

INSTITUTIONS, CULTURE AND THE TRANSITION PROCESS: AN ALTERNATIVE APPROACH TO POST-COMMUNIST SOCIAL DYNAMICS

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The process of rapid transformation in Eastern Europe challenged the theoretical frameworks and approaches whose historical basis and source of inspiration were the stable Western political and economic systems. This paper is an attempt to take a broad look at the new theoretical approach that emerged in the context of Eastern European evolutions. “New institutionalism” came out as a viable alternative to the traditional conceptual frameworks, which were unable to capture with rigor and clarity the complexity and dynamics of that process. Very soon, the reform related evolutions not only pushed the new theoretical framework into the limelight, but also validated it in a measure unprecedented in other social scientific theories. One of the most challenging implications to result from this combination of theoretical conclusions and conclusions based on the experiences and realities of Eastern Europe is that many of the problems raised by the rapid process of social transformation are primarily problems of vision and conceptualization. Only secondarily are they theoretical and technical problems. The most important intellectual barrier to a better understanding of the reform process has been a rigid and poor conceptualization and compartmentalization of approaches. Thus, they lead to a fragmented explanation as well as to the neglect of more relevant dimensions of the social reality in Eastern Europe.

New institutionalism offers a viable solution to these problems on the one hand, by basing its theoretical structure on a broader vision of social reality, whose focus was less liable to be blurred by the traditional notions used to conceptualize this reality. On the other hand, the new theory is viable because it introduces a multiple-level, building block methodology that undermines the rigid consequences of the intellectual division of labor and overspecialization in social sciences. At a much more concrete level, this means that a gap, which has developed between area studies and broad theoretical approaches, has started to be bridged.

This paper explores some of the main features of “new institutionalism” and reviews the areas of convergence between new institutionalism and the conclusions derived from the reform experience in Eastern Europe. The basic idea that “new institutionalism” offers the sole theoretical vision able to meaningfully capture the complexities of the transition process and that this fact is clearly confirmed by the convergence between the conclusions of the reform practice and the theories and conclusions derived on the basis of this vision. Similarly, this paper will show how these theoretical and practical developments press in the direction of a closer cooperation between disciplines, especially in the direction of an integration of approaches based on formal models with approaches based on interpretive methods and cultural, contextual, and situational analysis. In this process, the introduction of methods inspired by disciplines much better equipped for the study of local knowledge and of the cultural patterns and dynamics, such as anthropology, is a necessity. This is not only a theoretical imperative emerging from the internal evolution of the formal models used, but also a practical one, resulting from the reality of managed transformation in peripheral countries in Eastern Europe and around the world.

The projects of political and economic reform in Eastern Europe at the turn of the decade were influenced predominantly by a simple and vague model of political and social order. The model's key elements were articulated around neoclassical economic theory and mainstream, state-centered political theory, which were both expressed at an ideological level, where an endless set of variations emerged on such broad themes as democracy, the market economy, the state and civil society.

The initial applications of the "model" assumed that a functional relationship, free of contradiction existed between those elements, and they expected that individual behavior and informal structures would rapidly adjust to the newly established formal institutions. Furthermore, due to their selective stress on the most formal and general aspects of the institutions and in spite of some limited discussions about civil society, they tended to disregard the social and cultural context in which the new institutions of democracy and market economy were supposed to function (Ostrom 1993). Most importantly, the "model" lacked historical dimension. References to the historical process, time dimension, and long-term perspective were rare and mostly rhetorical.

Actual developments in the countries in transition have shown that the relationship postulated between the key elements of the model was not so harmonious and that the model's projections were not so accurate. Moreover, as time went by, it has become increasingly clear that the vision of reforms based solely on one variant or another of the mainstream, state-centered political theory and market-centered neoclassical theory lacked methodological and analytical force. There is a real need to rethink and reformulate the conceptual and theoretical structure behind the reform projects and policies (Chang and Rowthorn 1995; Clague 1997; Ostrom 1993). That doesn't mean a total rejection of the initial models, but an acknowledgement of the fact that although they were promising starting points for further theoretical development and criteria for the creation of complementary approaches, they were nevertheless useful only for a limited set of problems.

