

The importance of the institutions. Why the European system is in crisis or about the meaning of the words

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The realistic assessment of the status, perspectives and problems of the EU would not be complete if **the institutional aspects of integration development** of the union are not studied well. Our attention is orientated mostly towards the nature and the evolution of the institutional system of the EU, as well as towards its role in the multilateral building of the EU as a new type of community. Moreover, it is exactly the institutional aspect of the realization of the European idea where we are likely to find a number of problems and discrepancies, which represent the crisis characteristic signs and require adequate changes.

The evolution of the integration processes and the EU itself takes place not only under the complex interaction of regional and global processes, but also under a great extent of coherency between the separate spheres and fields of social life. Along with this, the **theory of economics** itself undergoes its development and reassessment. The market theories of spontaneous order and the invisible hand of Adam Smith and the theoretical orthodoxy were challenged by new theoretic conceptions for another kind of “rules of the game” for a change in the regulation mechanisms, the ways of their establishment and control over observance. Some of the new scientific schools are strongly influenced by the old and new American **institutionalism** and take notice of the institutional development framework, as well as of the quality and effectiveness of institutions for the achievement of the objectives of the development.

The theoretical knowledge of institutions is already presented in detail in the economic theory. It is associated with the popular names of people like Douglass North¹, Torstein Veblen², Clarence Ayres³ John Commons, etc. Bulgarian economic thought does not stay clear of these problems. Metodi Kanev, Snezhana Naydenova, Ivan Kotsev, K. Grigorov and others share interesting views on the neoclassical institutionalism as a synthesis between neoclassicism and institutionalism. What is more, Prof. Dr. Metodi Kanev proves that the Bulgarian contribution to these problems was given much earlier and connected with the “works of three renowned and influential Bulgarian scientists – Dr. Ivan Bogorov (1818-1892), Prof. Georgi Danailov (1872-1939), and Prof. Todor Vladigerov (1898-1976), who worked during different epochs but tried – long before the rest of the economists – to combine the liberal and classical with the institutional approach to economics.”⁴ An interesting and contemporaneous perusal of the topic is offered by Tsvetan Kotsev in his book “Институционална парадигма – критичен анализ” (Institutional Paradigm – a Critical Analysis).⁵

The review of the **theoretic discussion** on this issue proves that, in the contemporary economic theory, there exist two enemy trends – of contradistinction between different theoretic

¹ North, D. Institutions, Institutional Change and Economic Performance. Cambridge, 1990

² Veblen, T. The Socialist Economics of Karl Marx // Journal of Economics, 1907

³ Ayres, Cl. The Industrial Economy. Cambridge, 1952; The Theory of Economic Progress. New York, 1961

⁴ Kanev, M. Неокласическият институционализъм в икономическата мисъл – една българска традиция (Neoclassical Institutionalism in Economic Thought – a Bulgarian Tradition) // Диалог, 1, 2005

⁵ Kotsev, Ts. “Институционална парадигма – критичен анализ” (Institutional Paradigm – a Critical Analysis). ВСУ, 2007

schools and trends and of a quest for opportunities for the achievement of their methodological synthesis.

Without depreciating the worth of the studies we are familiar with and that of many other studies, we will mention that, here, we stick mainly to the theoretical and methodological formulations of Prof. Dr. Metodi Kanev and to the main ideas of the evolutionary economic theory, produced by Prof. Snezhana Naydenova.⁶ Our reasons for this are determined, on the one hand, by the fact that the issue we

study is an interdisciplinary one, and, on the other hand – that the evolution is the most characteristic feature of the institutional system of the EU.

In paragraph 1 we presented the integration process in the context of a dynamically changing and complicated global situation, including the world economics. As the main outcome of the globalization, which takes place, we denoted the high extent of **interconnection and interdependence** both between the different spheres of social life and between the national and regional economies on a planetary scale. Local processes – ecological, financial, social, demographic, etc. are given greater and greater planetary spread. Transnational and global corporations intervened in the distribution of resources and markets all over the world. The world faced the need of **coordination of activities for the achievement and guaranteeing of a stable development**. The unidirectional social and economic development turned into a challenge for national policies. The abovementioned, along with the disintegration of the socialistic bloc, became the grounds for the quick growth of the evolutionary economic understanding of the organization and development of the world in the twentieth century. And the evolutionary theory, as Prof. Naydenova points out,⁷ “proves to be a continuation and synthesis of institutionalism and neoclassicism”. The study of economics from the viewpoint of institutionalism is considered to be the most successful attempt for theoretical and methodological synthesis. The new trend of the economic theory has the advantage of studying economics as a “**multifactorally defined institutional complex**, an integral part of the whole socium, rather than an abstract basic structure, determining the social relations and institutions as its superstructure.”⁸ This very understanding matches perfectly the nature of the EU which consecutively widens the application of its institutional mechanisms both vertically and horizontally. Following the logic of its development, we may emphatically ascertain the characteristic of the 1990s **rejection of economic reductionism** and facing to sources of growth which are not only within the scope economics.

