

INSTITUTIONS AND SOCIO-ECONOMIC DEVELOPMENT OF COMMUNITY

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Abstract

This article provides a non-comprehensive overview of social and economic theories regarding the contribution to the small communities' economy and society of institutions, in all forms of expression. Institutions, first analyzed in terms of local culture together with elites and leadership, as well as formal institutions organized by state or NGO's, generate a so-called spiritual infrastructure, intangible, but necessary for social progress on primary levels of aggregation. The study was accomplished using critical analysis of literature on which we grafted some examples from Romanian society. Finally, the article proposes some practical ideas for community development institutional interventionism.

Key words: *identity, leadership, organizations, spiritual infrastructure*

The starting point and motivation of a development process lies in the *human community*. This is both the subject and the object of development, as well as causality and consequence. It is still debatable whether the *individual* is the unit of measurement for such an endeavor or the *community* as representation of collective interests or the public good. Ideologies can help in solving this dilemma. Economics can solve the dilemma by referring to a defined space (territory or community), or by finding solutions that bring the individual "good" closer to the collective one, leaving to politics the details of differentiating. Therefore, we will proclaim *community* from the beginning as subject and object of the development. In order to do this, we must be able to define such a concept. Is there an entity called "community" or is there just

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population, made up, generally speaking, of individuals. Is it true that only territoriality divides into regions or communities? What would be the level of aggregation from which we can assign a community entity: the city, the region, the country? If take the perspective of development, the population factor is of particular interest in two aspects. One of them is that of demographic and population dynamics, which is of higher importance in the organization management, labor market and economic policies or decisions of economic agents. The second one is related to the *cultural identity dimension* of the population on which a community's shaping and life evolution depends in all its components. One could read the dependency theory (Gertler, 2005) which states that any social or territorial entity has a unique path created and reproduced by its own history. This trajectory is the one bestowing identity and uniqueness to the respective entity. In this regard, we intend to clarify the concept of community.

The problem can be solved by customizing some more general notions such as *nation* or *the people*. The People and the nation are not perfectly identical, and there is no semantic overlap. The people represent the sum of real citizens living today, while the nation represents the transcendent people, immaterial and timeless, without a territory. The meaning here would be equivalent to that of *a nation at the level of a smaller territorial entity*. Though purely conventional, it seems easier to define a nation as a whole: *a population united by: a shared common territory, language, cultural tradition and history, etc.* In this context, by using customization and reducing the scale, we may define community as *that population sharing special characteristics assigned to that particular territory they occupy, features assumed by the community members as identity-markers*. The characteristics may very well be the same as in the case of nations together with other additional ones, such as specific traditions, customs, occupations, etc. Extrapolating, we conclude that the nation can be a community too.

1. The sources of community identity

Identities are formed by all types of collective human activity. There are, in Schöpflin's vision (1999), four dimensions on which these can be structured:

- Identities are structured primarily *by the state* (or state subsidiary forms of organization) – it is obvious that within the state organization common habits are shaped: same taxes, same holidays, same approach regarding the authorities, laws, regulations, etc.

- Secondly, *civil society activities are essential in generating identity elements*: individuals, NGOs and groups formed by trading interests create trends, aspirations, and express opinions, etc.

- *Ethnicity* is the most controversial form of identity, due to the fact that in this case there are always minorities who believe themselves to have been treated unfair. Ethnicity includes several elements: solidarity, common religion, etc, creating rituals, celebrations involving the entire community. Ethnicity has connections with the state and the civil society and is quite a vast concept.

- The fourth dimension is relatively new, dating more precisely from the era of the "Open World": *the international dimension and, most recently, the global one*. Together with the acceleration of European integration, a new set of superstate and supranational identities was created. The European Union has become a magnet for any political, economic or cultural action, and the issue is whether that action supports the Union or is it hostile towards it. It has even managed to generate attachments acting as identities. Intentionally or not, the community *acquis* represents a significant part of the new European identity. It does not have the power of regulating a modern state, but the analogy is plausible. There are other international identities situated above the EU: for example the NGOs and lobby networks playing a significant role across the borders.

