

Education and „The New Institutionalism” – The Paradigm of Economic Development within the Context of European Integration

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Abstract. We shall open this paper with reference to the book “*Understanding the Process of Economic Change*” by D.C. North being considered of reference in the issues which are subject to research („there are some fundamental characteristics of successful economic development which are common for all the economies but at the same time there is no universal pattern to reach these results”-North). How can poorness be explained in most of the states of the world where the sources for economic growth are known? The human failure and the institutional framework have a special contribution in finding solutions in order to obtain economic growth and implicitly the growth of economic development. The article makes references to the institutional framework and its importance for the economic development of a country, to the educational organizations and to their contribution to the economic development. Viewed from a reactive factor of development, *the education has become proactive*. This is because the perspective of education has been accentuating more and more, called in to prepare the people for types of societies which have not existed yet. The gap within the field of education has a fundamental character in maintaining and emphasizing the gaps between the social – economic development of different countries.

Keywords: education, institutionalism, economic development, progress, rules

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1 Introduction

Even from the time of Adam Smith, education was thought to be an element contributing to the economic and social equality. Even before Adam Smith, there had been references in the specialty literature referring to the role of the education in this direction. William Petty was among the first persons to promote the fair distribution of education. Some Mercantilists supported main stream education with the aim to improve mainly the productivity from the agricultural field and the progress of the society in general. During the 18th and 19th centuries, the school reformers from the USA favoured the spread of education among the poor. One of them saw school as an instrument to reach justice and equality of all opportunities and to remove poverty.

A long time ago, Simon Kuznets foresaw the fact that the distribution of income in the capitalized countries would be equitable the more educated the working force was. Theodore Schultz, in a study entitled “The Economic Value of Education”

emphasized: “these changes in the human capital represent the basic factor in reducing inequality from the distribution of the income”. The education has proved to be vital in the economic progress and in the improvement of economic equality. A group of specialists have reached the conclusion that the most important factor of income inequality is the human capital.

2 “The New Institutionalism” – a new paradigm of the development

An economy may be characterized by means of innumerable demographic, economic, institutional and technological statistics but what is really needed for us to know is the interaction among them. Why do we make references to these things in relation to education? It is because the basis of this interaction is represented by the *stock of knowledge* which the society possesses; firstly it is the *institutional framework* which establishes the set of play rules and the *demography* which describes the quantity and quality of the human beings. This stock of knowledge determines the superior potential related to the wellbeing of the society and the institutional framework determines the simulation structure of society. The centre of the study for North and for the improvement of economic performance is surely the effort of the human being to control the interaction of these three aspects.

Institution is the term the evolutionary (institutional) economists use to describe normal behaviours, common to the people in the society and to describe the ideas and values associated to these regularities. There are numerous phrases that can define “the institutions” or “an institution” like: a use has become axiomatic by means of repeated use; collective action which controls an individual action; drawing social behaviours which are very standardized; a way of thinking or of action found in the behaviours of a group or in the traditions of people; pre-established common aspects of an associated behavior¹. But none of these definitions offers to the term an equivalent sense used by the evolutionary economists.

The main aim of the institutional analysis within the context of education is to investigate the miscellaneous institutional frameworks within which an economic development can take place. Moreover, Picciotto and Wiesner (Picciotto & Wiesner, 1998) see the “new” institutionalism as the appearance of a “*new paradigm of the development*” which considers the institutions and organizations to be basic determiners of the economic, social and political process. The organizations and institutions find themselves in a strong interdependence, whereas the educational organizations together with the political and social ones serve as agents of the institutional mutations or as fructification factors of the opportunities created by the institutions. (Pohoță, September 2006)

The question „*Why are some countries richer than the others?*” is crucial for the economic theory. Starting with the 18th century, there has been proposed a lot of theories and models of economic growth and development with different echo upon

the real economic processes. The source of the economic growth, different in the approaches of the most important theoreticians, has been considered to be the work division for A. Smith, the accumulation of the capital for K. Marx, the innovations for J. A. Schumpeter, the rate of economies and investments for R. Harrod and E. Domar. The neoclassic pattern of R. Solow explains the difference between the developed countries and the countries in on-going process of development by the differences in the efficiency to combine the factor of work, capital and of the new technologies. J. Stiglitz explains it through the efficiency of the functioning of the private and public sectors as well as through the level of development of the civil society and of the individual by means of the educational and health systems.

