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CONFERENCE REPORTS

INSTITUTIONS AND CHANGE
(ISNIE Conference)

The International Society for New Institutional Economics (ISNIE[1]) held its 7th annual conference in Budapest on 11–13 September 2003. The panels of the conference concerned all fields of NIE. Therefore, compared to the previous years, more presentations dealt with the role of norms, cultural traditions, behavioural rules, trust and political institutions. The annual conference provided evidence for the emergence of new focuses besides traditional research lines. Out of the six sessions of the conference, one was organised by the Hungarian Society for New Institutional Economics. Each session had 3–4 panels, and altogether 94 presentations were given on varied and colourful topics. Several distinguished researchers and scholars attended the conference and gave presentations as well.

The thread of New Institutional Economics

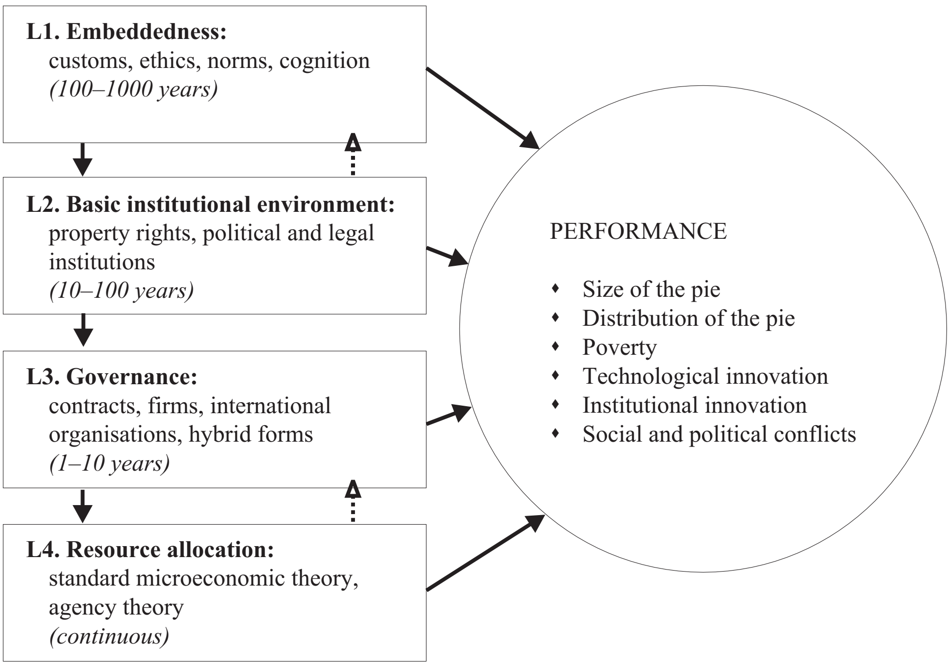
Paul Joskow,[2] the outgoing president of ISNIE gave an overall review of the core ideas, development and problems of this new, fast-growing branch of economics. The title of his presentation was *New Institutional Economics: A Report Card*.

1 The ISNIE was founded in 1997 in order to stimulate the research in the new institutional economics and make contacts between researchers. The name of NIE originates from Douglass North, who distinguished this new branch developing since the early 1970s from the old American institutional economics (Veblen, Commons). The broad research field of NIE includes the analysis of economic, social, and political institutions: why and how they evolve, what purpose they are used for, why and how they change. NIE basically remains in the framework of neoclassical economics, but also aims at redefining its traditional borders. The first two presidents of ISNIE, Ronald Coase and Douglass North won Nobel Prize in Economics. The ISNIE is one of the most influential and important economic societies nowadays. For further information visit the official website: http://www.isnie.org.

2 Paul L. Joskow, Professor at the Massachusetts Institute of Technology. He earned his PhD from Yale University in 1972. He is the director of Center for Energy and Environmental Policy Research at MIT, the scientific advisor for the National Commission on Energy Policy,

In Joskow's opinion a great advantage of the NIE is that the approach can be applied to the developed, transition, and developing countries, too. He decided not to apply the American institutional economic approach to analyse the different institutions due to various reasons. First, because it lacks rigorous and systematic theoretical foundations and complementary supporting empirical analysis, second, because it tends to become politicised and driven by political agendas, and finally, its country-specific results are difficult to generalise.

Consequently, Joskow chose to apply the theoretical framework of Williamson (1998), and made some supplements to describe the areas of NIE. He distinguished four levels of social analysis (see the *figure* below).



Note: Solid lines indicate direct impacts, broken lines mark indirect and time-lagged relationships.
Source: Joskow (2003).

Williamson's four levels of social analysis

member of the American Academy of Arts and Sciences, and fifth president of ISNIE. His field of research covers industrial organisation, economics of energy and environment, competition policy and regulations. He published five monographs and more than 100 articles, among them several articles in the most prestigious journals.

