

V. Volchik,
Dr. of Science (Economics), Southern Federal University, Rostov-on-Don, Russia
A. Maslov,
PhD (Economics), Rostov State Economic University "RINH", Russia

NEUTRAL MARKETS, NON-NEUTRAL INSTITUTIONS AND ECONOMIC EVOLUTION

Introduction

Drastic changes of the past few decades showed that there were still a lot of economic “things-in-themselves” that could not be comprehended, at least from the point of view of existing neoclassic paradigm. For a certain period of time economic, social, political and mental altering of several well-known nations in the end of the 20th century was of great interest to traditional institutional approach. However, recent global economic downturn, which once again proved ineffectiveness of existing institutions, has summoned a new training ground for felicitous institutional analysis.

It is obvious that existing model of economic and financial performance has too many flaws. Subjective ratings, structured instruments of investment, narrow-mindedness of stock analysts obscure real value of assets. More importantly, the possibility of continuous refinancing of existing public and commercial debts aggravates current situation. There is no point in looking for a remedy from a disease if it can be palliated by existing financial ointments while its exasperation is anticipated in distant future.

The analogy with symptoms and reasons of a disease is quite prevalent today. Yet, it means a lot to an institutional approach. Imagine that existing institutions are already affected by a surreptitious disease while the majority of “professionals” deem them healthy. It creates a pantomime of an effective functioning of a system. A few eventually give credit to the dimensioned internal lock-in effect of modern financial order when money, as a pivoting element of any economic system, has lost their initial functions and have virtually turned into “a credit for unissued credits”.

In a system, which is based on “errant” cash flows, warped calculations and behavioral uncertainty, an economic crisis is inevitable. Every full-scale downturn of a system can be considered to be a deinstitutionalizing crunch, which saliently shows ineffectiveness of functioning institutions and animates an idea of global shifts in an existing system. In this paper we show that evolution can hardly be maintained by human actions. The neutral nature of markets forces institutions to be selected comparatively inefficiently, due to known lock-in effects on technologies effective from the stand of market process efficacy. The latter will prevail even if institutions and technologies are not result-effective but

conduce to the expansion of exchanges, thus granting stable motion to a neutral market mechanism.

Efficiency and neutrality

In economic literature the category “market” is being more often used in the context of “an efficient competitive market” or “inefficient monopolistic market”. We also come across contentious oppositions of market mechanism to alternative ways of coordination like “the society has to make a choice between market efficiency and social justice”. Such an interpretation of one of the most important economic categories “market” often fails to establish its true nature and, on the contrary, takes us away from reasons to the results of any market performance.

A market process is connected with two important definitions — exchanges and competition. However, in some models (especially neoclassic ones) the last category, with the market itself, is virtually brought to abstractions, having nothing in common with real economic issues. Moreover, a great number of neoclassic models doesn't require explanation of a market process and (or) competition which makes them applicable to the description of any type of an economy.

Finally, we deem that the idea of economic efficiency, which is predominant in neoclassic orthodoxy — Pareto-efficiency, has a remote relation to market process, being, in its core, the efficiency of the result, but not the process. We comprehend a market as a neutral, spontaneous mechanism of exchange, coordination and selection. Positive or negative results of market performance depend on contemporaneous institutions prevailing in the society. This statement is consistent with Hodgson's idea that the influence of institutions and routines on preferences and behavior of people is likely to be positive or negative. There isn't any vicious circle here: the results are not obliged to bear any definite characteristics. Our point is that the impact, made by institutionalized demeanor on preferences and activities of people cannot be deemed neutral (Hodgson, 1988). On the other hand, markets, as an instrument of resources' allocation, are a neutral mechanism that can lead to expansion of exchanges or their folding. The direction of any system's development, based on market exchanges and, consequently, derived from the functioning of markets, is defined exactly by non-neutral institutions.

The exchange as in increment of values

The concept of an efficient result does not

emphasize its attention on exchanges. The exchanges within this paradigm lead to augment of values, but only to a certain extent. Oppositely, in the research of market process efficacy, exchanges claim for a pivoting role; they are also considered to be productive.

