

INTERACTION OF FORMAL AND INFORMAL INSTITUTIONS - IMPACT ON ECONOMIC SUCCESS *

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Abstract. *This research paper explores the general framework of the institutional structure of a national economy which is made up of formal institutions, informal institutions and their compliance and implementation mechanisms. The interdependence between the formal and informal institutions is especially examined, along with the effects of their mutual interactions on the business environment. These in turn provide the opportunities for the achievement of the adequate level of economic success of both business and non-business entities, as well as the entire economy. The aim of this paper is to point to the necessity of implementing institutional changes that will result in providing favorable business environment for the business entities and increase of their economic prosperity levels, in accordance with the analysis of the influence of the informal institutions on the formal ones and their interactive relationship. Based on the exploration of the interaction between the formal and informal institutions in different economic systems, the conclusion of this paper is that the best results are achieved in the conditions of their maximum synchronization and complementarity.*

Key Words: *formal institutions, informal institutions, economic system and economic actors, complementarity, efficiency, effectiveness*

1. INTRODUCTION

The analysis of the relevant issues of establishment, functioning and development of a national economic model is both a theoretical and practical challenge. The study of these processes is based, for the most part, on the theoretical doctrine of neoinstitutionalism. However, the standpoints of neoclassical and evolutionary theory are also present. This is

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the result of the need not only to examine the economic system as a set of interactive relations of economic actors who strive to achieve their self-interests of profit maximization, but also to explore the mechanisms that allow each economic actor, within the framework of the existing institutional norms and rules, to improve its economic position.

In this context, the aim of this paper is to present the general framework of the institutional structure of national economy, as well as the various approaches used to investigate implementation mechanisms of institutional changes, whose main purpose is manifested in the creation of an efficient institutional environment that would in turn stimulate the economic actors and affect the increase of their economic performance. Such a mission is associated with a society's tendency to create an efficient institutional environment and thus reduce the level of transaction costs which are reflected in the functioning of the particular economic system. One must bear in mind three key components of institutions: *a set of formal rules*, *a set of informal rules (norms)* and *compliance and implementation mechanisms*, which, according to North [13], determine the economic performance. Given the fact that the functioning of the economic system and its essential elements includes the interdependence of both formal and informal rules, which are manifested in the specific features of the system itself, this paper will identify possible impacts of the mutual interactions of formal and informal rules on economic performance.

2. CONCEPT AND TYPES OF INSTITUTIONS AND THEIR IMPORTANCE FOR ECONOMIC PERFORMANCE

The study of factors for achieving successful economic growth is one of the most important topics of modern economy. This topic becomes the epicenter of the scientific and professional public, when the different positions and findings about the evident differences in the rates of economic growth among countries with relatively equal starting positions are confronted. For the sake of argument, let us consider the following example: a comparison of the economic dynamics and rates of economic growth of the two large countries - Russia and China, over the past two decades. Such comparison inevitably raises a question: why did Russia face adverse economic trends during the nineties (macroeconomic instability, negative rates of economic growth, unemployment, etc.), while the economy of China in the same period achieved economic growth at an average rate of 8% per year. The above mentioned example, together with the experiences of many other transition economies, is a highly relevant foundation which gives an opportunity to acquire valuable knowledge regarding the necessary conditions for the successful organization of an economic system, as well as creating essential prerequisites for its efficient operation and achievement of dynamic economic growth. During the same period, many countries faced the negative consequences of the so-called *Washington consensus*, which contained certain drastic misconceptions that were present in one part of the economic profession [19]. In this context, the economic boom of China provides an important argument for an objective verification of the effects of the above mentioned IMF document, because the country has achieved, and is currently achieving, the highest rates of economic growth, while basing its development strategy on concepts that are completely opposite to the model recommended by the *Washington consensus*. The comparison of the effects of the transition process in China and Russia, as in many other countries, provides

a number of arguments regarding the assessment of the degree of success related to the implementation of institutional reforms.