The first level is related to embeddedness, where customs, norms, religions, and traditions play the major role. At this level social changes take place very slowly (in 100–1000 years), consequently most economists regard these as external and unalterable conditions. Basic institutions, typically changing within a time span of 10–100 years, form level 2. Basic institutions consist of constitutions and political systems, laws, courts, enforcement of human, political and property rights, as well as the formal rules of the game analysed by the economics of property rights. Besides, money issues, financial systems, rules of migration of labour forces, international trade and capital flows also belong to this level of analysis. The next level (L3) deals with governance: the play of the game. Markets, firms, and hybrid forms change considerably within a 1–10-year period. Questions related to contractual relations, organisational boundaries, corporate governance and finance arise at this level, to which transaction-cost economics provides most of the explanations. Level four is the field of standard neo-classical analysis, where decisions on resource allocation are made continuously. There are interactive relationships between the four levels, lower levels adjusting at a lower speed to upper ones. All levels of Williamson's framework are equally important in getting a comprehensive picture on the performance of the economy and society in general. Each level has an impact on various aspects of economic performance: the level and distribution of production, technological and institutional innovations, poverty, and social, political conflicts.

Joskow drew attention to the tendency that the NIE mainly focuses on the second and third levels (80% of the presentations in Budapest could be classified as belonging to these levels). On the one hand, the NIE has made substantial progress in many areas, such as vertical integration (make or buy decision), contracting, property-right issues, regulatory institutions, their design, their effects, etc. On the other hand, the NIE disregards the importance of the first level (embeddedness), the role of norms and customs. Likewise, there has been less research conducted to understand the internal organisational structure, migration, and globalisation in a large context.

In the following some examples from the traditional thread (level 2 and 3) of the NIE will be cited.

Horst Feldman (University of Tübingen) presented a paper entitled *Labour-market Regulation and Labour-Market Performance* examining the three major types of labour-market regulation in 36 countries. His results showed that the statutory minimum wages, working-time regulations, hiring and firing regulations increase the rigidity of the labour market, which may lead to higher unemployment mainly among problematic groups, i.e. low-skilled, long-term unemployed, young, and women. Pablo T. Spiller (University of California) talked about another side of labour-market regulation, the influence of interest groups over judicial decision-making in labour law in Argentina. In his paper *It Takes Two to Tango* he provided a model showing conditions for which the intensity of strikes and public demonstrations can ultimately affect policy.

In his paper *The Long-term Transformation of Entry Barriers in International Trade,* Ádám Török (University of Veszprém) discussed the concept of entry barriers (EBs) from an international perspective in historical context. After an overview of different approaches of EBs, he argued that "old" natural and artificial EBs (e.g. customs) are becoming irrelevant in the age of the "New Economy". On the contrary, the "new" strategic EBs erected by competitors are playing a major role at the international market level today. Most of them are not easily definable and hard to be recognised, such as a strategic bluff regarding technical development.

Philip Schuler (World Bank) examined how different institutional environments affected international trade during transition from socialism in Eastern Europe, in his study *Institutions and the Composition of International Trade in the Post-socialist Transition*. As statistical comparison showed, the decline in output in each country was due to weak institutions, in most cases to insufficient enforcement of property rights. The central issue of Harald Trabold's (DIW, Berlin) presentation was international trade in a broader perspective. In his paper *The Role of Property Rights, Transaction Costs and Network Effects in Foreign Trade Intermediation* he tried to answer why trade intermediaries are intensively used as agents for exporting goods to some countries, but not to others. Results of his econometric model confirmed that three key factors explain the existence of intermediaries; non-enforcement of contracts, transaction-cost reductions through the exploitation of economies of scale, and reinforcement of trust in formal and informal networks. Gary D. Libecap (University of Arisona) shed light on another aspect of transaction cost and property rights in his presentation *Transaction Costs and Resistance to Water Rights Transfer*. Through the example of water transfer from Owns Valley to Los Angeles, Libecap showed the influence on the current efforts to re-allocate water, and then examined the actual social benefits and costs of exchange to determine if its negative legacy is warranted.

Bertrand V. Quélin (School of Management – HEC, France) discussed the relevance of transaction cost at corporate level in the presentation *Outsourcing and Relational Contract: Why Do Firms Contract Out?* Outsourcing, which can be defined as a hybrid form of governance that rests on complex, long-term contracts, is influenced by five factors distinguished in his research: cost savings, past in-house investments and core activities, bureaucratic costs and relative efficiency, uncertainty, and contract duration.

Dalia Marin and Thierry Verdier (Ludwig Maximillian University, Munich) examined the reasons behind the enormous amount of reorganisation in the corporate sector of the US and Europe in their paper *Power Inside the Firm and Market*. They found that at low and intermediate levels of market competition, the CEO decides to delegate control to lower levels of the firms' hierarchy. Their model predicts higher numbers of mergers and outsourcing (reorganisations) when countries become more integrated into the world economy.

Session organised by the Hungarian Society for NIE

The first lecturer in the session organised by the Hungarian Society for New Institutional Economics was Péter Mihályi (University of Veszprém and CEU), who shed light on some controversial ideas of mainstream corporate governance (CG) theory. In his presentation entitled *Corporate Governance from a Post-communist Perspective* Mihályi argued that the scandals of Enron and WorldCom, and the unpredictable nature of the inherently volatile stock markets indicate that stock prices cannot display the real success of CG in the long run. Another conclusion that can be drawn from the experience of post-communist countries is that in small securities markets (such as Hungary, Poland, Slovenia, etc.) the lack of liquidity is an additional impediment to growth and domestic business corporations.

The drastic change of Hungarian labour market in the 1990s was characterised in Katalin Szabó's (BUESPA) presentation entitled *Nomad Employees Riding Several Horses.* Reorganised domestic firms and incoming foreign companies increased their demand on contingent work substantially after the change of regime. Because of spontaneous and casual legal regulation and path dependency, the proportion of the contingent (atypical) employment in Hungary is about half of the average in the European Union.