These four dimensions or identity-forming processes do not act disconnected from each other and even set themselves in a balance. For

example, a weak state can be completed by a strong civil society or it may transfer a part of its sovereignty to international actors, etc. In Eastern Europe, in the absence of a strong civil society, ethnicity (genuine) was the main ingredient in the composition of identity. However, along with development and European integration, the trend indicates that the rule of ethnicity is failing, leaving room for a *citizenship devoid of ethnicity*.

Institutions (cultural aspect)

The same as in the biological existence of a being, when it is said that the function creates the organ, since the beginning of time and in all human communities, some things which are done in order to establish an order among people (organization) were coded in symbols and expressed through rituals (for example, religion). The fundamental need of human organization is that of *coherence*, and collective identities create and express coherence. Since the survival of such a coherence cannot be left to chance, these processes are sanctified and become immune to research and evidence required by the advancement of knowledge.

We view the population of a community as a distinct cultural system. As a consequence, the question arises on what are the mechanisms that give rise to and transform the cultural identity of this population? Who, for example, causes the change in mentality? Individuals, the education system, time? The education system is composed of individuals. In order to change the mentality through education, the educators themselves must have changed theirs in advance. It is difficult to find a "Big Bang", a starting point of society and collective identity. This is why sociological literature uses a more vague term for any social phenomenon observed: namely that of *establishment*. A tradition, a social fact is the creation of an institution and the institution represents, in its turn, a sum of recurring, established facts (Marshall and Barthel, 1994).

Until the arrival of a political power invested to coordinate social facts, people have coexisted through *cultural institutions*. We designate by this term *any practice or recurring activity within a group*. They are *cultural* because they are related to a particular course in the anthropological evolution identified by science as the material and spiritual culture. The first *cultural* elements could be recognized in the form of organized activities (but not instinctive ones) of food or shelter seeking and those beliefs connected with the forces of nature and divinity, respectively. Gradually, people have created organized communities in which isolated practices aimed at meeting their needs have evolved to what we call today the institution of *economic life* or religious beliefs, which transformed into religions or spiritual life. These developments were carried out with the help of institutions.

What is the role of cultural institutions in a community's economic birth? Definitely a decisive one. In the case of theories proclaiming their dependence on their own track line (Gertler, 2005), or in the case of new theories of economic geography (Ottaviano and this, 2004), a population is the "victim" of its own history, in addition to intrinsic determinism given by the identity features and characteristics of that population or elite. We are going to see this below. Historical events, the past life, have created institutions that reproduced over time, made up trends and even restricted other possible ways and other institutions, thus creating a mechanism of power at the level of human organization.

There are two institutional approaches in Economics: an old one and a new one. The *old institutional economics* (Old Institutional Economics) and *new institutional economics* (Neo-Institutional Economics) start from the idea that the institutions control the economic behavior. The differences are more likely assigned to the purpose and method of the two approaches, of which we will not discuss any further. However, some basic ideas should be mentioned. Representatives of the old trend, such as Karl Polanyi Thorstein Veblen, John R. Commons and Clarence Ayres start from economic anthropology and summarize it in the resolution that "the economy is an established process" (Harrington

and Fergusson, 2002). In order to self-reproduce the material, any society must organize ways of provisioning their own needs and desires. Achieving community cohesion and continuity requires a certain economic sustainability of this economic organization, which may be reduced, in contemporary terms, to the division of labor. On the other hand, communities inherit and develop belief systems, values and ideologies, in a word, "cultures", in which the organization of material provision is integrated. It is important to note that there are plenty of possibilities available for this integration, even infinite ones, a fact which is captured by the notion of *cultural relativity* or *institutional interdetermination* (Mayhew, 1987). In other words, the old institutionalism considers economic and economy-directed individual actions to be embedded within a cultural context where it is determined what type of actions are allowed, expected, encouraged or prohibited. This context is articulated by institutions.