Those practical and theoretical challenges arose at a time when a series of scholars coming from different disciplinary backgrounds were developing an innovative approach to economic and political problems (Swedberg 1992). The works of those authors had a number of features in common, such as a disregard for traditional disciplinary boundaries, an emphasis on institutional arrangements and culture, an awareness of the limits of orthodox political, social, and economic theories, and a deep concern for the policy relevance of their theories. The collapse of the communist system had already given a great impetus to their work, but the new problems generated by the reform process and the limits of the orthodox approaches to these problems have pushed them into the limelight. Although, in this paper I use the label "new institutionalism" to denote this family of theories and models, the name under which they are known is not so important. Any discussion of what name to use is merely of a semantic nature. What is important is that there are sufficient common elements and resemblances between the members of this federation of models and theories to justify this practice. Together, organized around the concept of institution, they could offer the coherent articulation of the transition experience in a way that is pertinent to the problems of choice confronting the people and decision makers in that part of the world (Ostrom 1993).

At the most fundamental level, the new approach is characterized by a new way of framing the social, economic, and political reality. A different set of conceptual lenses is used to approach the complexity of social change. The distinctive aspect of this new

framework is derived from the key role played by the concept of institutions in its architecture. Due to this, the most common way to identify it is as new institutionalism.

By embracing the broader concept of “institution,” the approach avoids, from the very beginning, the trap of being either state- or market-centered. From this perspective, the state and the market are sets of institutions among others, with their specific features, structures, and performances. They are part and parcel of (and sometimes lost in) the complex webs and layers of rules, norms, decisions, and relations that characterize a substantive social system. Far from neglecting their importance, new institutionalism illuminates the fact that this importance is relative and a function of, on the one hand, the specific configuration and state of the system and, on the other hand, of the way the problem has been analytically defined, and the research strategy designed.

The basic line is that allusions to “markets” and “states” or to “socialism” and “capitalism” do not take us very far in thinking about patterns of order in human societies. To indiscriminately use such labels as conceptual pivots to address the multitude of relationships that individuals pursue in human societies is not only an error from a social scientific point of view, but also could lead to very serious practical consequences. “These abstractions somehow achieve a sense of reality in our imagination and depending on our degree of attraction or aversion may become either nirvana models or diabolical machines” (Ostrom 1993:392).

The new institutionalist vision overcomes this theoretical dead end and policy danger by looking at societies as larger aggregate structures of social relationships in which each set of norms, relationships, and association is nested in other configurations of relationships with complex areas of overlap (Granovetter 1986:481-510; Ostrom 1993). Conceptually, it is possible to slice, aggregate, and disaggregate these relationships in many different ways. For instance, it is easy to conceptualize the nature of order in human societies as being constituted with reference to markets and states and hierarchies, but using such simplified conceptions fails to realistically capture the nature of the social order:

Markets and states are not isolable autonomous realms that exist as mutually exclusive domains of life. . . . We thus might realistically expect to find some combination of market and non-market structures in every society. . . . The options are much greater than we imagine, when we do not allow our minds to be trapped within narrowly constrained intellectual horizons” (Ostrom 1993: 393).

The new vision offers the foundation to escape this narrow intellectual horizon.