In her paper *Can Bureaucrats Substitute for Private Investors?* Judit Karsai (Institute of Economics, HAS) examined the role of venture capital in the financing of Hungarian innovative firms. State intervention was inefficient in Hungarian venture-capital industry due to its isolation from the private sector, and because intervention practice was contrary to efficient indirect intervention of the EU in several respects.

The examples above illustrate only a small fraction of the extremely colourful and varied presentations and papers of the ISNIE conference. Major benefits of the NIE are that the importance of institutions in understanding economic performance is more widely understood today, and the research of institutions was "smuggled back" in the neoclassical economics framework. New questions arise, and old problems are examined in new contexts. However, László Csaba (CEU) mentioned a misleading interpretation of NIE in his presentation when he argued that an economy cannot develop merely because institutions are created in one standard scheme. No simple ways exist for economic development. Mary M. Shirley, the incoming president of the ISNIE confirmed in the conference that less progress has been made in NIE to analyse why institutions vary in different countries and how they evolve. NIE should entirely answer three major questions in the future: "What explains why poorer countries have underdeveloped institutions?"; "Which institutions matter most of development?"; and "What can countries do to improve their institutions?".

New Focuses in New Institutional Economics?

The lectures of two Nobel Laureate professors, namely Douglass C. North[3] and Vernon L. Smith[4] examined the relationship between the subjective elements of human behaviour and the evolution of institutions. This should be regarded as a common "new focus" in their research work. This line of research was continued by some panelists who also discussed the issue of norms and traditions. The second novelty was the explicit investigation of the problems of the new economy. Third, the question of the political institutions was analysed at greater length as well.

The title of Douglass North's lecture was *Understanding the Process of Economic Change*. He has spent more than 50 years pondering on complex variations of a simple question: Why do some countries become rich, while others remain

3 Douglass C. North is Henry L. Luce Professor of Law and Liberty at Washington University in St. Louis since 1983. He earned his doctorate in Economics in 1952. He began his academic carrier at the Washington University in Seattle where he spent 33 years. He received the Nobel Memorial Prize in Economic Sciences in 1993 for the renewal of the research in economic history. In 1987 he was elected as member of the American Academy of Arts and Sciences and in 1996 as Fellow of the British Academy. He served as president of the Economic History Association, the Western Economic Association and the ISNIE. His research has focused on the formation of political and economic institutions and the consequences of these institutions on the performance of economies through time, including such areas as property rights and transaction costs. North is the author of 10 books, including *Institutions, Institutional Change and Economic Performance* (1990), and of more than 50 articles. His most recent research is forthcoming in a book titled *The Process of Economic Change*.

4 Vernon L. Smith is Professor of Law and Economics at George Mason University. He has been a Nobel Prize winner in Economics, 2002, for the foundation of experimental economics which enables to do empirical research and test market mechanism in laboratory. He received his bachelor degree in Electrical Engineering, and his PhD in Economics from Harvard. He was president of numerous economic associations (among others the Public Choice Society and the American Economic Association). He serves and served on the board of editors of many economic journals. He was elected as member of the National Academy of Sciences in 1995. He has authored and co-authored over 200 articles and books, on capital theory, finance and natural resource economics and experimental economics.

poor? The idea behind this question is that economic and political institutions influence economic development and change. In Budapest, Professor North talked about an understanding of economic change, more precisely about how institutions influence economic development. As a starting point he argued that an increase of the economic performance requires an understanding of the institutional change.

North has a broad concept of institutions: "Institutions are the humanly devised constraints that structure political, economic and social interaction" (North 1991, 97). It includes cultural, social and cognitive processes that serve as norms in human interactions. North laid stress on the interaction among the three elements of institutional environment, namely formal rules (law), informal rules (behavioural norms) and enforcement rules, and on the relationship between them and economic performance. He emphasised that the imitation of rich countries' informal rules do not lead to the increase of economic performance in case informal and enforcement rules are not to be changed. Accordingly, there are no schemes that could be used irrespective of the institutional environment. He also emphasised that past experiences tend to be problematic because institutional change is constrained by path-dependency. North concluded that formal, informal and enforcement rules operate differently under different circumstances.

In his lecture, North argued for the importance of ideology, mental models and beliefs. He made mention of Muslim countries, whose relatively poor development may be seen as a consequence of their belief system. For this reason, he argued, it would be important to analyse the cognitive and mental framework in economics. Recently, North itself has strived to integrate insights from cognitive sciences into economics. It has to be noted that North does not take institutions as given, instead, he focuses on institutional change itself, in which ideology, path-dependency and learning are important elements.[5] This research line differs largely from his previous lines where he applied transaction costs and property rights in a neo-classical analysis of economic history. Since his 1990 book North has deviated from neo-classical roots (Vandenberg 2002) by arguing more and more for the importance of cognitive elements and uncertainty, and by analysing non-efficient situations. His views, in many respects, are rather close to old American institutionalism, especially to Commons' views, thus bridging old and new institutionalism (Groenewegen et al. 1995). For these reasons, North's ISNIE talk

5 "History matters. It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions. Today's and tomorrow's choices are shaped by the past. And the past can only be intelligible as a story of institutional change" (North 1990, vii).

offered an exciting confrontation, his argument being, in many respects, different from those at the core of NIE.

