sugden (1999) proposes the absence of moral facts in the analysis of the emergence of moral sense as there is a common trap between moral beliefs and substantive moral statements. He is trying to prove that people are to a relevant extent motivated by a desire to meet other people’s expectations. He claims that the content of the norms should not be taken as given even though the inclination to create normative expectations is taken as a given in his analysis. Sugden’s rationale of normative expectations varies from Ben-Ner and Putterman’s (1999) idea of norms as solutions to issues faced by communities. In their view norms are socially functional, consciously adopted and transmitted top down in a family, religious community, school or political sphere. In contrast, Sugden (1999, p. 84) sees normative expectations as «unintended consequences of initially self-interested behaviour». The concept of normative expectations is likely to be applicable to the collectivist societies like the transitional one where the opinion of a community plays a very important role.

Ne (2003) discusses new institutionalisms in economics and sociology in order to identify the key features of a New Institutional Economic Sociology that deals with the role of beliefs, norms and

institutions in the economic life. He investigates the interaction of the formal elements of institutional structures with informal networks and norms that influence economic activities. Based on Granovetter's embeddedness concept, Nee (2003, p. 47) claims that «rational action in economic life is facilitated, motivated and governed by shared beliefs, social relations, norms and institutions». Furthermore, economic sociologists see institutions as socially constructed arenas where actors act according to their interests, rather than their incentives and disincentives only. Instead of putting emphasis on the role of the state in enforcing formal rules, sociologists stress the role of close-knit groups in creating and sustaining the norms and consider relations and networks to be the key of understanding the connections between the informal social organisation and formal institutions (Nee, 2003, pp. 50-51). Nee (2003, pp. 54-55) concludes with the same thought that economists include embeddedness into their models, sociologists may find it useful to include economic concepts into the modern sociological approach.

When comparatively observing NIE and NES, Nee (2003, p. 16) argues that O. Williamson's claim on the complementarities of transaction cost economics and embeddedness is not unexpected. It may be argued that the connection of O. Williamson's approach is also visible in his four levels of social analysis where the top level is named the social embeddedness level consisting of tradition and norms of behaviour. Nee (2003, pp. 22-23) considers the usual NIE definitions of institutions to be constraining from the sociological point of view and suggests broader definition that would position the institutions as a channel for collective action and institutional change would be primarily concerned with the realignment of interests, norms and power. A dynamic game theoretic model of declining political commitment in state socialism (Nee, 2003, p. 42, based on Nee and Lian, 1994) is of particular importance studying institutional change in transition because it provides the explanation of the incumbents' behaviour during the initial transition years.

5. Conclusion

Transition is considered to be a comprehensive process of change. The overall complexity of the transition process is also described by metaphors like changing the motor of the plane during the flight (Roland, 2000) or rebuilding the ship at sea (Elster et al., 1998). In SEE this topic is additionally specific since there has been a triple transition: in the political and economic arena, and from a set system

of order to ethnic conflict and social unrest and its implications. Combining these two factors proved to worsen the overall situation. Ex post analyses claim that (pseudo) neoliberal approach brought additional contradictions and development delays because of the inherited particularities and unforeseeable conditions in South Eastern Europe.

Overall, the beginning of transition was faced with rather big discrepancy. On one side, transition was deemed a historical window of opportunity that was supposed to trigger important reforms. And on the other, a very scarce theoretical support that consequently led to predominantly misleading practical support for the creation and implementation of those reforms. Although the centrally planned and selfmanaged socialist systems were well understood, their legacy for subsequent events was underestimated. It has been shown that the claim on the linear trajectory from planned towards market economy was misleading. Furthermore, transition countries differ among them mostly because of their long-run complex history (also explained as multiple pasts) and their initial transition policies. Besides neglecting the distinctiveness of the transition of every single country and region, the factors like culture, values, norms of behaviour, and tradition were mostly denied as well. This predominantly led to a uniform approach that undervalued local conditions and could neither predict nor address the divergence of countries' development. It appears that divergence is rising and that transition countries are «far more heterogenous than they were twenty years ago» (Cornia, 2012, p. 293). To underline, the socialist past was well known, but its legacy was underestimated.

When analysing postsocialist transformation, i.e. comparing homo economicus in theory and in real transition society, there appear to be useful alternatives to neoclassical economics. Institutional analysis proved to be a very adequate tool for the exploration of transition. It has particularly verified its applicability through the research of the persistence of informal constraints and their interaction with the formal ones. These complex interrelationships have also provoked the usage of newly emerged interdisciplinary approaches in order to obtain a more nuanced picture of changes in societies. Certain trends and findings from New Institutional Economics and New Economic Sociology show their convergence as particularly useful for the observation of reforms in transition countries. They actually seem to reflect the movements there, even though most of the selected studies were not executed in transitional societies. The research on networks and the oversocialised view of society is suggested to be borrowed

from the New Economic Sociology in order to clarify the underlying human infrastructure in transition societies. When reforming a society, the common denominator in most of the studies from mentioned fields may be found in the recommendations for a better use of local knowledge and a deeper understanding of previous and existing institutions and local circumstances. Furthermore, ex post analyses clearly recommend the Evolutionary institutionalist perspective that was for a long time neglected by the Washington Consensus proponents despite the Post-Washington Consensus ideas. The Political Economy research on reform implementation within large-scale economic and political changes is recognized as complementary and left for further research. Finally, even though the theory on the transition processes is still in its development, it has become apparent that economics as a discipline gained added value through transition processes. In other words, «the transition experience of the nineties was both a testing ground for the traditional body of economic theory and an invaluable source of new information about conditions for successful capitalist development» (Roland, 2004, p. 110).

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РОЗВИТОК МІЖДИСЦИПЛІНАРНОЇ МЕТОДОЛОГІЇ СУЧАСНОЇ ЕКОНОМІЧНОЇ НАУКИ: ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ

АНОТАЦІЯ. Розглянуто проблеми розвитку якісно нової, фізико-економічної методології сучасної науки. Досліджено можливості застосування міждисциплінарних підходів до вирішення еколого-економічних питань. Узагальнено особливості фізичної економії. Запропоновано авторський підхід до розвитку та втілення ідей С. Подолінського, М. Руденка та В. Вернадського в новітню теоретичну економіку. Обґрунтовано фізико-економічне моделювання споживання та заощадження природного капіталу.

КЛЮЧОВІ СЛОВА: негентропійний феномен розвитку, екологічно збалансована економіка, фізична економія, міждисциплінарна методологія економічної науки, ноосферна модель економіки.