Next, while analyzing the productivity of exchanges, a “value” category is used. Let us concisely depict what is assumed under this category in the paper. We accept fundamental principles of Austrian value theory, formulated by C. Menger (1871). First, the definition of a value, resulting in an action, means preference or refusal; it never stands for equality and (or) indifference. Secondly, there isn't any other approach to compare valuations of different individuals in sundry situations but to determine whether the investigated alternatives are at the same level of preference. Consequently, the definition of a value is a subjective assessment, reflecting value difference: the preference of an alternative A to alternative B of exchanging goods (Mises, 1949).

Economic exchange happens only in cases when a participant, performing the act of an exchange, receives any augment of value to the value of existing set of goods. This argument is proved by Menger (1871) from the assumption that there are two parties. The first one has a good A with the value ω_1 , the second one — a good B with the value ω_2 . As a result of their exchange the value of goods in the possession of the first party will be: $\omega_1' = (\omega_1 + x)$, the second party: $\omega_2' = (\omega_2 + y)$. From this notion it can be inferred that the exchange process increased the goods value of every participant by a certain magnitude. This example shows that the activity connected with exchanges is not a futile squandering of time and resources, but a productive work just as the manufacturing of material goods.

While investigating an exchange it is impossible not to mention its limits. An exchange will continue until the value of goods within the possession of every participant (their subjective valuations) is less than the value of goods obtainable as the result of an exchange. This thesis is true for all exchange contractors. Using the symbols of the example above, it can be said that an exchange happens if $\omega_1' > \omega_1$ for the first party of an exchange and $\omega_2' > \omega_2$ for the second one; or if $x > 0$ and $y > 0$.

As a corollary the following equation can be written:

$$(\omega_1' + \omega_2') - (\omega_1 + \omega_2) = \delta \quad (1)$$

where ω_n' is the assessment of value after an exchange, ω_n — value assessment before an exchange, δ — value increment; within all voluntary exchanges $\delta > 0$.

Equation (1) serves as a purely illustrative interpretation of what was said before and describes a

single act of an exchange. The key indicator here is δ , characterizing value increment or its difference, and consequently, the very possibility and reasonability of an exchange.

Evolutionary imminence

To explain market's efficacy from the vantage point of not a result, but process it is necessary to make a few remarks that are stacked in two theses.

The first thesis is based on stating the fact, that symmetric (the term “symmetric” and “asymmetric” are used in relation to disposable information of exchange subjects) and free exchange of economic goods leads to increment of values. In other words, the value of goods before an exchange is less than it is after it.

Usually it is doubtless that a basic market product — price — has informational nature, though its functions are not limited by only informational signals (the discussion about this issue was conducted within the Austrian Economics). That is why results of a market performance as a mechanism of coordination and selection depend on initial conditions of informational distribution and also on the criteria of its interpretation by economic subjects involved in the process of exchanges.

An important remark is required here: a market produces selection and forms signals, used by individuals while organizing their economic activities in compliance with initial conditions of informational distribution pointed out above. Therefore, while analyzing market's “efficacy” it is necessary to consider exactly the mentioned factors.

As it has been noted, a market is a neutral and spontaneous mechanism of coordination and selection. Deriving from the premise that markets are neutral a rule can be formulated: in the result of market selection informational signals obtain the features that were given by initial distribution of information, whereas initial conditions depend on social institutional frameworks and cognitive abilities of individuals. Such selection leads to results impossible to forecast, but in the direction determined by initial informational-institutional frameworks. A minor remark is required here. Initial institutional conditions are formed spontaneously, often as a result of insignificant (from the vantage point of contemporaries) or even absolutely random factors. The introduction of neo-evolutional theories, connected with path dependence seems useful here. As shown by the most prominent representative of this direction of research B. Arthur insignificant historical events cannot be eliminated and averaged in the long run, because they can predetermine the occurring of these or those consequences (Arthur, 1989). These historical events are the initial institutional restrictions, which in the result of inertia of political, technological and institutional structures (Mokyr, 1992) may, depending on different factors (which

are going to be investigated below), lead a system to the situation of expansion or folding of exchanges.

Thus, when analyzing a market, it is indispensable to depict a vector of selection, which is given by initial institutional conditions and distribution of information. The fundamental difference of this approach to neoclassic one is that we cannot change this vector or denote optimal initial distribution of information. These processes are evolutionary. That is why a pivoting role here belongs to learning and performance of single economic subjects, acting conformably to their endogenous values criteria. Comprehension of mechanisms and causes of such dynamic shifts is an essential condition of probable adjustment of individual preferences and moreover — economic policy. On the basis of argued questions a second thesis can be formulated, explaining the essence of the market process.

