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## Volume 40, December 2006

### Abstracts

#### Keong, Choy Yee

Behind Malaysia's "Miracle": A Veblenian Perspective on Mahathir's Era of Economic Modernization

This article aims to re-examine and enrich the continuing relevance of Veblen's theory of the leisure class in order to identify and explore various aspects of socio-economic modernization processes from a developing country perspective. Theoretically, this article transcends Veblen's intellectual corpus of invidious distinction of consumer goods at an individual level to micro-emulation of global capitalism at a nation state level. Empirically, it captures the relevance of Veblen's theory of the leisure class in association with the regressive relationship between economic modernization and the erratic sequence of socio-economic "progress" based on a case study in Malaysia. This line of analysis contributes to an improved understanding of the complex perspective of various socio-economic and institutional challenges governing the global capitalist emulation processes; and provides some pointers toward harnessing a sustainable mode of production system which is not only industrially serviceable, but also, economically efficient and socially sustainable. *J. Econ. Issues*, December 2006, Vol. 40 (4), pp. 861-874. Keio University, Tokyo.

## **Hodgson, Geoffrey M.**

### **Institutions, Recessions and Recovery in the Transitional Economies**

This article analyzes 1989-2005 economic growth in the transitional economies in Europe and Central Asia, and points to factors that help explain the differences in outcome. An econometric analysis finds prominent indices of property rights, corruption, economic freedom, tax incidence and civil liberties as statistically insignificant in this regard. The analysis here also undermines the idea that the severe recessions of the 1990s might eventually promote faster growth. Statistically significant variables include the degree of ethnic fractionalization and an index of democracy, both of which were negatively correlated with GDP growth. Underlining the influence of long lasting institutional factors, both 1989 GDP and subsequent growth were enhanced by membership of what others have described as the zone of Western Christendom, which excludes predominantly Orthodox or Muslim countries. Overall, the analysis here points to the need for effective national institutions that can enforce legal and general rules of the economic game, reap positive benefits for democracy, and overcome the negative economic legacy of ethnic and other divisions. *J. Econ. Issues*, December 2006, Vol. 40 (4), pp. 875–894. University of Hertfordshire, Hertfordshire, UK.

## **Zweynert, Joachim and Nils Goldschmidt**

### **The Two Transitions in Central and Eastern Europe as Processes of Institutional Transplantation**

The increasing gap between the transition countries with regard to both their economic and political performance is due to cultural and historical circumstances that have shaped the particular tradition and societal environment. Taking a cultural approach and referring to the recent literature on the transfer of institutions, we try to improve the understanding of the interrelation between formal and informal institutions. During the 20th century, the countries of Central and Eastern Europe twice went through rapid institutional change. For centuries, they acculturated to Western Europe, but as a result of the October Revolution 'Eastern' patterns were imposed upon them. Since the breakdown of the Soviet Union they have 'returned to Europe' by (re-)establishing democracy and capitalism. To understand the differences in performance between the transition countries, it is necessary to interpret both transitions as processes of institutional transplantation and ask how different informal institutional settings interacted with the imported formal institutions. *J. Econ. Issues*, December 2006, Vol. 40 (4), pp. 895-918. HWWA-Institut für Wirtschaftsforschung and the Walter Eucken Institut.

## **Oleinik, Anton**

### **The More Things Change, The More They Stay the Same: Institutional Transfers Seen Through the Lens of Reforms in Russia**

Modernity is usually viewed as a complex society with clearly differentiated functional subsystems. The process of differentiation can take various forms. In an advanced country it relies on internal forces, which means an evolutionary, 'bottom-up' development. Catch-up modernization (Russia and Germany in the first half of the 20<sup>th</sup> century) requires a strong governmental (from the top to the bottom) intervention. Invidious comparison with more advanced and successful countries makes the state officials in other countries accept the way of reforms. 'Catch-up' modernization naturally transforms into 'Westernization,' the transfer of Western institutions to other countries. The paper deals with the institutional problems of such transfers and with the constraints imposed on key actors of this process, the political elite. It is argued that a decisive problem of political and economic modernization in Russia is that bureaucrats face soft external and internal constraints. Consequently, there is a high risk of modernization policies being transformed into a reproductive mechanism of imposed power. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 919-940. Memorial University of Newfoundland.