The consequences of the market element again draw the attention to the mechanisms of **non-market control**. With regard to this, Prof. Metodi Kanev states that the period for economic science is marked by the search for a common view on the scope, structure, hierarchy, functioning and development of economics. The institutional theory takes into consideration **the person and their nature**, the culture and the social organization, the technologies as the

⁶ **Naydenova, S.** Еволюционната икономическа теория – опит за синтез на институционализма с неокласицизма (Evolutionary Economic Theory – an Attempt for Synthesis of Institutionalism and Neoclassicism) // Диалог, 4, 2002;

Панорама на институционалната икономическа мисъл (Institutional Economic Thought Panorama). V. Tarnovo, 2004

⁷ **Naydenova, S.** Панорама на институционалната икономическа мисъл (Institutional Economic Thought Panorama). Quoted work, p.2

⁸ **Kanev, M.** Неокласическият институционализъм ... (Neoclassical Institutionalism...) Quoted work, p.18

momentum of development. This new paradigm is not difficult to follow in the development of the process of integration and especially in the measures for reinforcement of competitive power in the EU.

The economic theory does not give a synonymous **definition of the concept for “institution”**. We do not find one in the review of the studies on the topic of institutionalism by Bulgarian authors. The review of the literature and the basic documents of the EU show that the commentary for the institutions of the EU is traditionally brought to the basic component parts of its political and organizational structure. An accent is usually made on the competences of the established and working supranational bodies, closely depicted in the fundamental treaties of the Union. We have an apparent tendency for the political behaviour of the participants to be expressed namely through the institutional structure of the Union. The development of this structure is identified, to a great extent, with the development of the integration process itself. Without bringing the advisability of a similar approach in question, in this case, we assume that it is incomplete and unbalanced.

It hides other essential sides, which are the accent in the theory of neo-institutionalism and are a result of the simultaneously going processes of economization of social relations and socialization of economics.

We are speaking about the influence of **non-market structures, non-economic forces of development**, the existence of non-formal rules, standards and procedures, within whose scope the realization of arrangements, power and control, social support and process control take place. It is exactly them that are characteristic of the institutionalization of a phenomenon like the EU, especially from the aspect of the problems of the civil society and the conformity of its objectives and interests with those of the different subjects. These sides of the process, due to the power of their impact, can be defined as elements of the institutional system of the EU and are of definite interest to our research.

We shall refer to the **etymological root** of the main concepts and their inclusive interpretation that is widely used nowadays.

“Institutio” is a word of Latin origin and literally means “direction, instruction”. From here on, the institution is filled with an expectation to instruct, to orientate in the rules of behaviour and to turn them into social order. It is not accidentally that the judicial context of the word is connected with the elementary civil law books of Ancient Rome. The word is widely used as a definition of something that is **established in a legal, moral and state sense**. As institutionalization is defined the process and the manner in which something new is being established. Exactly this is what motivates our interest in the ways in which the new moments in the course of the development of the integration process and the evolution of the European idea, not only on legal, but also in moral aspect.

“Institutum” (institute) is connected more with the act or the body through which the new thing is being established. The word is understood as the institute as an establishment, as a bureaucratic instrument for enacting rules and control of their observation. Hence, it is not difficult to realize the direct relation between **institute, institution and power**.

Relying on the classical formulations of **Max Weber on power**, we will come to the necessity to rationalize another aspect of the establishment of social order – legitimacy of power. According to M. Weber, **legitimacy is a measure for correspondence** between the actions of institutes, establishing definite order and the interests and values of the social groups affected by this order. It is an especially important nuance in the assessment of the activities for the enforcement of the rules of supranational behaviour within the EU. A direct relation between the

needs of the society, the values of the elite for the separate stages of formation of the European community, and the forms of realization of the European idea could be found.

The closest to what we are interested in our research is the definition of **Douglass North**⁹, given in the monograph “Institutions, Institutional Changes and Economic Performance” published in 1990.