D. North and R. Thomas have offered a totally different hypothesis: the named factors – innovation, the scale economy, education and capital built-up etc. - are not causes of the growth but they represent growth itself. The differences among the national economies as related to growth and economic development are due to the development level and the nature of the institutions. Because any transaction is done in certain political, management and cultural conditions which impose certain behaviour restrictions thus influencing the efficiency of the economic activity. It is 30 years since the launching of the hypothesis, but still an integral institutional theory of the developments has not been created yet. The explanation could be seen in the prior orientation towards economic reform, partially politic and the ignorance of the truth that the market economy is characterized by certain cultural traditions reflected in the institution. Their lack or the insufficiency determines, to a certain extent, the costs of transition and thus the possibilities of the further development.

The greatest merits in promoting and arguing the role of the institutions, which is of importance for our approached subject, belong to D. North whose activity has received the maximum qualifier for the economists – the Nobel Prize. Practically, there is no publication which has not directly approached the institutional theme and which has not cited D. North. In his paper, „Institutions, Institutional Change and Economic Performance”, he gives sufficient arguments in favour of the reconsideration of the institutions; moreover D. North makes special references to the economies in transition – one of the aspects that will be approached in the present article. The appearance of the institutions is a controversial topic even in the main paper of D. North, where he supported R. Sugden who stated that they [the institutions] “represent rules which were not consciously created and which are maintained for everybody’s welfare”, but, at the same time, “the development of some complex forms of exchange in the late Middle Ages or of the Modern Ages was possible due to a variety of institutions like the first codes of commercial behaviour published by the specialists in commercial law”. (North, 2003, p. 42)

In the analyses made by the great economists, the institutions have gained two nuances: *formal institutions and informal institutions*. Our analysis resumes to the informal institutions as they object of internalized traditions, common laws, customs

and standards of conduct (ethic norms, corporatist codes of behaviour), while formal institutions are object of the constitution, codes of laws (civil, commercial, penal etc.), common laws, status, regulations.

*Why are we resuming or referring mainly to the informal institutions? Because **the informal institutions which vies the economic sphere represent a product of the social rules, they are transmitted by means of the culture and they determine the relatively long-term human economic behaviour.***

Just as one of the positive characteristics of the institutions is their perpetuation, continuous improvement, as well as their adjustment to the needs of the individuals, the latter's trust and civic freedom are necessary for the promotion of the social – economic and political initiative and for the exchange of opinions. It thus becomes clear that, in order to maintain the competitiveness and the performance of a national institutional system, both the stability and the change of the latter are necessary.

3 The institutional and educational implications within the development of the emergent countries

One of the critics of applying the Occidental theories of the economic development for the countries in on-going development process, *Gunnar Myrdal*, awarded for his theoretical and practical accomplishments with the Nobel Prize, is the founder of the School for Macroeconomics from Stockholm, also named the institutional – sociologic current. He was preoccupied with the monetary equilibrium, demography, racial relationships, the economy of "the third world" countries, but his greatest contribution he brought is in the analysis of the socio-cultural causes of the underdevelopment, as he is the author of the concept of "cumulated causality" which he has promoted in his most important works: *The Political element in the development of economic theory*, 1930; *Monetary equilibrium*, 1939; *An American dilemma: the Negro problem and modern democracy*, 1944; *An International economy, problems and prospects*, 1956; *Beyond the Welfare State: Economic planning and its international implications*, 1960; *Asian drama: An Inquiry into the Poverty of Nations*, 1968; *Against the stream: critical essays on economics*, 1973; *Political and institutional economics*, 1979.