## **Lambert, Thomas E. and Peter B. Meyer**

### **Ex-Urban Sprawl as a Factor in Traffic Fatalities and EMS Response Times in the Southeastern United States**

Public health and urban planning researchers have only recently documented the problems of traffic fatalities due to uneven development patterns, or "sprawl." Other than case studies at the local level, no research has examined the variations in emergency medical services responses to traffic accidents and other medical crises due to urban or ex-urban built-environment patterns (i.e., compact versus sprawled development). There has not been much, if any, economic research into how built-environment impacts traffic fatalities or emergency services. This research note validates earlier findings of a connection between some type of sprawled development and traffic fatalities (Ewing, Schieber, and Zegeer 2003 and Lucy 2003) and shows a link between emergency services response variations due to settlement patterns in the metropolitan counties of states that make up the southeastern United States. Settlement patterns and the degree of urbanization and ex-urbanization seem to make a difference with regard to traffic fatalities and EMS run times. The possible policy implications of such findings are discussed. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 941-953. Indiana University Southeast and University of Louisville.

**Wisman, John D.**

State Lotteries: Using State Power to Fleece the Poor

Weakening of religious and moral opposition to government supported gambling has permitted the development and rapid expansion of state lotteries over the past four decades, yielding a growing new source of state revenues. This article examines why state lotteries are disproportionately played by the financially less well off. It finds that low payouts mean that state lotteries serve as highly regressive taxes, violating the principle of vertical equity. They also violate the principle of horizontal equity – equal treatment of equals. While fueling an ideology of equal opportunity, state lotteries make a mockery of the freedom they pretend to celebrate. The rise of state lotteries fits into the general shift in political power that has led to government measures that augment increasing inequality in income, wealth, and privilege in the United States. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 955-966. American University.

**Siu, Ricardo C.S.**

Evolution of Macao's Casino Industry from Monopoly to Oligopoly: Social and Economic Reconsideration

The evolution of an industry is a dynamic and cumulative process. Institutionalism has played an important role in economic literature in understanding the evolution of an industry, an economy and a society as a whole. In this paper, the institutional-impact theory of Schmid (1987) and Bush's (1987) theory of institutional change are reviewed with reference to the evolution of the casino industry in a former Portuguese enclave – Macao. Macao was returned to the Chinese Government on December 20, 1999 and in 2005 had the world's second largest casino jurisdiction lagging only behind the Las Vegas Strip. Evidence presented in this study adds to our understanding of Schmid's institutional-impact theory in terms of the dynamic interrelationship between situational variables and structural variables, and their influence over industrial performance. Ayres' view of "past-biding" characteristics of institutional change (1967) and Bush's arguments on progressive institutional change are also elucidated. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 967-990. University of Macao.

## **Looney, Robert**

### Economic Consequences of Conflict: The Rise of Iraq's Informal Economy

Iraq's informal – always large – economy has expanded since the overthrow of Saddam Hussein. Upon close examination, it is apparent that higher rates of economic growth or even a lessening of the insurgency with stepped up reconstruction efforts are not likely to result in a significant decline in Iraq's informal economy in the near term. More promising are several policy-centered measures. These include improved governance, especially improving the rule of law and anti-corruption measures. Specific tax policies, together with macroeconomic stability would also provide incentives for individuals to move into more formal activities. This strategy might be supplemented with an expanded social net designed to provide short run security, especially to women and children, two of the more vulnerable groups. J. Econ. Issues, December 2006, Vol. 40 (4), 991-1007. Naval Postgraduate School.

## **Brinkman, Richard L. and June E. Brinkman**

### Cultural Lag: In the Tradition of Veblenian Economics

The purpose of this paper is two-fold: one is to demonstrate that the concept and theory of cultural lag are in the tradition of Veblenian economics, and secondly, that while cultural lag theory delineates and explains problems, it does not necessarily provide for a means of resolution. While the Veblenian framework, as one of cultural lag, provided for *dissent*, there is a need to address the problem of *assent* in providing for processes of institutional adjustment. In support of this analytical purview the paper is divided into five parts: (1) a survey of the Veblenian literature related to cultural lag; (2) a clarification of the theory of cultural lag; (3) a clarification of the “what is” of Veblenian economics; (4) a conflation of Veblenian economics with cultural lag theory; and (5) a need for a synthesis in the formation of a social DNA. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1009-1028. Portland State University.