According to Douglass North, “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange and reduce uncertainty by providing a structure to everyday life”. What is interesting here is that North calls the main players in society organizations, while, later, the American scientist Williams calls them institutions and makes an attempt to classify them according to different signs. The Bulgarian scientist Tsvetan Kotsev, relying mainly on Williams proposes four levels of analysis, dealing with different types of institutions:

- Institutions which originate spontaneously and are derivatives of the conception of “social capital” – religion, social and cultural traditions, etc.
- Formal rules defining the rights of property and the judicial system which, in practice define, the whole institutional system;
- Rules defining the state policy – treaty relations, state government, etc.
- Rules related to the distribution mechanisms of society.

In this considerably wider context we study *the EU institutions as a sphere of social and economic relations and as an instrument for legal and moral establishment of social behaviour, orientated to the maximum harmonization of the interests of the whole (EU) and its component parts – the states and peoples being a part of it*. This assumes that both the EU odies and their functions, as well as their acts, through which the new moments of public order are being established, public opinion on their approval at each stage of its building, the distribution of social norms in all interconnected spheres of life be subject to assessment and analysis. A very important aspect in this respect becomes the **characteristics of the institutions** on different levels, the power of their impact on another type of social formation like the EU. Furthermore, *the basic contradiction here is between the regulatory function of the European institutions and the free market* stimulation, the free movement of goods, capital, services, and persons. This gives reasons for distinguishing **some very important groups** out of the number of institutions:

- the ones **connected with property**, its behaviour within the EU and the opportunities of the regional community to **exercise control over property**;
- **regulatory institutions**, their allocation on both levels – national and supranational – as well as their operation under free market conditions;
- institutions **orientated to stability** and sustainable development of the EU, as well as that of the member states;
- institutions guaranteeing the realization of the **European social model**.

A new moment for the institutional architecture of the EU should be the institutions realizing the functions of the Union as an effective body of the globalization processes. On one hand, it is about the institutional interaction between the existing European system and the world organizations and the institutions of the world economy; and on the other hand – about the

⁹ **North, D.** Institutions, Institutional Change and Economic Performance. 1990

necessity that the EU assess its institutional potentialities for influence on the course of globalization and prevention of its antisocial activities.

Institutions, according to one of the representatives of John Dewey's evolutionary theory, are not only formal organizations, but also **models of human behaviour**. Dewey, as well as a number of other representatives of evolutionism, assumes that the limited rationality model is connected with the human behaviour considered as a set of knowledge, routine and habits. These differences exalt the heterogeneity of the EU as a multinational system and, thus, also have a relation to the EU institutional system.

The conceptions of another group of institutionalists – R. Fogel, R. Coase¹⁰, Paul Romer and others – represent a sound methodological basis for the assessment of the long-term social and economic changes and the **evolutionary effects**.

As we have already repeatedly mentioned, the EU is a specific system, formed as a result of concrete historical application of regionalization and regional integration processes. From this standpoint, the EU can be studied as an **economic system orientated towards the achievement and maintenance of stable development**. For this assessment it is very important that we trace and follow the institutional security of the steady development and its subjects. The latest trends **in the theories of regional management take note** especially of the processes of concordance between the reproductive cycle and the formation of a new type of regional policies.

Of great importance for the overall assessment of the EU are the new theoretic conceptions for the factors of the **contemporary international division of labour**, as well as for the newly outlined trends in this respect. Prof. Dr. Velko Marinov comes to some fundamental conclusions for the relation between these factors and the competitive advantages of the countries.¹¹

Again, with regard to the specifics of the EU and the transition from sector to universal – economic, political, and social – integration, the interpretations of social management as a combination of processes of decision making on all levels of the social and economic system – from the supranational to the individual and family one – become applicable.¹²

For the assessment of the institutional system of the EU it is appropriate to use some other **modern conceptions of regional management** like the ones for unity of the systems for development and management, for transition from the analysis of stationary equilibrium to the problems of limited regulation, the use of the system of social indicators for optimum and actual behaviour of the systems, etc. A number of the crisis manifestations in the EU can be explained both within the management theories for inertia of regional development and the dynamic version of application of Pareto principle.¹³

The special features of the institutional characteristics of the object we examine are connected with the fact that the EU is a combination of elements of social reality between which there exist law-governed relations and connections constituting completeness. Therefore, the EU, as well as its institutional nature, are **of systematic nature**. Without going into the details of the **General Theory of Systems**, we will specify that its basic concepts are “synergy”, “boundaries”,

¹⁰ **Coase, R.** The New Institutional Economics // Journal of Institutional and Theoretical Economics, 1984

¹¹ **Marinov, V.** Международно разделение на труда (International Division of Labour). 2004, Ch. 2, paragraph 4.3; Ch. 3, paragraph 3.1 and 3.2