Of equal importance for the old institutionalism is the work of its founder, Thorstein Veblen, otherwise known as the first who defined the central role of institutions in economic life. Veblen observed that the institutions derive from two large of grounds of legitimacy: a ceremonial one and an instrumental one; this created what is now called by Economics the *Veblenian dichotomy* (Conti and Giaccarria, 2001). Ceremonial institutions are the products of inherited beliefs legitimizing the social statutes and classes and the distribution of power according to a logic of distinction (envy). Instrumental institutions are those legitimizing and motivating the actions involved in solving problems and meeting the needs as well as skills acquisition. They are the sources of progress. But most of the behaviors are a mixture between ceremonial and instrumental actions, narrowing the problem to finding the dominance. It is Veblen who points out that institutional evolution is continuous, cumulative, but at the same time, a generator of conflicts. Conflict arises mainly from the resistance manifested by means of ceremonial institutions. Change comes from the need to solve problems which are usually causing the legitimacy of ceremonial values. The conclusion of the old

institutionalism endeavor relies on widening the spectrum of conventional economy by including elements of "culture" and "society", thus placing the institutions at the center of economic behavior.

New institutionalism – its starting point is the a priori acceptance of the conventional economic theory as the science of "*individual choice*" (North, 1990). The project of the new institutionalism is to develop an analytical framework that will integrate institutional analysis in Economics and economic history. By defining institutions *as the self-imposed constraints of individuals*, the neo-institutionalism approach perfectly fits the „*choice theory*” of the neo-classical economic theory (Glaeser, 1998). Being a matter of choice, institutions are designed to reduce uncertainty. By establishing cooperation and transactions, individuals are able to display allegiance and connection to groups and values. This was a brief theoretical account meant to give a better understanding of the institutional endeavor in economic development. Since economies grow both in range and in the diversity of exchange, this increase must be matched by a suitable institutional change in order to create economic performance. More precisely, at the current level of evolution in society, institutions can become an instrument for the decision makers in a society. Supporters of Regionalism, economists and geographers invoke the concept of institution in a variety of purposes aiming at a variety of functions.

Institutions form the *pattern* of society. Any development endeavor is inevitably filtered by these institutions and, if it comes out on the other side, it does so with a local identity. This observation should be taken into account when trying to apply imported solutions created in other areas or communities, without adapting them to the constraints of the space. On the other hand, institutions should not be regarded as an obstacle, in that they are not necessarily closely knit with the social corpus. Institutional change exists and almost always such a need is required in an area wishing to change or create an evolution trend straying from the linear course. Changes occur in time, through gradual adaptation, or suddenly by revolution or decisions arisen by a political

will. The fact is that *institutional change* must precede any other development endeavor. Going back to the beginning, when the question of *who is changing mentality* was raised, we are faced with a paradox: change is determined by institutions, but the institutions must change themselves first. Since institutions are made up of people, the problem is then represented by the individuals' ability to change. It is assumed, by scientific approximation, that most people have the same intrinsic capacity to change and redirect themselves. What is then the difference between communities? Why some communities change, evolving to more advanced levels of development while other stagnate or even regress?

Elites and leadership

Development may also reflect the attempt to mobilize an internal solidarity of the population or community. This internal solidarity depends on many factors. The most important are the *community of interests* and *the sustainability of this community*. That is, if the interests connecting the community are not merely transitory, the chances for development are sustainable.