In his lecture entitled *Markets, Capital Markets, and Globalisation,* Vernon Smith, the pioneer of experimental economics, talked about markets and the relationships between globalisation and markets. First, he dealt with commodity markets. In his laboratory experiments he found them extremely efficient because actors were able to exchange goods in a very efficient way. Exchanges can be personal and impersonal through markets. Of these he discussed impersonal exchanges.

According to Smith, the hallmark of commodity and service markets is diversity in tastes, human skill and knowledge, and natural resources. This diversity, through the exchanges, contributes to our well-being. The professor argued that, for instance, when tribes recognised that it was better to trade with the neighbouring tribes than to kill them, they were taking advantage from trade. Vernon Smith pointed out that freedom is an important feature of the market since diversity requires tolerance. He also emphasised that trade leads to specialisation while offering direct economic advantage, but it also leads to mutual dependence that influences individual well-being indirectly through the use of common social and economic rules. These formal and/or informal rules, behavioural patterns help markets to operate efficiently, and as a consequence, help economic development.

While commodity and service markets are the foundations of present wealth, stock markets, which serve by supplying capital for new consumer markets, set the stage for the creation of new wealth. In the second part of his lecture, Smith talked about the nature of stock markets. Capital is needed by producers of new products supported by new knowledge and technology. External financial possibility provided by stock market offers growth opportunity for investors, while financial investors take risk for a higher income. Smith argued that capital owners invest into the products of the future, which includes uncertainty and the risk of failure.[6] Stock markets are inherently far more uncertain than markets for commodities, which is especially fuelled when new industries emerge and offer big potential profits. This contributes to bubbles.[7] Professor Smith placed particular emphasis on the close interrelation of commodity and service markets and stock markets.

The last topic of the lecture was about globalisation. Smith thinks that globalisation is not a new phenomenon, but rather a modern term describing an an-

6 For instance, as Smith argued, his hometown, Wichita, had 11 airplane manufacturers in 1929, none of them carrying the names of Beech, Cessna, Stearman. A decade later these were the surviving three names that made Wichita the national centre of that new industry.

7 19th century brought the steam engine, nowadays it is the Internet and other communication systems that offer new growth opportunity for firms.

cient human movement, the world-wide expansion of resource specialisation, which is determined by the extent of market development. Professor Smith discussed his views in a historical context. In ancient ages globalisation was embodied in the migration process. Our Cro-Magnon ancestors moved out of Africa 125,000 years ago and settled in the Iberian Peninsula and Europe. Early people traded with tools, weapons, symbols, and customs. Commercial and cultural trade brought economic development and contributed to the specialisation of labour, which constitutes the basis for exploiting comparative advantage. Briefly, globalisation means in the Smithian sense a process in which commodity and stock markets develop and the international exchange of labour and knowledge becomes more and more intensive. This increased and increases the efficiency of resources allocation. As Smith pointed out, globalisation plays an important role in economic development.

Both Nobel Laureate Professors' lectures were very exciting because they brought new ideas into NIE. Their invitation to the ISNIE conference may foreshadow that the core of NIE are becoming more and more open to new ideas coming from outside of it. Therefore, the major part of researches remains in the framework of neo-classical economics, as the panel presentations showed.

Some presentations in panels went on analysing the issue the two Nobel Laureates talked about. In his presentation titled *Institutional Choice in Social Dilemmas – An Experimental Approach,* Ivo Bischoff (University of Giessen) analysed the relationship between behaviour and institutions by using experimental economics. His concern was about how to escape the tragedy of the commons. His results contradict elementary economic reasoning: the groups who were given the right to change the rules performed poorer than the control group.

The main purpose of Matthias Erlei's presentation *Heterogeneous Social Preferences* (Clausthal University of Technology) was to demonstrate the usefulness of social preferences in explaining economic behaviour. He concluded that the heterogeneity of social preferences plays an important role in explaining many deviations of laboratory behaviour from game-theoretical predictions. He emphasised that the concept of the heterogeneity of social preferences can explain most behavioural anomalies.

All presentations of the panel *Morals, Norms, and Culture* dealt with North's concern. Benito Arrunada (Universitat Pompeu Fabra) analysed the influence of *The Economic Effects of Christian Moralities.* He stated that Catholicism and Protestantism exert on economically relevant values and argued that Catholic theology facilitates personal transactions. Conversely, Protestantism favours values and enforcement better adapted for impersonal trade. This hypothesis was supported by empirical data. Many exciting questions were analysed regarding the character of institutions and the enforcability of contracts the two theologies support.

John Drobak (Washington University) and Vojtech Cepl (Charles University) talked about *Norms, Culture, and the Rule of Law*. The two authors examined various factors underlying the norms that support the rule of law. A significant question in their research was the investigation of the problem of how the acceptance of the rule of law and the norms affect enforcement costs.

In their presentation titled *Culture Rules: The Foundations of Rule of Law and Other Norms of Governance* Amir Licht (Interdisciplinary Center Herzliya), Chanan Goldschmidt and Shalom Schwartz (both from the Hebrew University of Jerusalem) gave evidence about relations between national culture and social institutions. They operationalised culture with data on cultural dimensions for 54 nations about three basic social norms of governance: the rule of law, corruption and accountability. The results show that these norms correlate strongly with national scores on cultural dimensions and also differ across cultures. This suggests a framework for understanding the relationships between fundamental institutions.