According to the second thesis, asymmetric exchange leads to an undefined result and, in particular, it may provoke a decrease in aggregated value of goods. In other words, the value after an exchange may be either more or less than before it.

As asymmetric exchange leads to an undefined result, one of the consequences of such an issue is the closing of markets and stopping of exchanges (Akerlof, 1970). It isn't lucrative for any of the engaged parties. Therefore, all of them are interested (although incommensurably) in decreasing information asymmetry. As a corollary such situation generates incentives to search for new ways of creating rules, and in the long term — institutions, lowering information asymmetry.

Market process efficacy

Efficacy of a process is based on the following statement: on the one hand every exchange leads to value increment, on the other one — value increment eventually stimulates new exchanges. Thus, we can characterize efficacy of a process, in the first turn, as an ability to multiplicatively increase the amount of exchanges and in the second turn — as an increase of value being an aggregated indicator of value increment in individual transactions.

We should note that a straight quantitative calculation of gross value can only be conducted indirectly due to non-additive nature of individual utilities. That is why, when formulating a criteria of market process efficacy we can talk only about comparative indicators of value (what is virtually derived from its definition).

From what was stated above the equation (1) can be modified in the following way:

$$(\omega_1' + \omega_2') - (\omega_1 + \omega_2) = k\delta \quad (2)$$

where k — informational compound, characterizing the symmetry of exchanges. If there is asymmetry of information, then $0 < k < 1$. Actually, k might be less than zero in cases of opportunistic behavior, but we do not include

such exchanges in our analysis. Following this logic, in case of positive externalities, coefficient k may exceed unity.

Coefficient k is a synthetic indicator. It depends on learning opportunities (I), external effects of exchange (positive or negative) (e), existing institutions, which function is to decrease transaction costs (i); it is also correlated with an indicator, depicting symmetry of informational distribution among agents (s):

$$k = f(I, (+; -), e, i, s)$$

Thus, along with initial distribution of information (that we generally don't know, though neoclassic models have it as "data"), institutions depict whether a system is on its way to the expansion of exchanges or their folding.

If we cannot determine whether a given distribution of resources is efficient *ex ante*, than what parameters may and should be included in the model, explaining process efficacy? Neither a concrete distribution of resources nor its dynamics is important for the process efficacy. The primal question here is the following: how do current conditions influence future exchanges, do they contribute to their expansion or not? The expansion of exchanges resembles a chain reaction in physics. However, unlike the latter, where time and spatial limits of a chain reaction are calculated and known in advance, evolutionary expansion of economic exchanges is indefinite in both dimensions.

The efficacy of a process is defined by a vector, denoting the development of a competitive system, but not the result of competitive collaboration and exchanges. If a system moves toward the expansion of exchanges we can treat it as an effective one; if not, when a relative folding of exchanges occurs, an economic system overlaps and decays.

The most important indicator describing the quality of a current system's state and the vector of its development is the condition of institutional structure. Formally, it can be defined relatively to k magnitude, reflecting the symmetry of exchanges. Competition is the key mechanism making it possible to realize the potential of a market, without accounting for exact proportions of sellers and buyers at the same moment of time. Competition also conduces to selection of efficient institutional constraints, generally comprising an institutional structure of an economic order.

Equilibrium and market's efficiency

The usage of the conception of market process efficacy is, first of all, aimed at explaining the role institutional restrictions take in functioning of an economic order, which is based on competition, free exchanges and entrepreneurial initiative. That is why all arguments above can be applied only to economies that have market exchanges within them or, at least, collaboration of different centralized orders.

Undoubtedly, the question about the concatenation of process efficacy and equilibrium is of considerable importance. As it can be inferred from the logic of exchanges' definition and process efficacy, the idea of equilibrium is exuberant within this context. We can speak about equilibrium only to characterize misbalance, i.e. in our case this is a situation when valuations exceedingly discord. It makes an exchange possible. It is hard to argue that every exchange is to be completed as a state of short or long term quiescence. But in a certain period of time (that might range significantly) market agents will have to be involved in exchanges once again, (as the time bestows new incentives of this kind on them) which were not explicit in the end of preceding exchanges. As a static market stance, equilibrium is not effective from the vantage point of process efficacy.