Taking the concept of institution as pivotal and accepting a much more pluralistic and flexible conceptual framework has direct consequences for the way factors, which determine the economic or political performance of a society, are understood. A direct result is the idea that the economic and political performance of a society is not primarily determined by the availability of resources and related constraints, but by institutional successes or failures (Olson 1982; North 1990: 383-400; Eggertsson 1996:7-13). In other words, the main obstacle to development or to a successful transition is an inadequate institutional framework. The variety, complexity, and functionality of the institutional and other social arrangements are decisive for the economic and political accomplishments of a society. In this context, the state and the market, along with their legislative and regulatory infrastructures, play a topical, but only partial role in a process in which other institutions, some of them informal, may be decisive (Ostrom 1993). This aspect of the problem of economic and political performance is topical because it opens up an entire area of research

focused on these largely inconspicuous, neglected, and thus little known institutional arrangements and cultural and contextual factors. Therefore, in some sense, forgetting definitional issues for the moment, it could be said that by its very nature, the entire new institutionalist agenda is pointing implicitly in the direction of the “informal.” To sum up, the new vision that lays the foundations of new institutionalism opens up a new horizon in which the emphasis is on the exploration of the variety, complexity, and contextuality of the institutional and cultural arrangements that form the essence of any concrete system of social order (Ostrom 1993).

The adequacy of new institutionalism as a theoretical device for the study of the complexities of social order and social change is not only conceptual. The intuitive and practical conclusions derived from the historical experience of transition converge with and strongly support its theoretical conclusions. In no place is the relevance of the new approach more clear than in the historical historic experiences of transition. An overview of this rich area of convergence will help us to get a better grasp on this process and to understand the direction in which the logic of the theory and practice of reform are moving.

One of the foremost aspects of the transition process is related to the fact that the high rate of (forced) savings did not prevent the economic collapse of the Communist countries of Eastern Europe, even though those savings were systematically invested in the “productive sector” (Spulber 1997). This failure, in conjunction with the postwar experience in the Third World, demonstrated that there was no clearly positive link between the transfer of resources (economic aid) and economic growth in the absence of an adequate institutional, ideological, and cultural environment, thereby making a powerful case for the new approach. The history of technological transfers in the Third World and Eastern Europe has also confirmed that technology alone is not the most important motor of economic development. As for human capital, the productivity of Eastern European individuals, in general, increased several times within a Western institutional and organizational setting, as compared to their performance in their countries of origin. Therefore, it is proper to conclude, in agreement with the institutionalists, that the transfer of physical capital or an increase in human capital through education does not suffice in cases when the institutional structure hampers the efficient use of such resources (Clague 1997; Olson 1997; North 1990:397-400).

From this perspective, and on the basis of the practical conclusions that emerged from the reform process itself, it is clear that it became necessary to overcome the reductionist tendency of discussing reform in terms of two or three key policies and variables (Crawford 1995; Haggard 1995). In fact, “reform” consists of many different types of policies. Each type has its specific features and a strategic dimension that is given by the social and institutional context. For example, some policies require popular participation, some require “insulation of technocrats from political pressure,” some will benefit almost everybody, some will negatively affect important segments of society, some will have immediate effects, and some will work only in the long run. A monolithic approach to reform and a mechanical implementation of ready-made policies projected around notions like the “market” and the “state” fails to reflect the complexity of the problems confronting societies in transition. Instead, new institutionalism is able to take into account sectoral and regional differences, individual and group interests, and the institutional structures needed to coordinate their actions with factors such as the balance of economic or political power

among different groups, sectors, or regions, as well as conflicts and strategies they generate (Dixit 1996; Knight 1992:48-170).

In these circumstances, a clear conclusion is that a reform program should not become a prisoner of one reform-policy vision or another. For example, a vision exclusively focused on macroeconomic aggregates couldn't capture adequately the complexity of individual and group behavior or institutional and organizational dynamics during a period of social change (Boettke 1993). The reform process offered plenty of examples of how inadequate the aggregate demand management measures were in a context in which the basic institutional structure did not permit proper economic processes of adjustment. Phenomena like monetary overhang demonstrated the importance of the institutions that determine and shape the market process. In many cases, the demand management policy, or generally the macroeconomic policy, were undermined by the very structure of the economy they were supposed to stabilize.