David Rose (University of Missouri) gave a presentation with a title *The Moral Foundations of Economic Behavior and Development*. He argued that ethical constraints provide the true moral foundation for economic behaviour in a market economy, they reduce transaction costs and opportunism. According to Rose, there are two problems associated with ethical constraints. First, our natural sense of ethicalness provides an insufficient standard of moral behaviour. Second, the benefits derived from transacting with ethical people are non-rival, so ethical constraints tend to be suboptimally provided. Societies that solve this public-good problem are more likely to enjoy high levels of economic growth and development.

The researchers of the panel *Trusting Experiments* used experimental economics in their researches. Anders Danielson and Håkan Holm (both Lund University) discussed in their paper entitled *Tropic Trust and Nordic Trust* the results of Trust and Dictator games conducted in Tanzania and Sweden. In a paper entitled *Social Norms and the Market: Evidence from Economic Experiments Around the World* Jean Ensminger (California Institute of Technology) explored the relationship between fair behaviour and trust on the one hand, and market institutions on the other. The author used experimental economic data from 16 small-scale societies.

Besides the researches on behavioural and experimental economics, a special attention was given to the issue of the New Economy in the panel of *New Technologies, Old Contracting*. In his presentation entitled *Mobile Phones, Internet, and the Institutional Environment,* Veneta Andonova (ITAM) investigated the determinants of Internet and cellular-phone penetration levels in a cross-country setting. The asset specificity argument was proposed as an explanation of the differences in the degree of technology adaptation. While Internet could be characterised with high risk of expropriation because of asset specificity, and its development depends crucially on the institutional environment of the country, the contrary goes for cellular phones.

Rachel Bocquet and Olivier Brossard (both from the University of Savoie) also discussed interesting questions in their paper entitled *Determinants of IT Adoption, Organisational Change, and the Nature of the Firm: An Empirical Study of French Survey Data.* They used French survey data on firms' IT equipment. The purpose of their research was to test a model of complementarity between technology, organisational innovations and environmental influences as well as to test the relevance of contractual and evolutionary-cognitive theories of the firm. Their results show that firm behaviour cannot be described by a unique model, i.e. both theories could be relevant.

Eric Brousseau's (University of Paris 10) and Thierry Pénard's (University of Rennes) concern was about a new business model in their paper entitled *Digital Assemblers: the Economics of New Business Models*. First, they proposed a framework aimed at contrasting the possible business models to produce modular goods. Second, on the basis of this, they developed a theoretical model aimed at understanding the sustainability of these various models. The results help us understand the new business system that produces modular products that can satisfy consumers' preferences better.

The third "new focus" was on the issue of political institutions. Many papers dealt with the characteristics of political institutions, their development and relationships with other institutions. All these issues were discussed in the panel *Political Contracting: Institutional and Collective Choice*. Fernando Buendia (University of the Americas) presented a paper entitled *Institutional Change, Collective Action, and Cooperation.* He emphasised that institutional change, collective action and cooperation are closely related. The connection comes from the fact that both democratic institutions and norms of behaviour are collectively chosen. However, collective action requires a solution to the cooperation problems. The author proposes a theoretical alternative to escape from the non-cooperation trap.

Gerald Hosp (University of Freburg) in his presentation entitled *The Media Rent-Seeking Society: Differences in Democratic and Authoritarian Environments* discussed an interesting problem: what limits the informational rent-seeking behaviour of governments in media. His results show that democratic governments use both formal and informal tools to influence mass-media. Authoritarian governments, on the other hand, favour more formal forms of controlling the flow of information. Hosp found that the cross-sectional time-series of the former communist countries support these views.

The title of Philip Keefer's presentation (World Bank) was *Democratisation and Clientelism: Why Are Young Democracies Badly Governed?* He examined a framework that combines elements of performance of young democracies and the importance of democratic institutions. The author analysed numerous interesting problems, among others he proved that older democracies exhibit less corruption than other countries. The evidence in his paper suggests that young democracies, where public goods are less important to politicians, are less likely to thrive. Keefer talked also about the issues of vote-buying and credibility.

The above-mentioned three "new focuses" that came to light at the ISNIE annual conference might denote the acceptance of the view that NIE should be more open to capture new ideas in order to be able to provide a better explanation for economic phenomena. The emergence of these "new focuses", therefore, may prove that NIE has become an "established" branch of economics.

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Judit Kapás – György Komáromi

THE LINK BETWEEN DIVERSITY AND DEVELOPMENT PATHS (EACES Conference)

Under the aegis of EACES (European Association for Comparative Economic Studies) the Faculty of Economics and Business Administration of the University of Debrecen (UDEB), the Regional Committee of the Hungarian Academy of Sciences, the Hungarian Society for New Institutional Economics (HUSNIE) and Identity and the Information Economy NSF Scientific School (INFIDENT) organised an international conference on the *Institutional and Policy Diversity – Its Role in Economic Development* on 3–4 November 2003 in Debrecen, Hungary. The primary goal of the conference was to provide a platform for researchers to discuss the issues of institutionalism and global policy management.

Three keynote lectures were given at the plenary session, and 18 presentations within the framework of 3 different sessions (for details and full papers see the website of the conference at http://www.econ.klte.hu/conference). Because of the constraints of space, we shall give you only a subjective summary of the presentations.