Community spirit often appears as a trend or it can even be a fashion. Community identity may be born from a history, but it must be maintained and, in its turn, someone has maintained it throughout history. Every time someone assumes this identity, he/she is representing it as well. Identities are created both at an institutional and symbolic level, and the two should be regarded as functioning in a complementary manner. An institution creates for itself a symbolic dimension too and displays itself partially by reference to these symbols. Thus, the use of symbols such as flags, coats of arms, monuments, ceremonies (rituals) is not always an unnecessary extravagance, a regression to a pre-rational era, but an essential part of the creation, maintenance and reproduction of identity. But as much as emblems, symbols and coats of arms are needed, there is also a need for leaders and elites to represent this spirit (Jalowiecki, 1990). For example, in the history of European

countries existed those landlords who represented the local elites that survived until today and could meet the full justification of local identity, at least symbolically. Even in the Romanian space there was a nobility (ruling families, families of boyars) whose history transferred an identity to the territory they once ruled. The existence of elites as *ruling classes* had a special role in the existence and development of a community.

People always need someone to relate to, and a society that evolves and develops, most certainly needs guidance. Even if the development is "spontaneous", in the sense that it is natural, not imposed on us by external forces, it still has some guidelines, some values to which any action, any endeavor relates to. In addition to that "ancestral" and impersonal identity creating the value systems, in order to preserve and perpetuate these elements society requires certain *vehicles*. Non-formalized identity is not necessarily a "genetic code". It is voluntarily embedded in people, who then become vehicles of values, thus retaining it. Most often, it is the elites of a society that possess this information and transmit it to future generations. On the basis of this information they also guide development. The great social changes and revolutions were caused by the coagulation of elites, of charismatic leaders who inspired the communities with their own beliefs and orientation towards the right path. We even have examples in Romanian history. The Movement from 1848, when the Revolution became a milestone, imposed a spectacular evolution in the Romanian world. Its claims of a political regime, a republic, the universal suffrage, or the claims of the citizens, the Jews emancipation or the elimination of the death penalty, the removal of degrading punishment, all of it faced the Romanian Principalities with the most advanced political ideas from the continent at that time, despite the fact that we were by no means any different from all the other nations around us. It is not just about projects, but a movement that had succeeded to modernize Romania with incredible speed within several decades. All this transformation was possible thanks to the exceptional political generation consisting of

dozens of people; an insignificant proportion of an even smaller country. The example is indicative of how circumstances and one generation managed to guide a world from one cultural space to another. Another similar example, but further back in history, is the Era of Stephen the Great, who turned a quasi-nonexistent state into a force of medieval Europe. But sometimes revolutions end up exterminating the elites of the very same era, transforming it and creating other elites in turn.

As noted, in the absence of a „nobility" ensuring the identity and ruling of past societies, the leadership role is currently assigned to the *political class* by a dispute or even *the economic class* by confusion and is often confused with it. The two classes are joined by *opinion leaders* and *mass-media stars*. Of course, modern society has brought along many restrictions of this representation, but also certain forms of intoxication and discrediting of the significance bestowed by the elites. The *local Mafia* may be considered elite (the original Sicilian Mafia was actually local nobility). Pressure groups can also be elitist (Jalowiecki, 1990).

The political elite can determine major changes, revolutionary ones, can create the institutions and the identity of the places together with an atmosphere required in development. Many favorable periods of rapid economic development are linked to the names of political and academic leaders: Keynes, Reagan, Teatcher introduced doctrines bearing their names or, as it happened in Baden Wurtemberg, the *Spat-Kapitalismus* got its name from the Minister-President that governed during the most flourishing period of the region. Also, many U.S. governors have secured a place in history because of the mega-projects they have promoted. But the healthy development of a community, with or without political elite, lies in a particular form of the elite: the *local entrepreneurship*, which in time may acquire the necessary political sophistication necessary in moral boosting. Local entrepreneurship should have the conscience of the local identity, of belonging to the local network and a deep sense of co-responsibility for the local environment and community. The classical economy was generated by the *genius loci* and *genius proximitatis*, both in a physical and a social sense. The local

entrepreneur is deeply embedded in the local social structure, as a part of the elite (Jalowiecki, 1990).