Thus, the new theoretical vision and the partial conclusions of the reform experience have converged on the idea that an exaggerated emphasis has been put on macroeconomic measures and privatization, while too little has been said about the legal system and legal reform as a key to overall institutional reforms. It appeared that the role of the legal system and the way it regulates market behavior, property rights, contracts, and social cooperation in relation to different institutional and cultural settings is even more important than was initially thought. The gap between the enacted legislation and its enforcement in many post-communist countries is a problem too manifest to be neglected. In this respect, the role played by private organizations and informal social methods in complementing the government in law enforcement becomes evident, also. Hence, both new institutionalism and the practice of reform reinforce the idea that it is wrong to think that the nature and functioning of institutions and organizations in a society depend only on the content of the norms, laws, rules, and effectiveness of the law-enforcement agencies. The way people understand, interpret, and value those rules and the degree to which those rules are observed are at least as important as their content. A minimal observance of rules is a prerequisite for any successful reform. The cultural, contextual, and historic factors that determine the acceptance and observance of rules and the way conflict between individual interests and rules is defined and managed are of maximal importance for the reform process (Tismaneanu 1995; Bates 1998; Boettke 1993). Consequently, reformers must focus with equal force on two key elements: incentive structures and existing mindsets.

Regarding incentives, both conceptual and empirical developments create skepticism towards the approaches that ignore the social context and individual incentive mechanisms, rely on moral exhortation to citizens to act contrary to what they perceive as their immediate self-interest, and naively expect the people to react only to certain incentives, while ignoring others. In the early 1990's, the implicit assumption in all post-Communist countries was that the future of reform was assured, as long as popular support and political will were there. However, political will and favorable public opinion were merely necessary, not sufficient conditions. People tend to react to concrete, local, and short-term incentives (Dixit 1995). Citizens are capable of expressing their support for reform in polls and public meetings, while at the same time acting or making decisions that are exactly contrary to the reforms at their workplace or in their daily businesses. Crucial aggregate outcomes may emerge from apparently disjointed and unimportant individual actions.

In a similar vein, the key to a successful reform of government bureaucracy is to try to understand the incentives that individual bureaucrats face, the way they participate in informal networks, the information flows, the nature of their specific tasks, and the relationships between them and other organizations and institutions. For instance, a highly regulated economy necessarily generates a strong informal sector, and, by the very nature of their work, bureaucrats are bound to become directly and indirectly involved in the shadow economy. This is not a problem that could be solved by moral exhortations. Instead, a clear understanding of the system of incentives set up by the formal and informal institutional structures is required and new institutionalism is the sole theoretical structure able to capture this nuance (Murrell 1997).

Another very important convergence area of new institutionalist views with the conclusions of reform practice is regarding the state's capacity problem. Both reveal that the relationship between the dispersion of power and economic growth should be systematically taken into account (Chang and Rowthorn 1995; Olson 1997; Crawford 1995:17). There is a direct relationship between economic performance and the government's position in relation to different groups and centers of power. If the government is too weak and is systematically blackmailed into giving privileges or redistributing resources to special interest groups, the result will be widespread corruption and economic stagnation. At the opposite end of the spectrum, the ultra-centralized state has the same problems. From the institutionalist point of view, the constitutional framework is extremely important, but not sufficient in itself to secure an efficient state. Each factor—constitutional or extra-constitutional—that affects the limits and distribution of power or the functioning of the government should be examined.

A very important point that emerges with clarity, but that was largely overlooked initially, was that history matters. Coherent theoretical frameworks are not enough to understand today's institutions and to reflect the relevant dimensions of the range of policies faced by reforming societies. The structure and functioning of an economic or social system is difficult to understand without a clear view of its history (North 1990; Putnam 1993). Time is an important factor in any process of institutional evolution and reform. Gradual change and historic accidents are key elements in the understanding of the current situation and the future. In other words, the institutions and social structures affected by reforms—even reform policies—should be viewed not only from today's perspective, but also as a result and a part of a historical process (Putnam 1993). Each institutional feature that the reformers want to develop is a part of a complex set of institutions, organizations, social networks, and beliefs. The efficient institutions of the West have evolved over a long period of time, and the evidence to date suggests that their development in post-Communist societies will take time as well. Reformers acknowledge that they do not know how to create such complex structures within a short period of time. Any informed approach to this problem must maintain an understanding of the constraints imposed by "path dependence"—the constraints that past events and structures impose on present and future policies. The most convincing systematic account of this phenomenon has been given by new institutionalism (Arthur 1994; Hausner 1995; Dorbak 1997).

