

Path-dependency in Transition Economies: Searching for a New Agenda[†]

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In the field of economics, Paul David describes path dependency as a property of contingent, non-reversible dynamic processes, including a wide array of biological and social processes that can properly be described as ‘evolutionary’ (David, 2001, p. 15). The concept of path dependency has a primary affinity with evolutionary elements. It assists an understanding of institutional changes and has given a logical basis to explanations of why the evolutionary paths of transition economies diverge rather than converge. Focusing on the topic of institutional change, John Campbell defines path dependence as follows: ‘The concept of path dependence refers to a process where contingent events or decisions result in institutions being established that trend to persist over long periods of time and constrain in the range of options available to actors in the future’ (Campbell, 2010, p. 90). From this angle, he characterizes institutional change in cross-national terms by discussing technical efficiency, diffusion, conflict and power, bricolage and translation, the gaps between intentions and outcomes, and institutional complexity (Campbell, 2010, pp. 91–106).

An international conference on the ‘Diversity of Institutional Settings and Path-dependency in Transition Economies’ was held at Kyoto University on February 23 and 24, 2016. It was organized as part of the KIER Joint Usage and Research Center Project ‘Diversity of Institutional Settings and Path-dependency in Transition Economies’. Two keynote speakers were featured. Re-examining state erosion in transition, Gerard Roland investigated the long-term institutional diversity in political transition and challenged Chinese marketization. Geoffrey Wood illustrated comparative capitalism in terms of the convergence and divergence institutional arrangements.

All authors included in this volume (except Geoffrey Wood) participated in this project. We asked them to employ concepts related to path-dependency in their articles. We shared the notion that the recombinant institution, whatever its negative or positive current impact, is crucial for explaining ongoing economic, political, democratic, and organizational processes in transition countries. Therefore, the key terms of path-dependency – such as ‘recombinant institution’, ‘institutional ‘bricolage’, and ‘institutional building with ruins’ (not on the ruins of socialism) – are included in their articles.

Stark's article, 'Path Dependence and Privatization Strategies in East Central Europe' (1992), can be considered a pioneering source that consciously applied the path dependency concept to explain the recombinant features of institutional changes in the early period of transformation in Eastern European countries. Stark pointed out the differences in privatization strategies among East Germany, the Czech Republic, Poland, and Hungary on the basis of both privatization assets (ownership) in the implementation of privatization and the resources (social status and financial assets) owned by actors (individuals and corporations) who tried to acquire those assets. In light of these four distinctive paths¹ at the time of the departure from socialism, he denied the existence of the institutional vacuum and argued that privatization policies that had been decided in different political situations subsequently created several paths.

In the initial period of transition from socialist economy to market economy, the concept of path dependency gave a strong explanatory impact to the diversity of institutional building in transition economies. At the same time, this concept was cursed by the widespread catchphrase 'History matters'. This concept was often seen as historical determinism. Those who criticize this concept as such claim that path-dependency is past-dependency and that the past starts with the breakup of the homogeneous foundations of state socialism (Burawoy, 2001, p. 1108). Initial policy selection determines the trajectories that diversify the path. The most critical point of the analysis that uses the path-dependency concept is that the initial policy selection and its long-term impact are more limited than those who emphasize its impact on the path assumed (Beyer and Wielgohs, 2001, p. 386). For example, privatization, the strategies of which were important in determining the variety of paths in East Central Europe, was a short-term phenomenon, and the matter of path dependency should always be the long-term outcomes of historical development (Beyer and Wielgohs, 2001, p. 387). It may be desirable to maintain the long-term explanatory power, but it is difficult to predict which historical event or choice will keep the path diversified.