Pareto-efficient equilibrium within perfect competition illustrates a situation when such a level of prices is achieved that an infinite number of contracts can be made according to initial distribution of resources. But a consecutive question arises: if every act of an exchange assumes value increment, or otherwise the exchange is pointless, than how, within perfect competition in a balanced system, accumulated volume of values and information is systemized? It is impossible to answer this question without referring to different "objective indicators" in the form of initially available resources, which are basically reproduced in a static balanced system. But in this case there is no place for subjective valuations, which are vital for existence of exchanges, markets and competition. Therefore, all cases of equilibrium don't need such "trinkets" as markets or competition and as a corollary — they cannot be used in the concept of market process efficacy.

The market process efficacy concept allows to explain market mechanism as a neutral one. As pointed out above, markets have neutral nature and, as a process of exchange, they do not guarantee efficiency of neither a process nor a result. Besides, being an exchange mechanism, markets also implement a selection function. Therefore, a market process should be analyzed from the arguments of evolutionary theory.

For a long time within the predominant neoclassic paradigm economic systems were treated via the prism of static institutional structures. It summoned practical absence of qualitative institutional changes. And though there are certain theories of dynamic shifts within Marxism, mainstream economics does not have such a theory; in case of its development, it should be based on the model of institutional changes (North, 1990). Despite the fact that significant results concerning modification of statements of the "protective cord" (Lakatos, 1978) and even the "hard core" of neoclassic

paradigm were achieved, theory of institutional changes is still on the periphery of contemporary institutional economic research. As a result of transformation of transitive economies specific institutional structures appear. They hinder application of advantages of extended market order as one of the most efficient ways of economic coordination. Markets, which forming was treated as a panacea for post socialistic countries, have often showed their inconsistency within radical economic reforms. The reason for that is not in "market failures" or even "public failures". Reasons of inefficiency of a market mechanism are concealed in oversimplified comprehension of the market process and prices as a primary outcome of its performance.

If competition forms market prices than a long term guideline depicting the very order of economic organization also competes with alternative demeanor models. If an institutional structure is in the stage of forming or shifting than the institutions constructing it will appear and lock in depending on comparative efficiency of alternative ways, allowing coordination of economic activity (Volchik, 1997).

Market appeared long ago. Ancient societies used markets for both local and intergovernmental exchanges. As a way of coordination, for a long time markets were not connected with nations' welfare growth or involved in conformable relations. Only the formation of appropriate institutional structures allowed spontaneous mechanism of market exchange to transform into an "invisible hand", guiding societies to prosperity.

Inefficiency of some and efficiency of other mechanisms of coordination is revealed as a result of institutional metacompetition. In economic literature metacompetition is the competition of institutions: "if there is any form of economic organization, than it is effective, because only the most powerful survives in the process of competitive struggle, i.e. the most effective institutions" (Kapelushnikov, 1990)

Deteriorating selection of institutions with a decreasing marginal return, leading to the paradox of markets' inefficiency, which can also be contemplated in presence of public enforcement and power groups, is also summoned by actions of spontaneous evolutionary processes (Volchik and Berezhnoy, 2008).

To explain the reasons of stability of paradox of inefficient markets we bring forward the following hypothesis: the functioning of mechanisms of deteriorating selection of institutions within transformation of economic orders leads to asymmetry of informational torrents and emergence of selective incentives in groups, interested in locking in of institutions with deteriorating marginal return. These processes allow groups with selective incentives to receive institutional rent and to

adopt policy aimed at conserving existing suboptimal institutional structures.

Thus, if we analyze the case of “inefficiency paradox” from the point of view of proposed process efficacy concept, a number of important notes can be made. First, the exchanges with ineffective institutional restrictions, i.e. when $k < 1$ in the equation (2), may be Pareto-effective, but in the same time lead to folding of open markets. Secondly, the stability of such economic order can be attained via non-economic enforcement to exchange. Thirdly, when non-economic enforcement is absent or weakens, a system will strive for the stance where market exchanges fold; therefore it will be inefficient under the process efficacy concept.

One of the illustrations of inefficient market paradoxes, though reversely, is the “QWERTY economy” effect (David, 1985). The gist of this example is that market selection might also conduce to adoption of ineffective technologies (there are more economical keyboard layouts, like the Dvorak keyboard) from the Pareto-efficiency stand. Mokyr (1990) explains such a situation by the fact that introduction of “QWERTY” technology was conjugated with immense positive external effects. Using the language of this paper it can be said that k magnitude exceeded one, what led to expansion of exchanges, connected with the technology. Consequently such technology is effective from the stand of process efficacy that is determined by existing institutional structure.