The aforementioned open questions with reference to the functioning of the economy and economic growth, as well as many other issues, point to the significance of institutions as one of the key factors of endogenous growth. Namely, in endogenous growth models where institutions represent one of the central segments of the analysis, the significant improvements have been discovered, (despite the fact that there is not a full and comprehensive answer in terms of factors that determine the economic growth), since by pointing out to the fundamental importance of institutions, this model offers adequate analytical framework for understanding the assumptions necessary for the achievement of development dynamics. At the same time, these growth models offer a more comprehensive view which is important for resolving the dilemma of whether there is such a concept as the "first and best" set of institutions that could be introduced in any country, or are institutional systems country-specific. In this context, one of the central questions is how one country can improve its institutions.

In order to determine what institutions are, and which institutions are relevant for an economic system, it is necessary to define precisely what is meant by the term "institution". The definition which is most frequently used in the literature is the one given by North [13, pp. 13-14], who sees institutions as the "rules of the game" in one society, or more precisely, the "humanly-devised constraints that shape human interaction". Their importance is manifested in the fact that they contribute to the establishment of incentives in the process of human action, since they define and constrain the choice of alternatives available to each individual. Such a definition, which points to the existence of constraints that people bring upon themselves to further define and limit their choices, is complementary with the neoclassical rational choice theory assumptions. Institutions are said to reflect their purpose in their contribution to reduce the uncertainties inherent in the human interaction that occur as a result of the complexity of the problems to be solved and the manner in which an individual solves his/her problems. *De facto*, institutions bring order to economic activity and, thus, thanks to their successful functioning, the habitual relations between economic actors are established, as well as a sound mechanism of their interaction.

The mentioned definition includes both formal and informal institutions, thus linking the written rules with social norms and other constraints imposed by the social value systems. This means that, in explaining the mechanisms of growth and development, we should make a distinction between the institutions on the one hand, and the culture, on the other hand. As far as modeling of the institutions is concerned, two alternative approaches are mainly applied. On the one hand, the institutions are referred to as externally imposed constraints [13], and on the other hand, they are seen as endogenous rules that humans impose and enforce upon themselves which are in compliance with the repetition of the game [2]. In accordance with the mentioned approaches, different mechanisms are used to enforce their implementation. In exogenous models, the implementation relies on the role of a third party, which is usually the state, while the endogenous models, given the fact that the rules are created by the actors themselves, see no obstacles for enforcement of the mentioned rules. The latter approach is mainly present in the case of relatively simple institutions, such as enforcement of contracts.

In defining the concept of institutions, there is a fundamental difficulty, which arises from the ambiguity often present when using the word institution. Specifically, the term institution can mean a norm, i.e. the rule that directs behavior through sanctions, but this term can also stand for an organization or institutional body. Thus, the *Oxford English Dictionary* [9] defines the term institution as the established law, custom, habit, practice, organization or other element in the political and/or social life of people. For the purpose of the analysis, institutions can be seen as: a) normative framework, b) cognitive framework, and c) symbolic framework. Normative elements include normative rules and regulatory processes, with emphasis on the rules, which in order to become binding must have adequate support, including enforcement of appropriate sanctions. Scott [20] stresses that cognitive control may in itself be sufficient only in case of consensus and complete information available to all actors. However, since the information is always incomplete, and often asymmetrical, and the exchange is usually performed between the actors who do not share the same values or cognitive frameworks, there is a need for specialized regulatory system to cover the increasing number of different participants. In economics, greater emphasis is given to the normative and regulative aspects of institutions rather than the cognitive ones.

Institutions should be considered as governing structures that constitute a framework made up of norms, rules and enforcement mechanisms. At the same time, they bring order to social relations, reduce flexibility and variability of behavior and, thus, limit the possibility of unilateral exercise of personal interests and impulses. By providing the proper conduct of individuals, they increase the degree of predictability and ensure continuity of social relations. Examples of such institutions are markets, specific organizational structures such as companies, as well as legislative and regulatory bodies (e.g. ministries).