In a more funny approach on the success stories of the 70s from the U.S., such as Silicon Valley or Route 128, we may discover conclusions that even the most rigid economists cannot battle. One of these is the fact that innovations and entrepreneurs spread through the culture of the community. The two regions offered as an example were nevertheless different from this point of view. While Route 128 has a culture of an authoritarian and rigid puritanical culture of hierarchy, Silicon Valley is the realm of pure, unrestricted "pioneering", experimentation and entrepreneurship (Saxenian, 1994). Silicon Valley is often said to be the birthplace of modern information technology. Legends about garages where ideas were born and teenagers who turned millionaires are the story in a nutshell of the most important players in the modern world. Accidentally, or rather, less coincidentally, names like Charles Litton, Bill Hewlett and David Packard (Hewlett-Packard founders), and Bill Shockley (inventor of the transistor) and one of his students Bob Noyce (Intel founder), Steve Wozniak and Steve Jobs (Apple founders), not to mention Bill Gates, the undisputed star of the software world, all "met" on the same territory. As John Rees metaphorically said, (2001) "these people could have gone anywhere, but their mothers were there" ... suggesting the idea of local culture. Similarities with the situation can be found in Northern Italy and Baden Wurtemberg (cases of industrial districts and clusters).

This allegorical history of people and places arises some questions in the literature: *is such an entrepreneurial culture specific to an area, to a community or can it be found and activated anywhere, or: can there be created an environment sustaining its development or is it pure random?* More precisely: is the fact that the presence of some elites changing the course of history a random one taking place at a particular time in history, or *is that elite born precisely because there are premises of its formation within that territory, premises generated by the local culture?* The answer lies probably with both variants (Rees, 2001).

For these reasons, in the literature the concept has evolved to a more specialized and more technical one than just the generic title of elites. The elites now designate a confused category, responsible for many social facts, some of which have an economic purpose, while others have no economic meaning at all. If we view the phenomenon of development in a *stricto sensu* manner, the term "leadership" appears to be more appropriate. Burns, 1978 (quoted in Krueger, 1990 p.9) – *calls it one of most observed and least understood phenomena on earth*. Krueger (1990, p.9) defines leadership as *the action (a motivated and voluntary act) of one or more persons to mobilize institutional, political, economic, psychological resources and others in order to attract interest, arrest and satisfy the motives and expectations of those following that person (those persons)*.

Gardner (1990, p.12) defines *leadership as the process of persuasion or the example by which an individual or group induces a group or a community the pursuit of goals (shared)*. Benis and Nanus (quoted by Rees, 2001, p. 98) argue *that leadership invents and creates institutions that can give individuals the ability to act in order to meet their needs, their choices, goals and visions that are based on the key needs of the majority*. In other words, leadership creates a "social architecture" on which a community rests and which ultimately directs those who are being led to a higher level of *consciousness* * (local consciousness or the sense of belonging).

There are other shades (Rees, 2001): With regard to economic development, the leadership definition follows the same guidelines as in the case of classical leaders, with the exception that the relationship leader – "follower" is not as much a hierarchical one as it is collaborative, based on mutual trust and cooperation. Moreover, it is not just about one institution or person that is able to take on the problem of development from a region, but about synergy, accumulation, so that we call leadership a *phenomenon* and not an individual one. Leaders inspire and motivate by the power of personal example, by persuasion, arguments, facts, information, and empowerment and, much more

rarely, by command and control. Leadership is determined by the synergy of all these ideas. Some ideas, though impractical, are good in their mobilizing effect the same as the political discourse or rhetoric carrying a role of mobilization and institutional change. Leadership requires a multidisciplinary approach, and research in the field has even isolated leadership theories. A synthesis of leadership definitions made by Rost (Rees, 2001) is perhaps a good starting point in explaining the role of leadership in community development: „*Leadership is a relationship / system of influence relations between leaders and those following them, which determines real change in the behavior and actions, affecting the mutual goals on both sides.*” The so-called *Community Leadership* (community leadership) completes the definition by Rost adding a few elements such as highlighting the role of local groups, coalitions, and interactions between them and how they affect local politics. In this context, we define the so-called *leadership for community development as the tendency of a community to work across sectors in a sustained manner, which aiming the increase in performance of that community.* At the same time, leadership is also linked to new modern public management concepts such as “*capacity building*”, reminding of the theory of social capital (Stimson, Stough and Roberts, 2002, p. 277). From this perspective, it can be concluded that the lack of elites can be replaced by organization and vice versa, the lack of organization can be complemented by a charismatic leader.