Historical evidence of bottle-neck and founder's effects

The observed case of economic exchanges under the neutral markets concept shows that depending on institutional conditions a system may move either toward expansion or folding of exchanges. This process is characterized not as much by static stance of institutional structure, which is denoted by k coefficient, but by dynamic process of institutional transformation.

It is important to understand that institutional transformation is not bound to establish effective institutional structures; it can also lead to substitution of effective institutions by suboptimal ones. This thesis is saliently seen throughout the economic history.

One of the vivid examples is the downturn of Chinese and Japanese economies in 15-16th centuries. It becomes even more evident if we observe ascension and descent of rates depicting introduction of technological innovations in Chinese manufacturing and trade. In the beginning of the 15th century China was the most technologically developed civilization in the world (Mokyr, 1990). Key inventions had originated in China hundreds of years before they appeared in Europe as in the case with blast furnaces that enabled China to master metallurgy 200 years B.C. (Dosi, 1997).

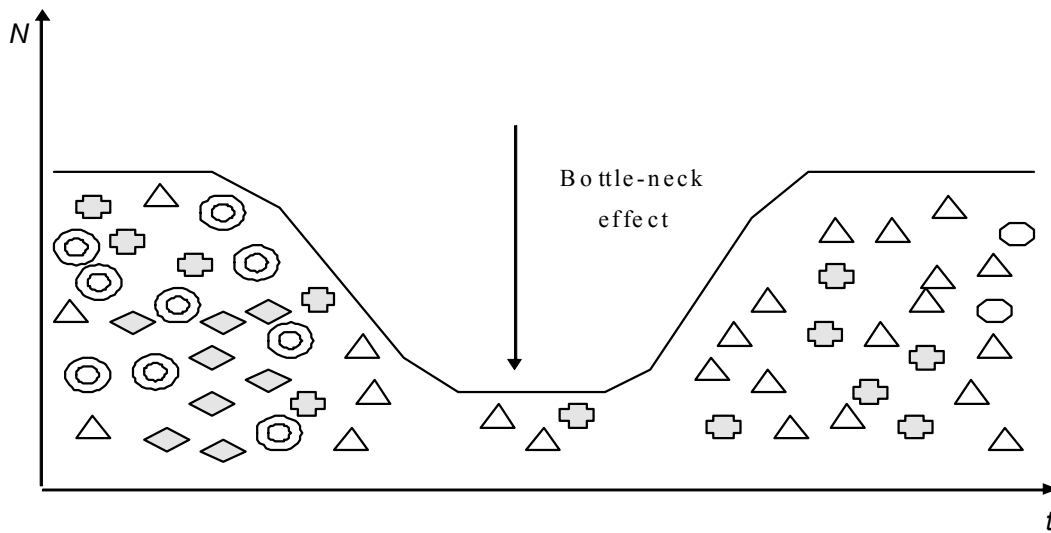
The decay of China's economy commenced from the policy of deliberate isolation, in other words — imposing ineffective institutional restrictions. It was also considerably reflected on the level of used technologies. Mokir (1990) assumed that the crucial factor of technological conservatism in China was the fear of rulers before potentially devastating influence that technological changes might have on social stability. In China, as in many other societies, numerous powers, especially concentrated within town guilds, hindered the dissemination of technologies. Bureaucrats, satisfied by existing status-quo, were afraid of emerging social conflicts (Dosi, 1988). The example of technological and economic stagnation of China can easily be explained from the position of market process efficacy. In this case, ineffective institutional restrictions created multiplicative effect, which folded exchanges.

We cannot always bestow right definition on institutions relatively to whether they impede exchanges in certain historical events or not. Medieval guild can serve as an example of such an institution. Guilds didn't always contribute to growth of distributional coalitions and decrease of competition and efficiency. On certain stages of economic development guilds were the only way of institutional adaptation. The historical argument brought forward by Greif (1992) evidences that in time of Commercial revolutions an institution like merchant guilds sustained the expansion of trade. A merchant guild was a stipulation of trade's expansion; its genesis wasn't provoked by new profits in trading. Moreover, the time when guilds emerged and as a corollary — the expansion of trading — was depicted by social and political factors (Greif, 1992).