The key role of institutions lies in the need to create the preconditions for the establishment of a stable structure of human interaction, by reducing the level of uncertainty in the society. Therefore, the explanation for the differences in performance of particular countries, as well as for long-lasting period of stagnation or decline in the level of economic well-being of a society, can usually be attributed to the differences in the character and quality of its institutions. Namely, depending on the manner of their formulation, institutions affect the behavior of economic actors by encouraging or hindering their economic activity, and, thus, provide different effects of economic activities. The true meaning of economic institutions is manifested in the creation of equal conditions for independent operations and possible higher level of economic freedom [11, p 59-60].

Institutional systems are characterized by mutual complementarity of institutions, which raises the question of interaction between the institutions within an institutional system. For example, the interaction between the institutions that create and enforce anti-monopoly policy is important, since this facilitates market competition, creation of incentive structures, interaction between the incentive structures and property rights, between the social norms and legal agreements, etc. Moreover, it is important to examine the relationship between the economic institutions and the electoral rules, as well as other aspects of the political system, as a part of the regulatory framework within which formal institutions are formed and made operational.

It is in the interest of any society to establish an institutional setting that will support the confidence that commitments will be respected. Such an institutional setting implies existence of a complex institutional structure of formal rules, informal constraints, as well

as their enforcement, which should result in low transaction costs. Given the complexity of relationships between the formal and informal institutions, it is necessary to consider their mutual relations in the context of possible harmony or disharmony regarding the process of implementation of institutional changes and the establishment of formal rules, upon which also depend their real effect concerning the achievement of economic goals. Often the (un)satisfactory institutional arrangements in one country are explained by the (dis)harmonized operation of formal and informal institutions. In cases where the formal rules are not in conflict with informal norms of society, the conditions are created for the efficient operation of both types of institutions, thus the preconditions for achieving maximum economic results will also be created. From the point of an economic and social value system, such a situation is desirable since in this manner the economic and social objectives are optimized. The second situation is aspiration towards the establishment of institutional structures that would be favorable for economic actors but in conflict with the informal norms of behavior. In this case, depending on the power of informal norms, the creation of the formal institutions might have different outcomes.

In addition to formal and informal rules, an integral component of the institutional structure of an economy and a society is also made up of appropriate mechanisms used to ensure compliance with the mentioned rules. In this way, the effective control over relations governing the use and allocation of resources is achieved [11]. It is therefore important to create an institutional environment that will promote the certainty that the commitments will be respected, which will in turn result in low transaction costs. Otherwise, it will be necessary to allocate more resources to ensure a positive outcome of the transaction which means that the profit earned from the transaction *per se* will be smaller. Creating conditions under which the rules are obeyed is based on credible threat or use of force. Thus, we can say that coercion is nothing more than the calculation of costs incurred due to the threat or sanctions. This means that the coercion represents the core of the mechanism used for ensuring the compliance with the terms and conditions defined by the relevant rule. Coercion may take many forms - from direct use of force against the subject that violated a formal rule to more indirect forms that consist of: incurrence of costs due to the undermined reputation of the offender; the difficulties in concluding the future agreements; confiscation of some assets; incomplete payment of wages, dissemination of information (for example, putting someone/something on a "black list"). Therefore, the mechanism that ensures compliance with the accepted rules, by means of the impact on the reputation, has such features that are not based so much on coercion as on the dissemination of information. The level of dissemination of information about the offender - the violator of the rules - directly affects the form of the information exchange. It is especially important if this information could be communicated not only to the actual but also to the potential transactors. In this case, institutions that do not include the interference of the state as a third party, are fully capable of providing all conditions for the anonymous exchange, as well as the specification of the absolute property rights among the governing subjects who may know each other casually. At the same time, the element of coercion is also present in this instance, since the consequences of violations can be expressed in terms of costs to the violator.

With regard to the compliance of the state with the regulations [11], there is a "trap" of inefficiency that results from numerous rules (regulation methods) that contradict the existing norms, and which at the same time requires the information that cannot be ob-

tained free of charge. On the other hand, the more complex regulation system that is implemented, the more people are from time to time forced to violate the established rules. In this way, the stimuli for complying with the rules are weakened, which represents a favorable environment for the development of corruption. In this sense it is necessary to give attention to the obstacles in the realization of the entrepreneurial activities, which received a recognizable label known as the "administrative barrier". This situation is favorable for the introduction of "special tax" which is paid for the easier and faster completing of bureaucratic procedures, and which is not foreseen by the budget of the country. This problem is particularly painful for small enterprises [14].