In one of his well-known works, "*Asian Drama: An Inquiry into the Poverty of Nations*", published in 1968, the Swedish economist analyzes the economic development of India, Pakistan, Sri Lanka, Thailand, Indonesia, Campuses, Laos and Vietnam. According to his perception, the poverty of these countries is caused by *the predominance of archaic institutions and views*, which influence the socio-economic system. In his view, all the social groups from South Asia are characterized by the breach of the work discipline, the lack of accuracy and punctuality. Superstitions are extremely strong; there lack the feedback to all that is innovative, as well as their acceptance and adaptation to the new. There also lack the

spirit of initiative and ambitions. In the traditional psychology the citizenship towards power is dominant while social cohesion lacks. (Myrdal, 1968, p. 520) All these characteristics paralyze the technical updating and the economic performances, increasing the differences between the developed countries and the ones in on-going development process.

Taking into account the above-analyzed, G. Myrdal considers that for the economic development, the change of the informal and out of the new institutions becomes decisive. ***Only if they are undertaken in parallel – the technical – scientific modernization, the economic reformation and the measures to diminish the impact of the dominant archaic informal institutions, will they be positive.*** In his view, the change of the informal institutions must take place by means of the demographic control, the support of the educational system and the reforming of the agrarian sector.

Being a reflection of the situation of the on-going development countries, the "drama" consists in the consequences of the decolonization process for these countries, in the hold-backs in the way of the economic development. The underdevelopment is no longer considered only a hold-back for the "third world" countries, but also a drama of these peoples and especially of the intellectuality who was the first to approach quite quickly the enormous downshift between the developed countries and those in on-going development. The intellectuality was also supposed to elaborate the strategy and the tactics to overpass it and even more to reevaluate their own cultural heritage. (Myrdal, 1968, p. 100)

Criticizing the occidental approach of the problems of the "third world", especially the attempts to apply the functioning mechanisms of the economies developed within environments which were not ready for them, G. Myrdal mentions that, as a result, there were formed economies of the type of the enclaves – a *performant* industrial sector, but at the same time narrow, oriented mainly towards the external market and not towards the internal one and towards a wide but inefficient agrarian sector. These measures have had no other apparent effects but the disintegration of the economic system, the technological dependency, the increase of the corruption and bureaucracy of the clerks.

Myrdal, old tradition institutional scientist, appreciates the success or the lack of success of the national economies not from the perspective of the concepts of "costs of transaction" or "rights of ownership", but of "economic culture" or "economic mentality", that is a set of stereotypes and values which influence the economic behaviour and which are common to a wide social group. The Norwegian scientist was quite sceptical regarding the economic development of the Asian countries, because western individualism and materialism are not one of their features and because the excessive religiosity was considered a hold-back in the economic activity.

Another important idea is that the phenomenon of poverty in the developed and on-going development countries has totally different features. If being poor in the developed countries means just a possibly temporary situation, in the underdeveloped countries poverty is considered as fate because of the national social structure based on social classes or castes.

The implications especially of the academic education should not be treated with indifference within this given context, as it is crucial for the economic, social and cultural health of a nation. It also contributes to the intellectual development of the students and to their training for the world of work, as well as to the development of culture and to the promotion of the values which characterize it: the concern for rigor, the respect for the individuals and for their opinions and the research for the truth". (Dearing, 1997) The difference in the field of education has a fundamental character in maintaining and emphasizing the differences among the socio-economic development of the different countries.

The quality of the institutions is determined based on their effectiveness and on their efficiency. For the time being, the reflexes of the policy of education in many countries are conditioned by the "constructivist" rationalism. The countries included in this category are not the countries where the dominant is represented by the "cleptocratic" or the "totalitarian" states, but only the countries where the politic tradition is *the liberal democracy*. The respective evidence is not an argument for the institutional construction. It may at least represent a reason for sadness for the way in which the splendid discovery of the personal freedom is depreciated by the insidious innovation of the "compulsory happiness" (V. Işan, D. Oprea). Frederic Bastiat caught, in a successful metaphor, the political bad habits and the administrative imitations of the protectionism: "If all countries throw blocks in their harbours, it is not necessary to fill with blocks our own harbours". Paraphrasing him, we may say that: *"Even if all countries throw the State in their universities, this is not yet a sufficiently serious reason to throw the State bomb at our universities"*. With other words, *the institutional "construction"* of the academic education in Romania may benefit from the analogy with the liberal order of the society. From a theoretical and normative point of view, the "critical" rationalism makes this thing possible. The answer is still at the surface without the clarification of the specific concept of institutional "construction".