The culture and system of traditional institutions resident in a society is often used to explain (un)successful economic development. However, such explanation cannot be always accepted as a sufficient proviso for development of theories dealing with qualitative dynamics of social systems. Many explanations of Japanese economic growth account primarily for specific features of Japanese culture. Despite that fact for a long time these specific features of Japanese culture and mentality didn't allow Japanese economy to attain any significant results, conserving archaic production and outrageous poverty (Olson, 1984).

The path dependence concept also explains why in several societies, with repeating persistence, elites (political in the first turn) chose worst variants from alternatives of economic policy. Historical examples of such cases can be found in works of many contemporary economic historians, in particular, Nobel Prize winner — D. North (1994), who analyzed the cases of choice of ineffective policy during four centuries in Spain.

The process of institutional transformation is undoubtedly evolutionary and historically stipulated. In



N - number of interest groups involved in sundry institutions
 t - time

Fig. 1. Bottle-neck effect

an economy the role of genes belongs to institutions. It is consistent with traditional evolutionary approach in economic theory, though sometimes institutions are superseded by routines. Routines are all normal and predictable samples of firms' behavior (Nelson and Winter, 1985). If we allow for an extended interpretation of "firms' behavior samples" as rules, structuring repeating relationships than the finding about genes and routines can also be projected on institutions.

If we deem economic evolution as a process of growth of diversity, complexity and productivity of an economy, triggered by periodic shifts in technologies, products, organizations and institutions (Maevskiy, 2001), than the model of "bottle neck effect" may give relevant explanation of process of institutional transformation.

The importance of sequel of historical events can be construed via the introduction of such models as "bottle neck effect" and "founder's effect". In biology both patterns are used as a particular case of a general problem of "genes drifting". If we put an analogy between biology and processes of economic and social lives than this biological event can be presented in form of large-scale institutional changes. According to the "bottle neck effect" (i.e. miniscule populations), it is likely that new species appear when mutation is bound in generations. Small populations are more plausible candidates for microevolution and speciation than large ones, because mutation seldom binds in large populations. In other words, if species has many individuals; its prosperity and propagation requires much more time for it to "evolve" (millions of generations) unlike species which dwindling population is in plight (Ayala and Kiger, 1984). The features peculiar to small populations (in the moment of passing

through the bottle neck) will most likely be multiplied in consecutive evolving of the population (fig. 1). Thus, appearing numerous populations reproduce genetic structure of their founders. American zoologist Mayr, one of the initiators of synthetic evolutionary theory, called this phenomenon "The founder's effect" (Mayr, 1988).

The moment of drastic transformation of any economic order leads to a so called transformational crisis (Polterovich, 2000). During this time there is an abrupt plummeting of exchanges and deinstitutionalization takes place. The moment of transition from one economic order to another one is analogous to the "bottle neck effect" in biology, and therefore can be named the same while describing economic processes. Institutions, which are left from old economic orders and are used to establish new ones, i.e. existing in the initial moment of development of a new economic system, gain special meaning for further evolution of this system. Here the "founder's effect" takes place.

Evidently, it is practically impossible to change the vector of development of the economic system that has just run through the "bottle neck". If a set of institutions after occasional and insignificant historical events (Arthur, 1989) turned out to be comparatively ineffective (in the categories of market process efficacy), than the system is going to reproduce those ineffective stances until a new deinstitutionalization appears, which can also be related to the "bottle neck effect".

An evident example of selection of ineffective market institutions comes from the majority of Latin American countries, which history of the 20th century shows what may happen as a result of "unfavorable selection" of institutions and actions of special interest groups, provoking social sclerosis (Olson, 1984). Much of this

question that was latter named contemporary mercantilism was elaborated in works of H. De Soto (1989, 2000).

Informational asymmetry created by a government, special interest groups or any other “destabilizing factor”, leads to unfavorable shifts in selection vectors. That is why while conducting any reforms it is indispensable to take into account the neutral nature of markets. Within the asymmetry of distribution of information and incentives a market will multiplicatively reproduce ineffective situations (i.e. introduction of market mechanism within conformably ineffective institutional restrictions leads to conserving of ineffective exchanges when there is enforcement generated by special interest groups; or when the enforcement is absent — to folding of exchanges and closure of markets), which can be overcome by the process of social evolution and learning (not education) of actors, which are eventually the representatives of the population all reforms are conceived for.