When the institutional changes are implemented, either by improving existing or creating and introducing new institutional arrangements, it is necessary to bear in mind that institutional systems are not modular structures, where one module can be easily substituted by another. Roland [19] suggests that if such a possibility existed, then the institutions could be simply bought just as any other goods. The essential characteristic of institutions is that they establish a system in which each institution is being complemented by another, resulting in a certain consistency of the system. Therefore, substitution of one institution with another may, in some cases, lead to serious deterioration of system consistency. However, when there is a strong complementarity between institutions, individual institutional changes are more successful. The significance of harmonization between the institutions is reflected in the experiences of the transition countries in terms of searching for the optimal strategy of institutional reform concerning both economic and political systems, as well as in many obstacles faced by the reform-oriented policies.

Depending on the manner in which the institutions provide adequate protection of all actors in the society, as well as on the outcomes, some authors [1] make a distinction between the predatory and the developmental institutions. Predatory institutions protect the interests of the minority in power and allow them to use their power for direct control of economic agents, thus reducing their motivation to invest and produce. Unlike the predatory institutions, the developmental institutions encourage growth and development, provide adequate support to economic agents (in terms of investment incentives), and simultaneously provide public goods like education, infrastructure, etc. The mentioned functionalist approach points to the necessity of implementation of institutional changes, while it does not explain the mechanism according to which the changes are taking place in one system.

Olson [15] believes that inefficient institutions cannot survive for long time, as groups with interests in institutional change fail to get organized and successfully solve the problems of their collective action. However, collective action problems are not necessarily the only reason for the survival of inefficient institutions. Acemoglu and Robinson [1] consider that there is a problem of commitment on the part of the government considering the implementation of institutional changes, as well as the absence of a third party to mediate between the conflicting groups which are for or against changes. In addition, there is a real possibility that the group which has the power will use its position to achieve its own interests. Thus, the ruling elite, who have an interest to remain in power, will strive towards maintaining the *status quo* in society, despite the fact that institutions are ineffective. There are numerous examples of such situations that are manifested in the most direct way in once socialist, and currently transition economies. However, it should be noted that the ability of social groups to become organized partly depends on the institutions. Hence we can conclude that institutions affect the ability of different groups in

society to solve collective action problems. After all, the institutional changes are, in themselves, subject of political and social conflicts.

The position that technological innovations directly stimulate economic growth has the property of an axiom. However, one of the important assumptions concerning the transition to the stage of economics of innovation is institutional changes, since the institutions adequately facilitate and support such transition. Therefore, the role of cultural innovation is important, since it produces broad social and economic effects. This is supported by numerous examples from the history of the development of human society, which are related to the existence of different attitudes toward manual labor and labor in general, as well as attitudes concerning savings and consumption, the attitudes towards private property and the like. It has been shown throughout history that these cultural differences have a different impact on economic growth and development. At the same time, there is an interaction in terms of stimulation of the economic development and the technological changes that initiate economic growth and institutional changes. Hence, we arrive to the conclusion that the institutional/organizational structure, which acts not only as a driver of innovations but also, as a prerequisite for efficient organization of production, is the key to growth, since it affects the reduction of transaction costs on the product and factor markets, establishing a system of contract enforcement and creating the regime which will protect and grant property rights. Therefore, innovations should be applied not only in technology but also in social and political sphere, in which institutions are created and made operational (although the social and political innovations are much more expensive than the technological ones, therefore they are scarcer).

3. IMPLICATIONS OF MUTUAL INTERDEPENDENCE OF FORMAL AND INFORMAL INSTITUTIONS

Starting from the standard definition of institutions as the rules that make up the structure of social and economic relations, which directs and constrains the behavior of individuals, we are able to observe their importance for successful development of economic activities. Namely, institutions are important because the level of prosperity of individuals, companies and society as a whole depends on the level of their development, as well as on the manner in which they have been established and the mode of their functioning. In other words, the type and the level of development of institutions, both formal and informal ones, determine the level of success of a particular economic system and the whole society, as pointed out by North [13].

