

## **Many Facets of Institutions – 1<sup>st</sup> Debrecen Workshop on Institutional Analysis\***

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The 1<sup>st</sup> Debrecen Workshop on Institutional Analysis was held on 14 December 2015 under the title of *Many Facets of Institutions*, hosted by the Institution of Economics of the University of Debrecen's Faculty of Economics and the Hungarian Association of New Institutional Economists. For years, the Institution of Economics, operating within the University of Debrecen's Faculty of Economics, has been conducting important research on institutional economics. The research group working within the Institution is one of the centres of Hungarian institutional economic research and maintains close ties with other leading international research groups active in this domain (including the Ronald Coase Institute, Université de Paris1). The Institution hosted this seminal workshop to showcase the widest possible range of research directions in institutional economics. The guest speakers are prominent representatives of the research topics on the international scene and gave compelling and interesting presentations. Due to the nature of the workshop, the presentations were followed by dialogue and debate, helping the work of both the speakers and the audience. The organiser of the workshop, Judit Kapás (University of Debrecen), selected three foreign and four Hungarian researchers for the first event to showcase the institutional economic research conducted in Hungary and its neighbouring countries at the inaugural event.

The foreign speakers hailed from Romania and Poland. *Agnieszka Wysokinska* is assistant professor at the University of Warsaw; her presentation analysed the impact of history on economic development through the intermediary of culture. *Bogdan Dima* and *Stefana Maria Dima* teach at the University of Timisoara and gave a presentation on their research on the link between globalisation and happiness, and between professional autonomy and the successful adaptation of international standards. The Hungarian researchers hailed from the key centres for institutional research in Hungary. *Judit Kapás* is professor at the University of Debrecen's Faculty of Economics, currently researching the link between culture and economic growth. *Balázs Váradi*, senior analyst at the Budapest Institute and academic member of Eötvös Lóránd University, investigated the potential factors shaping and influencing

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\* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

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institutional change within a specific policy (disability policy). In his current research, *Miklós Rosta*, senior lecturer at the Corvinus University of Budapest, investigated the link between János Kornai's system paradigm and new institutional economics. *Károly Mike*, senior lecturer at the Corvinus University of Budapest and academic employee of the HÉTFA Research Institute, held a presentation on the success of self-organising community initiatives.

In her presentation entitled "*Invisible wall: The role of institutions and culture for long-term development*";<sup>1</sup> Agnieszka Wysokinska investigated whether the current economic development of Polish areas ruled by different empires in the 19th century differ significantly. She takes a historical look at Poland, treating the areas ruled by different empires as separate entities, subject to diverging social and economic impacts over the course of roughly one century (1815–1918). The Congress of Vienna settlement in 1815 marked a turning point in Poland's history, resulting in the partition of Poland between the great powers: the Duchy of Warsaw was awarded to Russia, Poznan to the Prussians and the region of Kraków was given a neutral status under the oversight of the three great powers. After roughly 100 years, the regions were reunited (in 1918). The question is whether this earlier partition of Poland still prevails after 100 years have passed.

The investigation reveals that the areas formerly inhabited by Prussians are still richer today compared to the once Russian and Austrian areas. However, the economic discrepancies between the two latter regions are not as significant. After identifying this discrepancy, the question of what underlying factors may be at the root of these developmental differences arises. One possibility is the different structure of ownership rights in the 19th century (the average size of farms is 75% greater and the number of rural households is 25% lower in the former Prussian areas). In addition, there is also a difference in terms of political preference (with electoral participation being 14% higher in the richer areas). Wysokinska also examined the channels that may explain the persistence of these differences even after 100 years have passed. The explanation may reside in the judiciary and the efficiency of education.