According to Olson, the best thing a society can do to increase its welfare is to obtain more knowledge. When we are wrong we bring much hazard. When we are right and bring forward coherence necessary to withstand special interests and charlatans, we make an important endowment into eradication of poverty and progress of humanity (Olson, 1984).

Conclusion

In this paper we tried to concisely pin down several questions concerning the effectiveness of market performance and evolutionary selection of suboptimal institutions. Neutrality of markets assumes that the investigation of institutional transformation of economic orders cannot be carried out without scrupulous attention to historical context of shifts in question. Institutions are like oil in a market's rusty mechanism. The mechanism will operate even if the oil is poor. But in this case it will have more breakdowns and depreciate faster. When the oil is good the mechanism will work just fine and serve much longer. In this aspect the meaning of history is revealed through taking into account not only empirical data of any historical segment but also the sequel of events and trajectory of economic development. History does not supersede economic theory but serves as an indispensable component of theoretical constructions, especially those of institutional transformation phenomenon.

The choice of an efficient decision dependent on preceding path of evolution is easily proved in cases of constant and diminishing returns. When constant return takes place previous technological adoptions do not influence the profitability of innovations. Within a diminishing return, if an economic subject chooses a technology in advance, he has to prefer the existing version of a certified technology, which further

introduction decreases its future lucrative parameters. That is why in this case there is a possibility to cancel the choice, leading to a worse path of development. Within increasing return, on the contrary, a deteriorating selection is prevalent. If a technology is characterized by different rates of innovations, the level of ineffectiveness decreases.

Any type of what we call “a crisis” may serve as a deinstitutionalizing point. This is a period of time when two important evolutionary effects take place: “bottle neck” and “founder's” effects. By analogy with biology, those phenomena describe the way ineffective institutions survive during a downfall of exchanges and distortion of informational distribution and further evolve into stable populations within a society. The institutions and technologies that are being selected right now within the current stage of an economic crisis should be treated with great care for their populations will most probably prevail in future. Thus, their characteristics will depict the very quality of our further lives.

References

1. **Akerlof G.A.** (1970). “The Market for “Lemons”: Quality Uncertainty and the Market Mechanism.” *The Quarterly Journal of Economics* 3, 488-500.
2. **Arthur W.B.** (1989). “Competing Technologies, Increasing Returns, and Lock-in by Historical Events” *The Economic Journal* 394, 116-131.
3. **Ayala F.J. and Kiger J.A.** (1984). *Modern Genetics*. Benjamin-Cummings Pub Co; 2d edition.
4. **David P.A.** (1985). “Clio and the Economics of QWERTY” *The American Economic Review* 2, 332-337.
5. **Dosi G.** (1997). “Opportunities, Incentives and the Collective Patterns of Technological Change” *The Economic Journal* 444, 1530-1547.
6. **Dosi G.** (1988). “Sources, Procedures, and Microeconomic Effects of Innovation” *Journal of Economic Literature* 3, 1120-1171.
7. **Greif A.** (1992). “Institutions and International Trade: Lessons from the Commercial Revolution” *American Economic Review* 2, 128-133.
8. **Hodgson G.** (1988). *Economics and Institutions: A Manifesto for a Modern Institutional Economics*. Polity Press, Cambridge, and University of Pennsylvania Press, Philadelphia.
9. **Kapelushnikov R.I.** (1990). *Economic theory of property rights*, Moscow (in Russian).
10. **Lakatos I.** (1978). *The Methodology of Scientific Research Programmes: Philosophical Papers Volume 1*. Cambridge: Cambridge University Press.
11. **Maevskiy V.I.** (2001). “Evolutionary economic theory and some problems of contemporary economic science” *Herald of young scientists: Economic sciences* 2, 324-337 (in Russian).
12. **Mayr E.** (1988). *Toward a New Philosophy of Biology; Observations of an Evolutionist*. Cambridge, MA: Harvard University Press.
13. **Menger C.** (1871). *Principles of Economics*. <http://>