Fukuyama [4, p 37] stresses that the institutional capacity of the economic system makes the central problem that needs to be solved. With this in mind, the analysis should start with looking for answers to the question: what institutions have critical importance for economic growth and development and how should they be shaped? This represents even more important issue, because there are such institutions that may enable or hinder the economic growth, depending on the extent to which complementary institutions promote their functionality. For example, advocating federalism and decentralization as a way to increase the level of the accountability of political authorities in terms of supporting the economic growth.

Based on the interaction of formal and informal institutions, Helmke and Levitsky [6], consider that both compatible and conflicting objectives can be established between the

mentioned institutions. Combinations of these two properties and the quality of formal institutions give the following typology of informal institutions: *complementary institutions*; *accommodating institutions*; *competing institutions* and *substitutive institutions*. *Complementary informal institutions* fill in the gaps left by formal rules that do not explicitly deal with certain problems or contingencies. The formal rules are not violated; however the more efficient functioning of the government structure and other organizations is facilitated. *Accommodating informal institutions* are the result of combining effective formal institutions and conflicting actor goals. They do not change the legal norm, but violate the spirit of the written rules by mitigating their effects. In so doing, the interests of key actors are reconciled with the existing formal institutional arrangements. *Competing informal institutions* emerge as a solution for the combination of weak formal institutions and antagonistic goals. They structure actors' incentives in such ways that are incompatible with the formal rules: in order to follow one rule, actors must violate another. A combination of weak formal institutions and compatible actor goals corresponds to the *substitutive informal institutions*. They are created when the actors who have created and introduced a rule seek to achieve outcomes that formal institutions were expected, but have failed, to generate. Complementary and accommodating informal institutions are characteristic for developed stable institutional settings – which are mainly found in advanced industrial countries, while the substitutive and competing informal institutions emerge in the context of formal institutional weakness and instability, which are mainly found in developing and transition economies.

It can be concluded that when it comes to formal and informal institutions, their mutual interaction is of the outmost importance, since the nature and the outcome of institutional reforms in a society highly depends on the compatibility of the formal and informal institutions. If the compatibility between the mentioned institutions is achieved, then informal institutions will foster law-abiding behavior. However, if the laws are not adapted to general social norms, the conflict with the formal institutions will emerge [21, p 231]. Namely, informal rules which gravitate towards good and ethical business solutions that are acceptable to all actors included in business transactions, due to the existence of mutual trust, result in lower risk and lower transaction costs. In developed economies, the gap concerning the non-compliance between the formal and informal rules is less pronounced, because the formal rules are the result of long-term practice and testing while the informal rules are embedded in social values.

Anyhow, there is the question of identifying the sources of power of informal institutions, as the state does not grant the enforcement of their (informal) rules. These particular circumstances do not mean that the impact of informal institutions is of smaller intensity than in the case of formal institutions which are supported by the state. Unlike formal institutions, which are based on the support from the third-party, that is – the state, the source of power of informal institutions can be found in the very individuals who accept each other, which actually makes the informal rules socially accepted, therefore the impact of informal rules on the conditions of performing the major economic activities is greater.

There are numerous studies which suggest that informal institutions represent a contributing factor to (un)successful problem solving. Their role is particularly important if they affect the increase in efficiency and performance of formal institutions. If their interaction does not comply with the specified objectives, then informal institutions become a source of disfunctionality. These are the circumstances where the phenomena such as cor-

ruption, clientelism, political clans and interest groups are present, which seriously threatens the performance of the market, the rule of law, democratic system and other formal institutions. In many cases, informal institutions are in compliance with the formal ones which strengthen their rules, but there are situations where informal and formal institutions are not in agreement and the formal institutions are not accepted in an adequate way; therefore, they are not able to produce the expected and desired results. Regardless of their mutual relationship, informal institutions have a major impact on the type and the development of formal institutions, by supporting or blocking the existence of certain types of formal institutions. Furthermore, informal institutions can also generate certain institutional needs or phobias.