¹² Such formulations are stated by O.S. Pchelintzev in his book “Региональная экономика в системе устойчивого развития”, Москва, 2004

¹³ Reports and surveys of the Laboratory for Regional Problems of the Social and Economic Development of the Institute for Prognostication of the Russian Academy of Sciences (1995–2006)

“elements”, and “connections”. The structure of systems presumes orderliness of elements, connections stability and organization. Besides, it is about connections, both between the elements within the boundaries of the system and the system as a whole, in the external environment. On the basis of the systematic approach, structural functionalism – introduced to science mainly by T. Parsons – comes to the idea that a system is “a universal method of organization of social life”.¹⁴ According to him, society is institutionalizing itself on the basis of more or less integrated systems of values and standardized norms of behaviour. Therefore, Parsons thinks that the analysis of **social systems** is connected, first of all, with the outline of the main functional requirements giving the totality of elements the “synergy” property. Parsons gives four functional conditions for existence, development and improvement of the social system: adaptation, singleness of purpose, integration mechanisms for the formation of the whole, and means of system equilibrium maintenance.

The historical review of the evolution of the European idea and its realization through the EU we made make it possible to systemize and estimate some **specific manifestations of broken systematic equilibrium**, within a system of values and trust in the integration process, social and cultural specifics of the attitude to property and labour, problems of multiculturalness. In the context of evolutionary theory and the approach we have chosen for the assessment of the institutional system of the EU, it is worth considering system elements like historical memory, traditions and customs, consumption nature and change. A starting point for the next analysis will also be the concept that the economic behaviour of a given system depends on the synergy of the united by the common cultural and historic environment people, rather than on the separate individual. Such an approach will make the search of factors for the disruption of the systematic equilibrium in phenomena like nationalism and immigration we have already examined possible.

Though in a nutshell, the presentation of the theory of systems and the nature of social systems contains enough arguments that *the institutional system of the EU is of an autonomous and complex social system nature, characteristic of which are functional completeness and specific instruments for the maintenance of equilibrium and stable selfpreservation*. By means of the methodology of the systematic approach we could find out the extent to which these equilibrium and stability are achieved during the separate stages of the integration process, as well as the functional and systematic reasons for the presence of states of lack of equilibrium and disintegration tendencies we define as **crisis signs**.

We will make some more accurate definitions with regard to the “**institutional crisis**” conception used here. At first sight, it is overcharged with negative charge and negativistic expectations. Not infrequently in the publications with regard to the EU it is claimed that the crisis is the prelude to prognoses for its disintegration or – what is worse – it insolvency.

In the present paper we will lay emphasis upon *crisis as a diagnosis for the presence of disruption in the institutional system of the EU, of broken systematic equilibrium and ascertained insufficiency of something as a result of the dynamics of the changes in the environment and the EU’s own development. We will try to outline mainly the aggravated, precarious situations of the institutionalization of the process of integration in a scale and manner, adequate for the new realities and public necessities*. In the context of this understanding, we are going to examine the crisis as a sign of broken symmetry and lack of

¹⁴ **Parsons T.** Еволюция на общества (Translated version of *The Evolution of Societies*). Критика и хуманизъм, 2005.

equilibrium of the social system. In this aspect, the analysis we made shares some theoretical conclusions made by Prof. Iliya Bozhkov¹⁵ and L. Thurow.¹⁶

The adopted theoretic and methodological approach to the analysis of the institutional system of the EU gives reasons for two conclusions:

The EU nature as a systematic structural whole and its institutional system, marked by complexity, indefiniteness, and dynamic development belong, to a great extent, to the **paradigm of neo-institutionalism** or the evolutionary theory (as far as there exist some differences between the two economic schools).

- The building, functioning, and development of the institutional system of the EU are interdisciplinary problems which are difficult to examine in the context of only one scientific field – that of economic, of management, of social and sociological sciences, etc. A similar interdisciplinary approach, however, has not been applied to the institutional system of the EU up to now, on account of which our modest experience to make it is marked by lots of conventionality and experiment.

- The logic of building and functioning of the institutional system of the EU can be followed and assessed most adequately with the help of the systematic approach and the specific instruments of the **theory of social systems**.

From the viewpoint of the evolutionary theory, on the other hand, a great number of elements and connections of the institutional systems of the EU can be analysed and assessed.

¹⁵ **Bozhkov, I.** Симетрия на социалната система (Symmetry of the Social System). Sofia, 2001

¹⁶ **Thurow, L.** The Future of Capitalism, Sofia, 2000