2. Spiritual and community infrastructure

Culture, perceived as the sum of identities, institutions and community elites, can be assimilated in a process of economic development of a so-called *spiritual infrastructure*. The importance of this factor in the development of communities is still a debate in the academic world. From Huntington's theories (1998) to debates hosted by *Alterra* magazine (1998-2000), the views span a varied spectrum between two extremes: absolute determination and total lack of influence. In a study

by Gustav Molnar: *The Transylvanian Issue* (1998), in which he invokes Huntington, the author advocates the idea that differences between *civilization tectonic plates* determines the future developments of territories in a decisive manner. The idea that differences cannot be overcome, namely that development undoubtedly depends on the *genetic code* of the nation or region to which it is related, is the one being advanced. More precisely, nobody is being refused development, but not all types of development are the same. On the other hand, authors such as H.R. Patapievici (2003) considers capitalism to be similar to physics, mathematics, and even the rule of law, as a *universal structure*, and as a universal structure it could be put to work by anyone, whether Catholic, Orthodox, Hindu, Shinto or Muslim. From this perspective, accepting a civilization is only a matter of political will of the elites and of the population too. Gustav Molnar believes this consideration to be a typical case of confusion of modernization with westernization. The elite of a nation or a region decides whether it wants to modernize itself and the result of such a decision can be seen at the end of several decades, but changing the type of civilization (the identity implicitly) is only possible if an organic connection maintained for centuries with the integrating civilization endures and not even then results are predictable in advance. The bankruptcy of aspiration towards a total change of identity is illustrated by two classic examples in political history. Peter the Great and Kemal Ataturk, who, by trying to westernize, have created "schizoid countries, uncertain of their cultural identity" (Molnar, 1998). It is much more frequent and much happier the case in which the leaders of non-Western societies have managed to modernize their countries by refusing at the same time westernization. For example Japan, guides itself by the principle Walkon Yosei, i.e. Japanese spirituality, Western technology, or Saudi Arabia, which retains the Islamic tradition while modernizing (Molnar, 1998).

With these considerations we go back to the Weberian vision of a *spirit in agreement with a certain type of civilization*. In this case, for a country like Romania and not only, the question is whether the capi-

talist spirit has an Orthodox ethics? Perhaps Weber's idea was valid in his time, when a spirit or ethics could build a society. Currently, ethics and spirit can be brought in from anywhere in the world. It is not the people who should have ethics or spirit, but only a critical mass of entrepreneurs, which can be found in almost any type of society, including an Orthodox one. Of course, ethics and spirit can make a difference, but they cannot stop development. A development process can only be maximized or inhibited by these values, but it depends crucially on the political will of a society, just as it is with Patapievič's view of capitalism, where it is determined by physical rules and universal recipes anyone can adopt.

Beyond this dispute, after all, there is concluding evidence that the elements related to identity, institutions and leadership are present in economic evolution. Even if there are no direct, probable (proven) causalities, the "cultural environment" is the catalyst where social processes and reactions occur. As a result, economic research must consider before the application of policies certain elements related to sociology and local ethnology. Behavioral challenges, as named by Daniela L Constantin (2001) – participation, communication, mentality and attitudes, all of these are more important than financial constraints. Therefore, the approach of a people-centered development strategy is much more important. In this sense, the local government is more than just a service provider but a 'social manager'. Any government policy needs a cultural environment and community feedback.