Since informal institutions depend on inherited attitudes and characteristics, they are not prone to change, i.e. they change slowly. Although they do not produce tangible results in the short run, their role should not be neglected. On the contrary, they are very important for the economy, especially for developing and transition economies. Each business activity, or any other human interaction, behavioral norms, customs, adopted rules, etc., include informal institutions as part of the infrastructure through which decisions are shaped and the final choices are made. There are examples of different societies that had the same formal rules but achieved different results due to the effects of the informal rules of behavior [13, p 22]. Therefore, the expansion of institutional analysis to the informal rules allows for a better understanding of the interaction of formal and informal rules of conduct, which shape codes of conduct on the market, reduce the decision-making risks and increase the degree of certainty when making a choice in the conditions of limited resources. On the basis of the comprehensive consideration of interaction of formal and informal institutions, we come to the conclusion that informal institutions, to a large extent, influence the outcomes of formal institutions.

The impact of informal institutions in terms of functioning of an economy is particularly important in countries that implement comprehensive changes to formal institutions, such as economies in transition. In every business activity, or any other human interaction, behavioral norms, customs, generally accepted rules, etc., are part of the infrastructure which shapes the decisions and facilitates the process of making the final choice. According to North [13, p 22], due to the influence of the informal rules of behavior to the functioning of formal institutions, different societies which have same formal rules, achieve different results. Therefore, the expansion of institutional analysis to informal rules may lead to a better understanding of the conditions and limitations that are the basic preconditions for successful development of economic activities and the achievement of better business results. This is particularly important for those countries that are in the process of building the new institutions, such as transition countries, since the adoption of new institutions imposed by economic actors, and their stable operation, depend on the costs of transformation and the relation between the transaction costs of the transposed and the existing norms of behavior [18, p 11]. Therefore, the mentioned costs depend on the inefficiency of the existing institutional structures, cultural environment, macroeconomic situation and the quality of the appropriate coordination mechanisms (instruments of macroeconomic policy), forms of coercion, control and monitoring, inertia and staff training.

As an example of how informal rules affect the formal institutions the role of social capital in relation to the government towards its beneficiaries is usually given. Making the government institutions responsible for answering to the public, as Fukuyama points out

[4], is in a certain way a matter of institutional set up and internal controls and checks, but ultimately, the responsibility for controlling government activities and demanding its appropriate behavior rests upon those people whom the mentioned government is supposed to serve. Just to mention in this regard the fact that the Government of the Republic of Serbia has not submitted a financial statement to the National Assembly for the last ten years.

As a part of the set of informal institutions, it is important to emphasize the role of history, ideology and leadership as exogenous factors that contribute to the establishment of moral standards. In addition, moral norms are important because they support the value system of the civil society, while at the same time influence the establishment and enforcement of the formal institutions in the society. The development of the value system of a civil society, establishes more favorable conditions for the creation of trust among economic actors, which facilitates economic exchange in the conditions of imperfect information. In this way, the establishment of an efficient set of formal institutions, i.e. system of laws and formal rules is supported, that formally structures social interaction and economic exchange, which is an essential prerequisite for effective and efficient performance of economic activities.

Efficient institutions contribute to the growth of trust in government institutions, which is significant given the existence of complementarity between the existing level of trust and efficiency of government. The low level of trust in government institutions results in the reduction of social capital, while the trust in institutions results in increased public pressure on the efficiency of management, which leads to improvements in the economy. At the same time, when government officials are under constant public supervision, they are discouraged regarding the corruption due to the fact that the penalties in such cases are increased. This improves confidence in government institutions and, therefore, the reliability of the formal institutional framework, such as property rights and other laws, is increased.