The basic question of the first lecture, given by *Daniel Daianu* (President of EACES, and former Minister of Finance of Romania), was the role of diversity of institutions in economic development. How does institutional diversity take shape in policymaking and how does the competition between institutions operate? When examining factors influencing the variety of institutions, one should emphasise the role of ideology, values and culture, which are strongly interconnected. The role of the above factors – all of which constitute an area where the institutional approach may improve rational choice theory – has been also highlighted several times by one of the most distinguished new institutional economists, Douglass North (1992). According to the lecturer, the interaction between social values and policy might cause a cyclical pattern between regulation and deregulation, the signs of which can be seen in Europe and in the US, too.

Looking back at the history of economic thought and practice in the second half of the 20th century, and taking into consideration the experiences of the Eastern European transition economies, one is inclined to draw the conclusion that the factors of economic development need re-interpretation. Building on the truths of neo-classical economics, but also learning from the so-called “New Theories”, new outlines are emerging. As the Endogenous Growth Theory has shown, if the role of decreasing returns is not general, multiple equilibria can emerge, some of which may be “bad” and permanent (the underdevelopment trap). But these new theories have also illuminated the role of such long-forgotten factors as a strong property rights system or the integrity of the public administration (Murphy et al. 1993).

In Daianu's opinion the emerging new paradigm has to include the notion of global governance and policy ownership. The application of these two principles can balance the national level against the global one. As a reaction to a question Daianau admitted that he did not know what kind of institution would be capable and competent to provide such international (global) public goods as stability and security.

Silvana Malle (Head of Division of Non-member Economies of the Economics Department, OECD, and Professor of Political Economy, University of Verona) focused on the question whether institutions matter at all, and if they do, can they be transplanted to other countries successfully? As regards the first part of the question, the answers provided by several pieces of research are unequivocal. The counter-argument says that it is rather the geography and initial endowments of resources that count, and not institutions. A more sophisticated form of this argument is that these factors affect economic performance indirectly, by forming institutions. This (or any other) direction of causality cannot be reflected by simple regressions. Faced with these controversial statistical results one may draw the conclusion that neither argument is really true. Rather, it is the interactions of institutions and factor endowments that determine economic performance. This issue is strongly connected to the second question – how to transplant institutions performing well to other countries. In this process – the lecturer argued – governments should play an active role. Prescriptions for government interventions in developed countries may not work in an environment where the institutional possibility frontier is different (Djankov et al. 2003). But the institution transplanted from outside must be "congruous" with "indigenous" institutions, which is at least as difficult to achieve as to fine-tune the economy. This idea – contrasting the activist view – would give a more passive role not only to the government, but to the economist in the transition process (Boettke et al. 2003).

The lecturer was far less pessimistic. According to her, proper interaction between institutions may be achieved through public debate and "socially shared vision" about where the economy (society) wants to go.

László Csaba (Professor of the Central European University and UDEB) put the "Chinese miracle" under the microscope. Can one consider the Chinese model as an alternative of mixed economy, that is – despite its limitations –, still characteristic of the Western world? Or, in other words, is the market socialist model of China a sustainable route for development? Taking an abstract method of analysis well known in comparative economics, economic models may be compared through time and space by identifying stylised facts of economic systems, and then general conclusions can be drawn.

The model of NEP (New Economic Policy) in Soviet Russia, the self-management model in Tito's Yugoslavia, and the Hungarian New Economic Mechanism allow us to draw a general conclusion. The model of market socialism proved to be an unstable equilibrium, which cannot be sustained for a long time unless special exogenous factors are given. In the case of China these special features such as traditional decentralisation, the still-surviving commercial spirit, and the role of the cross-border Chinese cultural community explain the relatively long-term sustainability of the system, but, on the other hand, they also demystify it. There is no miracle about China – László Csaba argued. If, in addition to the above-mentioned factors, one accounts for the country's potential to catch up and for the statistical manipulations, there will remain nothing unexplained by economic reasoning.

All this does not, however, change the overall conclusion about the future of the Chinese model. The "genetic programme" (Kornai 1992) of the system has only been modified but has not been substantially changed, the potential fall may still be decoded by careful examination.

First session: Institution Building in a Changing Business Environment

The lectures of the first session dealt with very diverse issues, but the main idea was how institutions at the micro and the macro level (should) change to adapt to rapidly changing technological environments.

Joseph Windsperger (Center for Business Studies, University of Vienna) presented an idea based on a study by himself and *Maria Jell* about what determines the allocation of residual income rights where governance structure is given. The starting point of their analysis was a gap in the literature, which gives several explanations for the ownership structure, but fails to explain how residual income rights are allocated under a given governance structure. Windsperger and Jell argued that we could formulate hypotheses when considering this issue from the point of view of property rights and monitoring costs. According to their hypotheses applied in the Hungarian trucking industry, the drivers' proportion of residual income rights is positively related to the extent of the drivers' intangible assets and the extent of the monitoring cost. By the former they mean the drivers' "knowledge of the particular circumstances" in the Hayekian sense. The statistical tests – applying them to a relatively small sample (120 truck drivers) – supported the hypotheses.

László Garai (Head of the Doctoral School, University of Szeged, Faculty of Economic Psychology) and *Margit Köcski* (INFIDENT Scientific School) addressed the question of the relationship between different motivating factors of human beings, namely a craving for money, a feature of classical capitalism, and a craving for status, a feature of modern times. The authors think of the "craving for money" motivation as a rational action: since a higher status gives accession to transactions which are not, or only at a higher cost, realisable at a lower level of social status, it can be a rational choice to "substitute" money for status. After all we are still left with the question of how much to invest in status? To get some kind of answer, we need to have a Measure of Distinguished Social Identity (MDSI). This is why the authors introduced the so-called Values of Distinguished Social Identity (VDSI), whose calculating method is analogous to that of calculating the content of information according to Alfréd Rényi and others. With the aid of this measure and knowing the extent of investment to obtain a particular status, we can compare the motivation of status with that of money. It must be emphasised – according to the lecturers – that the focus has to be shifted from the qualities of human motivation to the relationship between them.