mises.org/Books/Mengerprinciples.pdf. 14. **Mises L.** (1949). *Human Action: A Treatise on Economics*. <http://mises.org/books/humanaction.pdf>. 15. **Mokyr J.** (1992). "Technological Inertia in Economic History" *The Journal of Economic History* 2, 325-338. 16. **Mokyr J.** (1990). "Punctuated Equilibria and Technological Progress" *The American Economic Review* 2, 350-354. 17. **Mokyr J.** (1990). *The lever of Riches: Technological Creativity and Economic Progress*. N.Y.: Oxford University Press. 18. **Nelson R.R. and Winter S.G.** (1985). *An Evolutionary Theory of Economic Change*. Belknap Press of Harvard University Press. 19. **North D.** (1994). "Economic Performance Through Time" *American Economic Review* 3, 359-368. 20. **North D.** (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press. 21. **Olson M.** (1984). *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. Yale University Press. 22. **Polterovich V.M.** (2000). *Institutional dynamics and theory of reforms. Evolutionary economics and "mainstream"*. Moscow: Nauka, 31-54 (in Russian). 23. **Soto H.** (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Basic Books; 1st edition. 24. **Soto H.** (1989). *The Other Path: The Invisible Revolution in the Third World*. Harpercollins; 1st edition. 25. **Volchik V.V.** (1997). *Institutionalization of property: institutional provisos and models of establishment in rural sphere*, PhD thesis, Rostov-on-Don (in Russian). 26. **Volchik V.V. and Berezhnoy I.V.** (2008). *The investigation of economic evolution of power-property institution*. — Moscow: Unity-Dana (in Russian).

Volchik V., Maslov A. Neutral markets, non-neutral institutions and economic evolution

The article argues the neutral nature of markets. It describes the ways neutral markets expand or fold under the influence of non-neutral institutions. A demarcation is lined up between efficacy of a market process and a market result. The paper shows inconsistency of existing neoclassic models in their striving to depict equilibrium parameters. The evolutionary nature of economies compels economists to concentrate on efficacy of a process which might also conduce to selection of suboptimal institutions. The latter may become extremely robust and evolve into stable populations if an existing institutional framework contributes to the expansion of exchanges. These issues are analyzed through the prism of "bottle-neck" and "founder's" effects. The comparative inefficiency of economic evolution claims for effectiveness of a process but not the general system.

Key words: market efficacy, congenital

development, institutional transformation, bottle-neck effect, founder's effect.

Вольчик В., Маслов О. Нейтральні ринки, не нейтральні інститути і економічна еволюція

Стаття аргументує нейтральну природу ринків. Вона описує ринки нейтральної держави, які розширюються або закриваються під впливом не нейтральних інститутів. Демаркація визначається між ефективністю ринкового процесу і ринковим результатом. Стаття показує неузгодженість існування неокласичних моделей в їх прагненні зображати рівноважні параметри. Еволюційна природа економік примушує економістів зосередитися на ефективності процесу, який, можливо, також вів би до виділення підоптимальних інститутів. Останнє, можливо, стає надзвичайно здоровим і еволюціонує в стійких співтовариствах, якщо встановлена структура існування сприяє розширенню обмінів. Ці проблеми аналізуються через призму критичного "ресурсу" і ефекту "засновника". Порівняльна нездатність економічної еволюції вимагає ефективності процесу, але не системи в цілому.

Ключові слова: ефективність ринку, природжений розвиток, встановлене перетворення, ефект критичного ресурсу, ефект засновника.

Вольчик В., Маслов А. Нейтральные рынки, не нейтральные институты и экономическая эволюция

Статья аргументирует нейтральную природу рынков. Она описывает рынки нейтрального государства, которые расширяются или закрываются под влиянием не нейтральных институтов. Демаркация выстраивается между эффективностью рыночного процесса и рыночным результатом. Статья показывает несогласованность существования неоклассических моделей в их стремлении изображать равновесные параметры. Эволюционная природа экономик заставляет экономистов сосредоточиться на эффективности процесса, который, возможно, также вел бы к выделению подоптимальных институтов. Последнее, возможно, становится чрезвычайно здоровым и эволюционирует в устойчивых сообществах, если установленная структура существования содействует расширению обменов. Эти проблемы анализируются через призму критического "ресурса" и эффекта "основателя". Сравнительная неспособность экономической эволюции требует эффективности процесса, но не системы в целом.

Ключевые слова: эффективность рынка, природженное развитие, установленное преобразование, эффект критического ресурса, эффект основателя.

Received by the editors: 29.10.2010
and final form in 01.12.2010