In his presentation entitled "*Policies for happiness in the global village*", Bogdan Dima sought to answer the question of whether happiness, government policies and globalisation are linked. The author used a projection of the utility function to measure happiness: two indicators from the World Database of Happiness<sup>2</sup> database and the Happy Planet Index.<sup>3</sup> The author used the indicators of the World Bank's

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<sup>1</sup> The paper forming the basis of the presentation is available on the author's website: <http://agnieszkawysokinska.home.pl/data/documents/Invisible=20Wall=2013.04.2014.pdf>

<sup>2</sup> <http://worlddatabaseofhappiness.eur.nl/>

<sup>3</sup> <http://www.happyplanetindex.org/>

World Governance Indicators<sup>4</sup> for measuring good governance, and the KOF Index of Globalization<sup>5</sup> for determining the level of globalisation. Based on the empirical research, the author concluded that the quality of the regulatory framework and politics are important determinants of good governance, and that efficient and reliable politics increases citizen satisfaction, and furthermore that there is also a positive correlation between “good” government and globalisation. However, the author did not find any significant correlation between globalisation and happiness.

The organiser of the workshop, Judit Kapás (University of Debrecen) held a presentation entitled “*Core of culture: The role of sticky individual values in development*” examining the impact of culture on economic development. Based on the shortcomings of culture by definition, the author broke culture down into layers and analysed the impact of these layers, assuming that the various cultural layers (individual values, religion, trust, ideology) exert a different impact on development. The layers may have different impacts due to their different degree of stickiness. In her paper, she focused on the most sticky cultural layer, individual values. Kapás’s hypothesis was that individual values shaped development in their own right, that is to say even if formal institutions are included in the regression. Based on this theory, the author also presumed that due to stickiness, interaction between individual values and formal institutions can also be expected. In her empirical research, the author measured individual values using data from the Schwartz Values Survey and formal institutions using several indicators (the degree of rule of law from various databases). The empirical findings of the two-level regression showed that sticky institutions exacerbated the impact of individual values on development. Individual values, as very deeply embedded culture, influence economic development over and above formal institutions, and long-term harmony between the two – that is, the fact that values are integrated into formal institutions – increases the impact of the values.

Stefana Dima presented her research conducted together with Bogdan Dima and Miruna-Lucia Nachescu, entitled “*Professional autonomy and IFRSs adoption*”. The main question of their analysis is whether an increase in professional autonomy improves the successful adaptation of standards based on lawfulness, such as the International Financial Reporting Standards (IFRS). Autonomy can be achieved in two areas: personal (linked to individual desires and motives) and professional. Professional autonomy can be broken down into two further types: organisational autonomy is when individual actions are governed by rules or directives independent of the individual, while a professionally autonomous individual is capable of making his own decisions. Relative to these elements, the authors created an index called

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<sup>4</sup> <http://info.worldbank.org/governance/wgi/index.aspx>

<sup>5</sup> <http://globalization.kof.ethz.ch/>

the Professional Autonomy Index based on data from the World Values Survey.<sup>6</sup> They incorporated various dimensions into the indicators that express the three levels of autonomy presented above: the individual's perception of being in charge of his own life (personal autonomy), being able to follow instructions at his workplace, the power of initiative necessary for work (individual autonomy), respect for social hierarchy and trust in the legal system (organisational autonomy). The five dimensions and the "professional autonomy" index that they constitute are also positively correlated with the adaptation of the IFRS standards. The research found that the indicators expressing individual autonomy exerted the greatest impact, while the index expressing personal autonomy exerted the smallest impact.

Balázs Váradi presented his paper co-authored with Ágota Scharle and Flóra Samu, entitled "*Policy convergence across welfare regimes: the case of disability policies*".<sup>7</sup> The aim of the paper is to identify the factors that drive or hinder institutional change. To this end, they chose a special area that has undergone significant change in recent years, enabling a comparison of any potential differences across various welfare systems. This area was disability policy. The authors grouped European countries based on their welfare regimes (Continental, social democratic, liberal) and examined how government disability benefits changed over the 1990–2013 period. The authors found that *one* general trend can be observed across all welfare regimes: benefits shifted increasingly from monetary compensation towards incentives for labour market integration. The findings suggest that the 2008 crisis had a tangible impact, as the number of reforms increased during this period, in other words the recession was essentially the catalyst for change. In terms of Central and Eastern European countries, accession to the European Union was also a key milestone. However, alongside general trends, there are also regime-specific factors: for instance, social democratic countries exhibited a greater shift in both dimensions of change (compensation and integration), while compensation is predominant in Continental countries and integration is predominant in liberal countries. Consequently, the finding of the paper is that although there is convergence across welfare regimes, path dependence is still perceptible to some degree among disability policies.