## **Wilson, Matthew C.**

### Budget Constraints and Business Enterprise: A Veblenian Analysis

The paper develops two themes regarding the concept of a budget constraint. First, the neoclassical consumer faces a budget constraint, but the producer does not. It is argued that if the producer faced a budget constraint (i.e., an amount of money assets on hand before the sale of output, which constrains its purchases of resources), then

money would have causal force in the domain of production. It then would take money to make money, and the latent influence of the classical canon of property rights would be obviated. Second, the paper develops a Veblenian variant of the special case/general case distinction between the exchange economy and a monetized economy. The former tacitly assumes that all credit is self-liquidating and that all production is self-financing. In effect, it falsely generalizes the institutional arrangement of bill of sale financing. In general, collateral also includes assets that are not for sale. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1029-1044. The University of Denver.

### **Gonce, Richard A.**

John R. Commons' Successful Plan for Constitutional, Effective Labor Legislation

From 1906 to 1916, Commons ranged beyond his studies of the American labor union movement and created as a supplement to collective bargaining by capital and labor a plan for labor legislation. This essay's primary thesis is that his plan succeeded because it has four components: it (1) justifies a need for labor legislation, (2) argues that such legislation is Constitutional, (3) proposes that an "industrial" commission can cure the problem of ineffective labor legislation, and (4) contends that such a commission is constitutional. Its secondary thesis is that his own plan is identifiable relative to the ideas of those who influenced him. The essay draws upon Commons' books and other writings, other primary and secondary sources, and archival evidence to prove these theses. It concludes about Commons' plan as a whole. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1045-1067. Grand Valley State University.

### **Foster, John**

Why is Economics Not a Complex Systems Science?

The objective of this article is to argue that economics will have to become a "complex systems science" before the valuable insights of institutionalist and evolutionary economists can be properly absorbed into the 'mainstream.' First, the complex adaptive representation of economic systems is compared with the 'simplistic' perspectives employed in standard economic theory. Second, this difference is illustrated through an examination of the role of the production function construct in economics. With this in mind, the macroeconomics of John Maynard Keynes is revisited to examine the extent to which his approach contains features that we might expect to find in modern complex economic systems theory. It is further argued that many of the rule-based representations of economic behavior favored by institutionalists can now be explored theoretically using agent based

modeling techniques. This results in ‘history friendly’ theories that can address historical data in a direct and unambiguous way. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1069-1091. University of Queensland.

### **Jordan, Jeffrey L. and Abdul B.A. Munasib**

#### Motives and Social Capital Consequence

The focus of attention in this paper is the idea that sympathy for others is a form of social capital at the individual level. We used *Georgia Social Capital Survey* to critically examine this notion of social capital. In particular, we studied the relationship between motives (social capital) and associational activities (consequence of social capital). The so-called “lost wallet” vignette experiment was used to measure motives. We also addressed the conceptual issues underlying the idea of motive as social capital. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1093-1112. University of Georgia, Griffin Campus and Oklahoma State University.

### **Bruce, Kyle**

#### Activist Management: Henry S. Dennison’s Institutional Economics

Henry S. Dennison (1877-1952) was a Boston paper-products manufacturer, a devoted exponent of scientific management, and a leading corporate liberal in the Progressive era. This paper seeks to complement existing work chronicling Dennison’s important yet unheralded contribution to institutional economics and argues that, in his concern with removing absentee ownership from his family company and in his questioning of mainstream economists’ conception of ‘economic man,’ he was very much akin to Veblen. It also demonstrates that Dennison was one of the first organizational economists concerned both with the rationale and the inner logic of the business firm and that he laid much of the path for more recent work in evolutionary and competence theories of the firm. Finally, it is demonstrated that Commons applauded Dennison’s contribution to the better understanding of labor economics and industrial democracy, placing him at the end of an intellectual lineage stretching from Marx to Veblen, from Veblen to F.W. Taylor, and from Taylor to Dennison in terms of their treatment of “managerial transactions.” J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1113-1136, Aston University.

### **Verstegen, Bernard**



## Relating the Institutional Approach in Management Accounting to Institutional Economics: An Essay on Dual-Mode Rationality

This paper tries to strengthen the connection between management accounting and institutional economics by founding management accounting on the concept of institutional rationality. In this view, management accounting rules are a means through which institutional rationality is achieved. Management accounting rules codetermine the decision space of decision makers and coordinate decision making. Understanding decisions made requires understanding the existence and evolution of the rules that determine decision making, like management accounting principles. The various parts of this institutional infrastructure evolve in mutual dependency. Upward causation in which lower order rules like management accounting rules institutionalize in higher order rules like legal rules or habits, and downward causation in which higher order rules determine the bounds within which lower order rules can operate, form the mechanisms through which management accounting rules and other institutional rules are connected. Various examples are given. J. Econ. Issues, December 2006, Vol. 40 (4), pp. 1137-1151. Open University of the Netherlands.