A. H. Roslan (School of Economics, University Utara, Malaysia) concentrated on the social side of transition from traditional to modern society with his co-author *M. Mustafa*: the transformation of such a society causes the social protection provided by the society to cease functioning. This raises the possibility of government intervention to provide social protection. But we have to interpret social protection in a broader sense than economic politicians often do. It is not just remunerative aid, but a state intervention to raise the capabilities of a person. The authors analysed the performance of the fast developing Malaysian economy in great detail, where the average speed of growth has been more than 6% for the past forty years, and evaluated the efficiency of the social protection of the state as it tried to take over the role of the traditional family. One may draw the conclusion that the trends of social change of the Malaysian economy and society (an ageing population, the transformation of social norms, a rapidly changing external environment, and the bigger possibility of shocks coming from outside, but also the growing political pressure for changes) make the current social-protection system inadequate. Because of the fall of the traditional–informal social protection system, the state has to play a key role in constructing a modern one.

Éva Kocsis (Associate Professor of Budapest University of Economic Sciences and Public Administration) dealt with the subject of knowledge-sharing methods in the Hungarian corporate sector. Her paper was partly based on an empirical study made through in-depth interviews with management at selected companies. The learning processes in the joint ventures could be classified according to the relevant coordination mechanisms (market, hierarchy, reciprocity). It is important and also possible to make a distinction between individual learning and organisational learning, the latter being a collective phenomenon.

Mária Újhelyi (Assistant Professor, UDEB) focused on the role of leadership in the process of organisational change. A regional empirical study confirmed the theorem of the management theories that the democratic type of leadership is more productive than the autocratic one. Thus the successful change management could be characterised by open communication instead of secrecy and manipulation, by support and training instead of pure enforcement, and by active participation instead of enlightened reform dictatorship.

László Tóth (Researcher, INFIDENT) emphasised that as a result of the specific nature of information-based products, the buyer is unable to inspect the product before purchasing, thus there is a need for other clues to decide whether to go ahead with the transaction. Therefore complexity-reducing and cooperation-aiding psychological mechanisms – such as trust, for example – become a focal point of interest. The importance of trust had been discovered by economists a long time ago, however, it has only recently become necessary to investigate the role of this factor in the process of cooperation, in the market and in internal organisational transactions.

Second session: The Role of National Policies in a Globalising World

The session focused on the different aspects of economic policies confronting the challenges posed by the internationalisation of the world economy.

Zoltán Ádám (Research Fellow, Kopint-Datorg, Budapest) analysed the subtle relationship between FDI movements and the policies of the governments during the transition period. He classified and compared post-socialist countries on the basis of the autonomy and capacity of state intervention, which influenced official policies towards FDI movements. The most telling case is the comparison between Slovenia and Hungary: there are sharp differences between the organisation and the bargaining power of the interest groups and employer's associations. Moreover, the sequencing of the economic policies also differed: Hungary started a comprehensive microeconomic reform at the beginning of the 1990s, whereas Slovenia introduced a macroeconomic stabilisation programme. The striking discrepancies between the institutional structures determined the privatisation strategies and thus the room for manoeuvre of the big foreign companies in the country.

Miklós Szanyi (Senior Researcher, Institute of World Economics of the Hungarian Academy of Sciences) emphasised the importance of the new Hungarian FDI strategy. The dynamic economic growth during the second half of the 1990s had been based on massive capital inflows into the export sector. At the beginning of the new decade the macroeconomic environment deteriorated, which triggered fresh challenges for economic policy. The increasing explicit and covert repatriation, the excessive wage outflows, the worsening competitiveness and the unstable global economy fundamentally altered the attractiveness of the Hungarian economy. To restore investors' confidence – as he stated –, new initiatives and reforms are needed in the fields of human capital and physical infrastructure.

The globalisation of the financial markets brought along serious dilemmas which were addressed by *Tamás Csányi* (School of Economics, Dunaújváros, Hungary). The dematerialisation of wealth, the virtualisation of money flows and the rapid technological development of financial innovations have posed original challenges for the economists and market analysts. The option and the feasibility of a single world currency was among the conclusions discussed.

In his lecture, *György Komáromi* (Senior Lecturer, University of Veszprém) examined the question whether there has been a bubble on the Hungarian stock exchange during the past ten years. Taking the traditional definition as a starting point of the analysis, one would try to identify the main characteristics, given by the definitions, in the two peaks of the BUX. It is not easy to say whether these criteria are present or not, even if one uses new methods, as did the lecturer by applying co-movement indices and turnover velocity. What is more, in the case of the criteria concerning the role of speculation, it is an impossible task, because speculation and investment are not separable on the stock market. So, according to the lecturer, the traditional definition does not really help us identify bubbles, neither in process (which is made impossible not only by this definition, but also by the efficient market hypothesis) nor *ex post.* To draw a clear boundary between bubble and non-bubble phenomena *ex ante,* we have to take into consideration the real effects of the extreme price movements. Conclusively, if one liked to come up with information about bubbles useful to policy makers, it is not enough to consider the phenomenon in a narrow sense.