Miklós Rosta's presentation entitled "*System paradigm and the New Institutional Economics – neither same or separate*" opened with a quote from János Kornai: "Haven't you noticed that I have long been an institutional economist and behavioural economist?" Based on this thought, the presentation first shed light on the essence of Kornai's system paradigm, economic antecedents, and the concept of new institutional economics and its main research areas. Stressing the

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<sup>6</sup> <http://www.worldvaluessurvey.org/wvs.jsp>

<sup>7</sup> The paper is available at: [http://www.budapestinstitute.eu/uploads/WWWforEurope\\_WPS\\_no076\\_MS10.pdf](http://www.budapestinstitute.eu/uploads/WWWforEurope_WPS_no076_MS10.pdf)

similarities between the two areas, Rosta explained that they stem from similar intellectual roots, explained through the presentation of the essence of the German historical school. Another common trait between the two researched topics is the opposition to classic equilibrium economics, however in the author's opinion, Kornai is more sharply distinguished from neoclassical economists. Following the political transition, the representatives of new institutional economics and professor Kornai examined similar puzzles: for instance, performing systemic analyses of the types of capitalism and sectors, investigating the Chinese model; they use an identical or similar conceptual apparatus. So despite the fact that Kornai did not consider himself an institutional economist in the earlier period, the similarity is undeniable in terms of the researched areas, even if the approaches differ in terms of methodology.

In their paper entitled "*Communities after markets*",<sup>8</sup> Károly Mike and his colleague Boldizsár Megyesi investigated the prospects of self-organising community governance. Their main question is why this form of governance is so rare in ex-communist Central and Eastern European countries. They conclude that in these countries, the following principle determined the creation of institutions: "first market institutions, then community initiatives", which although it does not preclude the correct regulation and control of community governance, it does substantially delay them. The presentation first answered the question of the theoretical foundations of community governance in terms of natural resources. While the earlier solution to the "impending tragedy" was state intervention, voluntary collective action is now also seen as a potentially successful option. This self-organising community government is located between individuals and the government within the governance hierarchy, and its basis is collective reputation which may be particularly important in the field of natural resources. In their empirical research, the authors looked at two local winemaker groups striving for such collective reputation: the Tihany protection of origin regulation and the Csopak Code. A top-down approach was adopted in the Tihany winelands in defining the incentives (Tihany brand, quality and production requirements). In the Csopak winelands, bottom-up incentives were created (with winemakers deciding on new members and the regulations affecting them). The authors concluded that the case studies confirmed that the long-term membership of winemakers within the community fosters the deepening of cooperation. In terms of group size, they found that cooperation is easier within smaller groups. The comparison revealed that both initiatives created viable institutions, but the Tihany method rendered governance more static and bureaucratic within the created community, and internal motivation was lower, requiring stricter control. By contrast, development within the Csopak region is far more dynamic, and winemakers are far more deeply

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<sup>8</sup> The presentation is a part of the following paper: [http://hetfa.hu/wp-content/uploads/file/NFFT\\_zarotanutmany.pdf](http://hetfa.hu/wp-content/uploads/file/NFFT_zarotanutmany.pdf)

involved in decision-making. As an important lesson, the authors stressed that bottom-up initiatives must be supported in the context of devising regulations, potentially even on a government level.

This brief summary shows that the presentations spanned a wide range of topics. The workshop's objective to showcase the broadest possible spectrum of institutional economic research was fulfilled. The questions that followed each presentation often shed a different light on the current topic and provided a platform for interesting dialogue between the researchers. The workshop also filled a void, as there are few events in Hungary covering institutional economics. The relationships established may lead to joint projects later down the line, and were also a great inspiration for beginner researchers. In accordance with our intentions, we hope to take part in the second institutional economics workshop in Debrecen in 2016.