J.S. Mill refused the collectivist and holist conceptions about education in general and academic education in particular. He considered the educational romanticism, detached from the pedagogy of Rosseau and the philosophy of Hegel (the existence of the general will, of a national spirit or of a collective mind) a chimera and at the same time an attempt to the development of the individuality.

Certainly, it may be considered that Mill's idea of academic education could be valid for the industrial - agrarian society from a century and a half ago, when the University would address to the elite. This is no longer valid nowadays within the

complex society based on knowledge when the academic education has become a main stream one. Nothing could be more false. The free choice has nothing to do with the number of the students and teachers or of the universities, but with the social interrelations and the universal regulations which are established and consistent. And from the Hayekian perspective, the complex society needs simple rules in order to allow the blossom of the spontaneous order. The more numerous the knowledge is, the more it is broken-down and its use for the development of the social activities and markets needs more free choices. Alternatively, the more complex the society is the more ineffective and inefficient the centralized government and the constructed order become.

Until the appearance of the „welfare state”, the universities enjoyed rights of ownership over their assets. Noting of the philosophical, theoretical and practical does it justify the “nationalization” of the academic education (Tooley, 2001). Only the tribulations of the intellectual progressing, the recrudescence of the mercantilist state in an attenuated form (the “providential” State, newly the “Babysitter State”) and the academicians’ illusion that “public financing and the care of the state protects their “ivory tower” fish up the misalliance between collectivism and conduct (V. Işan, D. Oprea).

In Romania, the genesis of the universities happened by political decision. They would be organized by the State, without giving any importance to the role of the informal institutions and of the spontaneous order. The initial confusion between the external organizations and institutions (coercively created) and between the social order and the management of the society made by the State (inclusively of what we call civil society) has created a line dependency. The communist “Regime” would cancel any attribute of the academic freedom and of the organizational autonomy, forging the historical dependency to an almost unbeatable level.

The enrichment and adjustment of the modern university’s mission by means of specific activities regarding *life-long learning* have a strong support in the results of the Summit of the European Council in Lisbon (March 2000) and in the launched Lisbon strategy for 2010, approved in 2005. Here it was confirmed that the educational systems from Europe have a key role in the future changes, taking into account the fact that the successful transition to an economy and society based on knowledge is comprised within the approach of the life-long learning.

4 Conclusions

Neglecting nowadays the education of a person means sentencing that person to the mediocrity of tomorrow. The same thing may be also applied to countries. The education is the basis of a free society, the ground base on which a strong and healthy state is built. The needs of the modern age are greater and greater due to the rapid technological progress. The societies which anticipate this progress and best

train their descendents for the future will profit from it at the most while those societies which do not do this will be disadvantaged.

As far as it concerns the forming of the legal framework of the economic activities, the present state of the on-going development is only a stage from the not so far past of the developed countries. Thus, the informal institutions, even if they have generated the appearance of the obscure economy, have also impelled the creation of the so-called “enterprising spirit”, as well as the forming of the authentic “economic culture”, characteristic to the national specific of this category of states, therein attesting their economic viability.

The institutions are not static, the institutional change being a continuous phenomenon. In spite of the persistence in time of the institutions, according to which it takes 100 – 1000 years for the modification to arise, we however consider that the speed of this process depends on:

- The initial impulse, either from the exterior or the interior of the national institutional framework;
- The norms complied to the change: the more widespread a norm is, the more difficult it will be to comply it to the change;
- The used mechanisms and the professionalism of those who promote them.

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