While discussing these areas of convergence between the new institutionalist vision and the conclusions of the reform experience, it is important to note that although traces of similar ideas could be found in other bodies of literature, it was new institutionalism that first gave them unity and coherence, as well as a robust theoretical framework. There is nevertheless an area in which new institutionalism has had its most significant and original

impact in helping articulate the conclusions of the reform experience. This issue is social capital and the informal networks of cooperation, a problem that, in fact, infused all the issues discussed above. Irrespective of the problems raised by its definition and conceptualization, highlighting this dimension of the social order is one of the foremost contributions of new institutionalism.

From the institutionalist standpoint, cooperation is as important as competition for any political or economic order to function soundly. Social networks of cooperation and social capital—that is, the personal and communitarian relations between individuals that can serve as a resource that promotes their interests—are the fundamental elements of any economic and political system (Coleman 1987, 1990). Efficient economies and good governments are built on and sustain that development of social capital. Consequently, as the reformers learned very rapidly, the complementarity between markets, political hierarchies, social networks, and other institutional arrangements must be seriously considered by any social transformation project. Social networks operate in subtle and inconspicuous ways and perform many functions that cannot be effectively performed either by the state or by the market. They generate reciprocity, trust, and social arrangements that facilitate cooperation and exchange (Shapiro 1987:626). They also reduce opportunism and improve information flows.

On the other hand, the structure and function of social networks—and the social capital they engender—is directly related to the institutional framework. Social networks that are functional in a specific institutional context could become dysfunctional when this context is changed. For example, networks of cooperation generated within Communist institutional structures can be a source of corruption and a constant threat to the institutions created by reform. The reverse could also be true: networks of cooperation that were parasitic and subtly undermined Communist structures could be a hotbed of entrepreneurship in the new reformed environment.

Once this perspective is accepted, the entire literature focusing on the formal institutions of the market and the state looks like an attempt to study only the tip of the iceberg. There is an entire unexplored continent of informal relations, arrangements, institutions, and processes that, in fact, dictate the structure and performance of the formal. We need an entire re-direction of attention in order to readjust the balance between the study of formal and informal institutions (Raiser 1996). Methods that were developed and used up to this point only on formal institutions are now being applied to informal institutions.

It is important to stress in this context, that this redirection of analytical and theoretical efforts is and will continue to be the result of two forces: on the one hand, the internal logic of the new institutionalist theoretical system and on the other, the experience of transition or social change in post-Communist and peripheral states. Internally, the theoretical framework developed by the new institutionalists more and more requires the introduction of elements reflecting informal social arrangements and cultural and contextual factors. The enhancement of their explanatory and predictive power demands models and analyses of the informal and the contextual. The progress of the theory reached a point where informal factors could no longer be taken as residual. On the other hand, externally, the experience of reform and social change will continue to offer new evidence about the powerful role of the informal. With a view to its policy implications, it will press the social scientific community to advance a clearer understanding of its nature. Thus, the same forces that led to the rise of new institutionalism as a research program will lead to studies of

informal sector, contextual, and cultural factors. In the final part of the paper, I'll explore these two features and their implications for disciplinary boundaries.