Belov described some of the critical junctures in the 'lock-in' of the economically inefficient long-term path of the Russo-Japanese trade pattern, which can be termed as a 'lock-in to something bad'. His usage of the path-dependency concept is rather intuitive compared with that of the other authors, because of his way of employing the concept. He returned to the original idea behind the concept, mentioning that 'path-dependency' means that any kind of development depends on previous experiences that can 'lock-in to something bad' or 'lock-out something better'. History matters, because historical junctures force a country, organization, or actor to change their behaviour and can make their path diverge from the others. This may be an interpretation of path-dependency, but Belov's article may also suggest that path-dependency is just a concept, not an approach. This concept may not provide a normative approach; only a broad interpretation of path-dependency appears in this discussion. Although we have enough space in which to interpret the concept of path-dependency, the targets for its employment are contextual. Context matters in using path-dependency.

Babos and Lubyova's article also captured an historical event – the collapse of socialism as a juncture to a new path – and explained why different transition outcomes were generated from the same historical event. However, they were careful not to employ the path-dependency concept deterministically. They discussed path-dependency as a mechanism of self-reinforcement. Focusing on the moment and process of recombinant institutional building in post-socialist countries, Babos and Lubyova explained the diverse outcomes of transition by analysing the roles of the actors who caused the historical changes and set the developmental paths. Stark and Bruszt also claimed that path-dependency is not past-dependency (Stark and Bruszt, 1998, p. 7). Stark and Bruszt's perspective on path-dependency is more evolutionary than deterministic. History matters because it diversifies outcomes, but history is not deterministic because a recombinant institution is strategically configured by the actors who try to overcome the obstacles to change.

Olimpieva's paper pointed out that the path-dependent character of the established social partnership institutions worsened the initial mismatch between the social partnership model and Russian social and economic reforms. Her focus on the concept of path-dependency concentrates on the inefficiency of Soviet-type institutions such as the social partnership, political practices, and the mechanisms used by trade unions. In this sense, her concept of path-dependency is a negative one, describing Russian trade unions' evolution during transition. She also developed the concept of formal and informal 'parallel institutions' to explain the trade union strategy of involving political power as a way to cope with the path-dependency of the formal trilateral institutions of the social partnership.

Contrary to Olimpieva's usage, Sippola's usage of path-dependency was a positive one. He examined institutional bricolage in the formal and informal practices of human resource management (HRM) in Nordic factories in Russia. Sippola's focus is on the ability of bricoleurs to combine features of the traditional and the modern, the official and unofficial, in selecting the best features of all systems. He shows that the recombinant HRM of both the old and new formal and informal institutions can be a positive engine for pursuing innovation in localized HRM, which is often called the 'hybridization of HRM practices'.

The recombinant institution is a form of adaptation to uncertainty by which existing resources are strategically chosen to survive in a transformation period. The path produced by the strategic choice may be inefficient, innovative, or an adaptive path on the way to the 'best' path. The transformation from socialism to capitalism was not a linear path to the best practice but a diversified set of paths. A variety of recombinant institutional building during transformation can be produced by the resulting variation of a new configuration in transition countries.

Although economic policies, particularly austerity measures, have played a role as convergent driving forces, transformation may be regarded as path-dependent. Current institutional building is influenced by past legacies, which not only restrict choices and future paths but also create the

possibility of new recombinations of these legacies. For example, focusing on legacies as a relationship, Beissinger and Kotkin (eds., 2014) identified a variety of path-dependent evolutions of transition economies. Past institutional legacies can restrict current possibilities and the range of options for institutional innovations. On the other hand, formal and informal institutional legacies can be strategic resources for determining new paths. Strategic choices of resources lead to new innovations for surviving in transformation. Whether the past institutional settings inefficiently determine their paths or lead to innovative strategic choices depends on the observers' approaches.

We have not dealt with all the concepts related to path-dependency. It is not our aim to cover all topics concerning path-dependency in transition economies. What we show in this volume is that path-dependency is still being discussed in terms of transition economies and that it can be a key concept in analyses that differ from the normative view.

† We are grateful for the Joint Usage and Research Center of the Institute of Economic Research, Kyoto University, for financial support for this article.

Notes

¹ They are East Germany's reunification with West Germany, the fall of the communist government in the Czech Republic, the compromise between the Communist Party and the reformists in Poland, and the election-based competition in Hungary.

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