Without the society's need for efficient institutions there would be no institutional development or institutional reforms. However, at the same time we face the reality that efficient economic institutions does not necessarily result in the demand for them, even when the economic actors are aware that society as a whole will be more efficient if the institutions are better. This is because each new institutional arrangement creates winners and losers, which is why the latter seek to protect their present positions, thus they will not strive to change the existing institutions. In this way, society will not be able to understand the relative effectiveness or ineffectiveness of alternative institutions, which means that the implementation of institutional changes will not be successful. In essence, this is a classic example of the situation where the effects of informal institutions, which are in accordance with the specific interests of the ruling groups, are more dominant in a society. Namely, the successful institutional reform takes place when the society expresses profound need for institutions.

Fukuyama [4] points out that insufficient domestic demand for institutions or institutional reforms is one of the biggest obstacles to institutional development in poor and developing countries. The demand for institutions in these countries is usually a result of a crisis or the extraordinary circumstances when it is necessary to carry out reforms. Institutional reforms in these countries can be encouraged externally, by the eligibility requirements imposed by the donors, international financial institutions or, in certain situations, countries that have seized the sovereignty in unsuccessful, ruined, or occupied

countries. An example of a country that has contributed to the creation of the permanent institutions in a number of its colonies is the United Kingdom, which had most directly implemented successful institutional reforms in India, Singapore and Hong Kong, which resulted in considerable economic growth in these countries.

What types of institutions will be formed and which rules will be applied in a given society is not possible to say *a priori*. In this sense, Shoter (according to 14, p 71) points out that the institutions - while in the process of formation, are considered as a stochastic phenomenon. This means that the manner in which the actions of individuals are coordinated depends on the asymmetric distribution of negotiating capacities. Thus, it can be concluded that the ambiguity of the results is the product of the nonspecific properties of the negotiation game.

In the process of creating formal institutions, it is necessary to respect the informal rules and their mutual complementarity. Therefore, Pejovich [16] points out that by legalization of informal institutions, institutional changes can be implemented and appropriate institutions established. Such approach, by respecting the key elements of the previous modes of social development and their impact on current and future course of development, avoids the appearance of discontinuity in development - which is not desirable. This is particularly important for transition economies, which face many challenges and problems in establishing the institutional arrangements of their economic and social systems. However, it is necessary to be very cautious in order to prevent legalization of some rules that had a detrimental economic and social effects (e.g. so called "gray economy") under the disguise of legalization of old informal rules from the previous period, in order to ensure that the institutional system will not be established in accordance with the interests of certain social groups. Such outcome would threaten one of the basic principles of institutional order, embodied in the existence of generally accepted rules that make sense only when applied equally to all economic actors at the level of the economic system. Therefore, we arrive to the frequently asked question: is it possible, and at which speed, to eliminate the deeply "rooted" informal norms [17] that, in most cases, result in various forms of quasi-market behavior?

During the implementation of institutional changes, based on the positive practical experiences of other - in majority of cases developed countries, the takeover of the institutions most frequently takes place, in order to speed up the process of institutional transformation and introduce efficient institutions. However, the "transplantation" of institutions creates a real danger that the transformed institutions will not be adequately accepted by the community which overtakes them for the reason of their non-compliance with the informal institutions, thus the conflict between the "transplanted" formal institutions and the informal ones will result in increased transaction costs. North [13] points to the significant implications, which can be produced by "transplanting" institutions, and notes that imitation and transfer of formal economic and political rules is not a guarantee of economic success. The introduction of reasonable formal rules may not lead to desired outcomes, since the success of an economy is a result of a complex set of formal rules, informal norms and the manner of their implementation.

The position on the correlation of economic institutions with all other socio-cultural institutions considers that it is necessary to take into consideration the current circumstances when creating institutional arrangements. Thus, if more radical changes of the economic institutions require appropriate changes of the socio-cultural environment, there

is a danger that the inertia of the environment will absorb the changes in the economic sphere. G. Hodgson [7, p 273] writes about these contemporary economic problems (he writes about the problems of the Western countries, not the post-socialist ones). He points out that the comprehensive radical changes in the past helped to achieve economic growth by overcoming the inertia of the "ossified institutions" that hindered their development. According to Hodgson, the scientific analysis leads to the conclusion that the radical solutions to the deeply-rooted problems that threaten many of the leading industrial countries are required. At the same time, in order to make institutional changes successful, they must be implemented in a synchronized, parallel (simultaneous) and complementary manner, because the successful and developed economic institutions are complementary. Drašković [3, p 51] writes that the forced isolated development of any institution, at the expense of others, leads the economic reforms to a dead-end.