The transformation in Eastern Europe, until recently, has been evaluated with an extremely limited conceptual apparatus, while post-Communist societies faced a complex and multilevel process, in which constitutional, legislative, and institutional factors, informal social networks, cultural values, and attitudes were all part of the problem. We witnessed "a gigantic natural experiment" that had, at its core, what was rightly considered the "awesome challenge" of simultaneously reorganizing the political, economic, and legal systems as well as redefining the national, ethnic, and cultural identities. New institutionalism is clearly the expression of a vision capable of reflecting and coping with that complexity. One of the most significant aspects of new institutionalism is that it does not reject or downplay the particular approaches offered by traditional disciplines such as economics, anthropology, sociology, history, and political science (Swedberg 1992). Rather, by providing a basis for a new conceptual framework, it has given new relevance to traditional analyses and views. To be more specific, by its very theoretical nature it acts as a link between several disciplines recomposing various segments from each, resulting in a new configuration, thus augmenting their significance and applicability. This capacity is not accidental. It is the result of a special methodological characteristic.

The specific feature of this methodology is the multiple levels of analysis approach (Crawford and Ostrom 1995; Ostrom 1996; Alston 1996). The same institutional structure or social process could be described and analyzed in historic, structural, or rational choice terms. For instance, an institution could be described in terms of public goods provisioning as an element in a structure in which social stratification and its dynamics are topical. Alternatively, one could use a narrative framework that focuses on the role of conjunctures, personalities, and situational logic and their interpretation (Bates 1998). As a consequence, the explanations new institutionalism generates are mutually enforcing and complementary, in spite of the fact that each of them reflects the nature of the specific level they are focusing on.

This pluralism doesn't necessarily lead to a lack of coherence. Accepting a pluralist approach and taking into account the whole range of social, cultural, and historic factors, operating at different nomological levels, doesn't mean a compromise from the standpoint of intellectual rigor. The very foundation and coherence of the whole system is given by the pivotal position bestowed upon a series of models derived from rational choice theory (Calvert 1995; Rutherford 1994). The key to its consistency comes from the discipline these models impose at each analytical level. The whole theoretical system is built around a basic structure, while various theoretical elements can be and are added to the structure as a function of the nature of the problem and research objectives (Olson 1997).

The direct consequence of the multi-level approach is the "building blocks methodology" (North 1990). The building blocks methodology means a horizontal segmentation of the theoretical corpus into quasi-autonomous theoretical units that can be used in different combinations based on the objectives and context of each analysis or research design. The key feature of the whole approach is the quasi-autonomy of each theoretical building block. The relations between them are very flexible and are basically determined by the nature of the problems analyzed and not by rigid methodological or epistemological assumptions. The whole system can be composed and re-composed in conformity with new objectives and research problems. Thus, the analysis can start with one

of these formal models and then expand in an empirical direction, introducing layer after layer of sociological and historic variables and their corresponding analytical tools. New elements (sociological or historic) can be added to the initial model if the case or the problem requires, up to the point where the needs of the inquirer are met.

The capacity to reconfigure the entire theoretical structure in a coherent way is a function of context, giving it a special strength both in terms of analytical power and of capacity to incorporate or harmonize other approaches. But the most important aspect of this approach that should be stressed in the context of a volume like this is that more than simply creating the possibility of incorporating the visions and social perceptions of the real social actors into the analytical frameworks, it requires it. Instead of postulating macrostructures and situational constraints, the new approach is sensitive to the way that social actors perceive of or construct those structures. In other words, it goes to the micro level of actors and their interactions and tries to reconstruct the situational parameters and develop the analytical tools starting from there. Thus, as a fundamental element, the research agenda attempts to reach a minimal understanding of the basic patterns of micro-interaction and the mindsets of actors.

From the perspective of the problem of social change and its management in peripheral societies, that aspect of this research program is extremely significant, not only for theoretical or policy reasons, but also (and even more importantly) because it helps to incorporate the views of social actors, the “views from the margins,” into the analytical and policy cycle. This intrinsic suppleness and openness rules out the possibility that the new approach will transform itself into another general, rigid, and sterile Grand Theory with limited connections to social reality or into the basis for another dogmatic Grand Theory.

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