Hryniewicz (1990) suggests several elements necessary in getting a full picture on the role of institutions and elite identity in community development processes (as basis for research):

- General social attitude, orientation towards reform and innovation or preservation of the status quo. People's expectations from the state, the degree of differentiation or homogeneity of attitudes in the community, of what is meant by participation and as well as the views on its desirability and how these aspects vary among different subcultures.

- Social structure, the manner in which population relates to the social structure. That is, how do social classes define themselves and how they view the others (each has an image about itself and a view on the others). For example, when they recognize social inequalities in individual labor or treat these differences as social injustice and abuse.

- *The degree of connection between politics and social differences (class struggle) or contestability.* For example, the contestability degree of a society could decrease with advances in living standards, regardless the perception (correct or not) concerning the sources of differentiation.

- Other inclinations and political attitudes, for example, how well do the citizens know their rights and how often, or under what conditions do they go to court in order to **exercise** such rights. How paternalistic or involved are the citizens and how much of an entrepreneur (entrepreneurial density) are they; what do they prefer? Less work and less money or more work, more money.

- Degree of collectivism vs. individualism;

- Reporting to the elites, how important are opinion leaders;

- Diversity of opinion and what is its role. For example, The Netherlands, the country with the highest density of opinions in Europe, also possesses the attributes of this diversity giving rise to specific developments;

- The "social" capital and a natural tendency of a population for egalitarianism. Or it can be the natural ideological inclination of a population towards the left or the right, i.e. linking ideologies to identity. On the opposite side of a united society lies incivism, the idea that public affairs belong „to the state“, etc.

- The degree of political "fragmentation": the effectiveness of development is connected to the degree of legal and political *fragmentation*, of cooperation between economic actors and community involvement in solving the problems and resource availability.

All this emphasizes the fact that the economic aspect is largely a cultural issue. Cultural differences will continue to be present for a long time within the social and economic evolution processes and will

continue even to induce development gaps between nations and regions, despite Fukuiama's futurology forecasts (1992) foreseeing the death of identities. Nations and sub-national communities will continue to preserve their differences or to create new differences. Policy makers will have to filter any initiative through the perspective of identity so as to prevent incompatibility manifestations between a course imposed from outside and the course of their community's natural evolution.

Institutions (as organisations)

As previously demonstrated, any system is managed by means of institutions. The manner in which social and economic power is distributed (most of the time unequally) in a community is the characteristic result of the group of institutions from within that community.

Institutions, in the broad sociological or cultural sense, represent, as already mentioned, the unit which is the *closest superior unit to the individual*. In a narrow sense, which is will be debated here, the institution is that *group of individuals gathered around a scope*.

The existence of the scope guides the meaning of the institution concept towards that of *organisation*. Institutions are made out of values, collective beliefs, unwritten rules conditioning or coercing the individual activity. They can even have an abstract existence. Organisations, however, are tangible entities. Organisations have interests, have institutions helping them, a so-called „*raison d'être*”. Organisations are actually formalized institutions.

Apart from families, organisations seem to be the only social systems with „*fixed postal addresses*” (Langer, 1999). By contrast, neither the functional systems such as politics or economy etc., nor society possess such an address. As it is, their existence is rather relative, conceptual. Modern society functions by means of these organisations, which is different, first and foremost, by its functions (economic, cultural, social and political) and by spatial display.

Therefore, any analysis of the economic potential of a region requires an inventory of available organizations. The next step is gaining awareness regarding the interconnection and spatial coverage of these organizations (globalization) in a manner that can be considered to be of a "regional" size. That is, the economic potential and hence, the development potential of a community depends on a so-called *institutional capacity*, which in its turn depends on leadership and capacity building (Harrington and Ferguson, 2001; Stimson, Stough and Roberts, 2002).