4. CONCLUSION

In terms of the real impact on the development of economic activities, it is often difficult to distinguish between the formal and informal rules. First of all, formality may refer to laws that are enforced by the state and the spontaneously formed (informal) practices and norms. This disparity is present in the works of Hayek [5] as a part of his explanation of the "spontaneous order". This order is the result of many processes of economic exchange, which are limited by the universal codes of conduct, as opposed to rules that are constituted by the state. The term "rule" is used as a generally accepted notion in the new institutional economics, whose task is to prohibit or regulate some form of behavior of individuals or groups of people in their interactions with other individuals or groups.

Informal institutions include a variety of social and moral norms that influence people's behavior, allowing for coordination of expectations in the social and economic exchange. Such established rules are also called "conventions". In this respect we can say that the conventions represent the result of collective choice of people who use past experiences to make a decision on some issue. The nature of conventions is that once the people adopt them, they continue to rely on them even if these conventions do not grant general optimal results. Conventions are considered as a special case of social norms that generally lead to better results, which does not necessarily mean, the optimal results. Therefore, it can be said that the social norms have one thing in common and that is the desire of people to make them socially acceptable, rather than derive them from the rational self-interest. This property makes them a powerful mechanism for avoiding the "prisoner's dilemma" concerning the social choices. Rationality is here defined strictly in terms of economic theory, including the maximization of the utility and recording all information on the moves of another player in even more general terms.

In an effort to establish the desired institutional order, the experiences of contemporary economic systems that show that the highest efficiency is achieved in those cases where both formal and informal rules are harmonized, are very valuable. This comes from the fact that the existence of the clear rules of the game which are supported by the legal system and informal, customary, laws are desirable for successful economic activity. However, although the rules reduce the possibility of conflict, North [13, p 58] indicates that the rules cannot solve all problems, but only simplify people's lives since they set the

framework within which human activities are organized. For rules to be granted by the system of social control, it is necessary to be complemented by the appropriate standards and sanctions to be applied when needed. Because of the interactive relationship between formal and informal institutions, the experiences related to the economic systems have shown that the best results are achieved in conditions of their maximum harmonization and complementary. The most desirable situation is when such social values that contribute to the reduction of the costs for acceptance, implementation and compliance with the legal obligations, i.e. formal rules, are developed.

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INTERAKCIJA FORMALNIH I NEFORMALNIH INSTITUCIJA - IMPLIKACIJE NA EKONOMSKU USPEŠNOST

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Predmet istraživanja u ovom radu je opšti okvir institucionalne strukture nacionalne ekonomije, koju sačinjava sveukupnost formalnih institucija, neformalnih institucija i mehanizama njihovog poštovanja i ostvarivanja. Posebno se razmatra međuzavisnost formalnih i neformalnih institucija i uticaj njihove uzajamne interakcije na poslovni ambijent koji omogućava ostvarivanje odgovarajućeg nivoa ekonomske uspešnosti, kako privrednih i neprivrednih ekonomskih subjekata, tako i ekonomije u celini. Cilj rada je da se, na osnovu razmatranja različitih vidova dejstva neformalnih institucija na formalne, kao i njihovog interaktivnog odnosa, ukaže na neophodnost sprovođenja institucionalnih promena koje će rezultirati uspostavljanjem poslovnog okruženja koje će biti podsticajno za ekonomske subjekte i za podizanje nivoa njihove ekonomske uspešnosti. Na bazi analize interakcije formalnih i neformalnih institucija u različitim ekonomskim sistemima, zaključak rada je da se najbolji rezultati ostvaruju u uslovima njihove maksimalne sinhronizovanosti i komplementarnosti.

Ključne reči: formalne institucije, neformalne institucije, ekonomski sistem i ekonomski subjekti, komplementarnost, efektivnost, efikasnost.