Meyer Dietmar (Professor of Macroeconomics, Budapest University of Technology and Economics) focused on human capital, probably being the most important factor of production after the eastern enlargement of the EU. He emphasised that the redistribution of human capital can take place not only through physical migration, but also by applying the new information technology (e.g. telework, telecommuting). The lecturer illustrated this with a simple model well-known from game theory. The basic implication of his argument was that the new member states should protect their human capital assets until the end of the real convergence process. Against the commonly held notion he argued that the postponement of the full liberalisation of the labour markets would be of vital interest to the accession countries rather than to the present EU member states.

The co-author of this report, *László Jankovics* (Assistant Lecturer, UDEB) analysed the feasibility and optimality of the recently announced government plan for the adoption of the euro in Hungary by 2008. It is important to bear in mind that the maturity of Hungary for the introduction of the single currency – taking into account the traditional economic theories – can be evaluated as sufficient. The similarity of economic structures and their embeddedness into the European economy are convincing signals for the development of the process. Although fulfilling the Maastricht criteria would need sacrifices, the solid policies required also serve the interests of the accession countries.

Károly Mike (PhD student, BUESPA) presented a paper co-written by *Balázs Nagy* (lawyer, Office of the Prime Minister). Their study applied the results of the economic analysis of law to legal rules regulating damages in Hungarian Civil Law, by focusing on the specific issue of extra-compensatory damages. The paradigm for extra-compensatory damages in the law and economics literature is the American institution of "punitive damages". A basic model for determining the efficient level of damages was offered, and then extended in various directions to examine the extent to which the American legal practice is justified theoretically. The conclusion was that extra-compensatory damages would help achieve efficient prevention, which is one of the most important justifications for having liability law at all.

Third session: The Impact of Accelerated Technological Development on Institutions and Policies

Ion Stancu, Tudor Nistorescu and *Catalin Mihail Barbu* (University of Craiova, Romania) gave the first lecture on what could be an optimal strategy for an agricultural company in Romania. First of all, one has to analyse the environment of such companies from the political, legal, technological, social and cultural points of view, but the characteristics of the transition process of the past decade also have to be considered. To show the depth of the problem, one can pick shocking statistical data: the proportion of the active population employed in agriculture rose from 27.5% to 40.8% during the past 13 years. Using the results of the environment analysis we are able to describe what the main features of a successful agricultural company are, and what its sustained development path looks like, starting from production towards market orientation.

Measuring quality in the IT sector was the basic problem which *Áron Négyesi* (Assistant Researcher, UDEB) addressed in his presentation. The features of the knowledge economy make traditional indices more and more unable to account for the quality change experienced by consumers. Since decomposing volume indices into price and quantity indices is clearly not evident, it is more appropriate, according to the lecturer, to take the indirect approach. When seeing quantity index as a ratio of volume and a price index, the main task is to find a proper method to calculate the latter. While reviewing several methods, the lecturer focused on the so-called hedonic one. Thinking of a product as a bundle of characteristics, one can run a regression between the different levels of these characteristics found in the sample and the prices of the products. In this case we are able to make a differentiation between price and quality movements. Finding basic characteristics to encompass new products, too, lies at the heart of this method.

Among the questions examined in Session Three, understanding the relationship between the firm and its environment was a crucial one. Whether business relationships are institutions – was a question raised by *Tibor Mandják* (Researcher, Bordeaux Business School, France). He interpreted the business relationship with the so-called Interactive Model. According to this model one can imagine business relationships as long-term ones, based on short-term episodes of exchange between organisations including their technology, structure, strategy and the individuals inside them. Such a relationship is certainly not unique in the economy, but is influenced by the environment that represents the mezo-level. Relationships are not directly embedded in this environment but through the so-called atmosphere characterised by the power, dependence, cooperation, closeness and the expectations of the participants. With the help of this model and empirical research we can draw the conclusion that business relationships are not institutions but are influenced by them.

Thus business relationships are no longer spot markets, but not yet firms. To understand these so-called internal hybrids, which exhibit the characteristics of both the firm and the market, we have to extend the Williamsonian framework – argued *Judit Kapás* (Associate Professor, UDEB). The main characteristics of such a new type of firm are the vanishing authority relations, vague boundaries, and new combination of coordination mechanisms. To contribute to the process of creating a general theory of market, network and firm, she introduced the notion of "firm-ness". This refers to the degree to which the attributes of the ideal type are present in a governance form. Thus the different forms of firms (including internal hybrids) can be interpreted as exhibiting different degrees of firm-ness. From this point of view internal hybrids are the outcomes of the optimisation of the degree of firm-ness – given the conditions of the knowledge economy.

Andrea Rózsa (Assistant Lecturer, UDEB) presented a new approach to internal firm resource allocation. This real-option approach, developed in the 1980s, can be viewed as the unification of the two post-World-War II disciplines: strategic management and capital budgeting. Real options are the flexibilities embedded in the (physical, human) assets of the firm, which make it capable of responding to future events. From this broader point of view one can interpret just-in-time systems in a new way, namely as knowledge-based or capability-based strategies, which are more than a collection of flexibility options. Thus looking at the relationships of strategic investment, technology and corporate strategy as real options, one can conclude that it is not enough for a company to concentrate only on the technological side of the JIT systems.

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