If we assign to the scope of community *economic development*, the question arises whether we are able to create organizational structures with development as its stated destination. Is it possible for „technical“ institutions to be developed, specially created for this purpose or is it simply the institutional capacity the one that is creating that operational environment from which development draws its own tools? Thus we eventually reach the classic dilemma of interventionism or non-interventionism in the economy. In addition to the institutional administrative apparatus to be found at the disposal of a state or a region, development may, at some point, require the creation of additional institutional instruments that pave its way. The history of development institutions may very well begin with the Rockefeller and Ford Foundations, from the 50s – 60s, which carried out support programs of institutions from administration and management field, while in the 60s-70s, there was a United States Agency for International Development, which supported institutional strengthening (Puşcaşu, 2000). Creating such institutions requires a very delicate management of the interests of various social groups. Where human motivation exists, the evolutionary economic processes are also born. So it is a political process. Interests-guided orientation is a fundamental ingredient for macroeconomic indicators as well and not only for the entrepreneur. For example, the institution of the *State Propriety Fund of Romania* was a construction which failed from the beginning, because the very idea of it was wrong. The purpose of that institution could only be assimilated to "self-devouring". In other words, the people involved in that institution, working for privatization,

were actually working for the loss of the object of their work. The more productive they were, the more quickly they were losing their jobs. This led to corruption generated by the privatization and the huge delays of processes, which resulted in sharp bankruptcies and massive unemployment. Following the same logic, is the question of what will a development agency be needed for once it reaches development a legitimate one? Reaching the absolute peak of development is basically utopian. There is always some space left, but in a functioning and growing market economy a development agency has difficulty in finding its place. These institutions are nothing more than struts helping the economic system, in case of fractures, but which interfere with the functioning of a normal organism. The state cannot invent development. It can stimulate certain activities and facilitate a meeting between leadership-based creativity and capital in a space where these cannot meet by themselves. Institutions in charge of these meetings are the *development agencies* – or *internal investment agencies*, those organizations that can have functions ranging from strategies development and feasibility studies (which cannot generally be made by private parties) to direct financing of projects and ideas from funds provided by the state or state facilitated credits or from various financing institutions (development banks, funds, European Union, etc). The role of these agencies is to put an economy on track, to promote certain activities, to foster fragile ventures on a constant developing market, but their proven effects are still quite modest.

Especially in Romania, these agencies have been largely dependent on political interests, especially in sectors where large sums of European or government money were pumped in. The absorption of large available funds requires the existence of structures capable of managing these challenges in the short term. These are however likely to generate corruption around them, benefiting from the lack of a censorship on the competitive market. Therefore, the orientation of development agencies towards public services which are more difficult to offer by the market is much more useful: information, consultancy,

stimulating cooperation. In addition, if certain areas require it, domestic institutions are formed as a response to social demand. For example, if tourism needs a centralization of tenders, an office will be created to handle this task. It is not the establishment of such an office that will create the social function for which is intended, but the quite the reverse, the institution (the organ) is created by the function.

This is why it is more important to discuss the institutional development of the entire social and economic corpus that should be generating economic development.

Institutional development essentially represents the manner in which institutions become able to efficiently mobilize the way human and financial resources available in a spatial unit. The literature deals with a very different spectrum of notions regarding this concept (*reinforcing of institutions, managing the public sector, administration, development, etc.*). The key issue is to know how to efficiently mobilize the resources of a country or region, so that all the factors may contribute to the development process. The mobilization of resources may be done from the inside, with the institution managers or by means of an outside stimulation from the government or development agencies.

Conclusions: The present article has tried to list the elements pertaining to the *socio-cultural framework* (population, identity, traditions, elite) and to a *so-called political, administrative and organisational framework* (institutions, autonomy). These two frameworks are but the two pillars of an integrated development system directed towards the community, which is the elementary unity of a collectivity class characterized, according to a set of defining criteria, as being homogenous. Two more pillars are added to these: actual *the economic apparatus* (labor force, finances and fiscality, infrastructure and other economic policies) and the *so-called contextual framework*, the latest factor and actor in the evolutionary economic processes (European integration, globalization, multinationalization). These frameworks are actually the elements of the development issue as seen from the perspective of economic politics.

Their description is made in the light of approaches from different theories which have already analyzed these factors.

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