

## Constructivism and Evolutionism:

### The Tactic of Government's Behavior in the Institutional Transition

### CONSTRUCTIVISME ET ÉVOLUTIONNISME :

### TACTIQUE DU COMPORTEMENT GOUVERNEMENTAL DANS LA TRANSITION INSTITUTIONNELLE

Yang Haitao<sup>1</sup> Fang Jie<sup>2</sup>

**Abstract:** The process of institutional transition was deeply influenced by the government's behavior, which is the fundamental element in institutional transition analysis. The origin of government's different behavior comes from philosophy and two conventions in economics. The rationalism leads to constructivism and the empiricism leads to evolutionism, these conventions in economics cause different government's behavior in the institutional transition. After analyzing these differences, we make a conclusion that the government should pay attention to special initial conditions and compromise two conventions in economics, and then select appropriate tactic for the regional economic development.

**Key words:** Constructivism, Evolutionism, Institutional transition, Government's behavior

**Résumé:** Le processus de transition institutionnelle a été profondément influencée par le comportement du gouvernement, qui est un élément fondamental dans l'analyse de la transition institutionnelle. L'origine des comportements différents du gouvernement réside dans la philosophie et deux conventions économiques. Le rationalisme conduit au constructivisme et l'empirisme à l'évolutionnisme. Ces conventions de l'économie entraînent les comportements gouvernementaux différents dans la transition institutionnelle. Après l'analyse de ces différences, on arrive à la conclusion que le gouvernement devrait prêter attention aux conditions spéciales initiales et faire un compromis pour les deux conventions économiques, et puis choisir la tactique appropriée du développement économique régional.

**Mots-Clés:** constructivisme, évolutionnisme, transition institutionnelle, comportement gouvernemental

In the past few years, many economists were interested in the case of institutional transition in Russia and China. Their research focused on several problems: How to choose the routine of institutional transition according to the initial conditions? How to set the boundary of government's behavior? How to construct the machine-processed for the regional economic development? For searching for answer, we should go back to the philosophy in social analysis and the convention in economics.

Social analysis told us that many theories, which originated from the rationalism and the empiricism in philosophy, are used in the institutional transition analysis. Those theories resulted in two conventions in economics that were called the constructivism and the evolutionism. Those conventions influenced government's behavior and made it complicated. Then the government's behavior influenced deeply the direction and routine of institutional transition.

<sup>1</sup> Southwestern University of Finance and Economics in China.

<sup>2</sup> Chengdu University of Information Technology in China.

\* Received 19 January 2008; accepted 26 March 2008

## 1. THE ARGUMENT IN RATIONALISM AND EMPIRICISM

Many famous scholars involved in the argument about rationalism and empiricism in 18 century. The French philosopher named Descartes created the rationalism in philosophy, and then Leibniz and Rousseau set up the scientific spirit on the base of it, which help the natural science and social science to develop. At the same time, Francis Bacon created the empiricism in philosophy that emphasized experience and knowledge in reality.

Descartes pointed out that rational method is the only way to find truth, and logic analysis helps people to construct the knowledge system. The set of rational methods includes instinct, analysis, deduction and conclusion on the base of natural spirit. The Descartes' thought push modern science to go forward. Spinoza made the rationalism gradually to become the normal method in natural science and social analysis.

On the other hand, empiricists never stopped criticizing the rationalism. John Locke hold an idea that knowledge comes from experience, but not natural spirit; and the range of knowledge is the boundary of people's understanding ability. Hume pointed out that the rational analyzing method is totally wrong, by which the knowledge system cannot be constructed. Everybody who wants to find out the relationship between cause and effect should pay attention to experience and habit in reality.<sup>3</sup>

There is no clear answer in the argument of rationalism and empiricism. But we learned something from it about the understanding ability, the origin of knowledge, and the method of analysis. The argument pushed the modern natural science and social science to go far, especially made two conventions to be formed in modern economics.

## 2. THE CONSTRUCTIVISM AND EVOLUTIONISM IN ECONOMICS

Economists were influenced by the debate in philosophy. They addressed the function of analyzing method and conventions in economics. They gradually accepted two conventions: constructivism and evolutionism, which emphasize the different part of analysis method. The former lays emphasis on the rational logic and the ability to construct; and the latter lays emphasis on the experience and the ability to explain the reality. These two conventions influenced several economy theories; and some theories even contain with both of them.

<sup>3</sup> Yingfang, The comparison of Russian reform and Chinese reform: philosophy, economics and developing rate[J]. *The research of international economy*, 1997 (3).

### 2.1 The constructivism

The constructivism convention could trace back to Smith's times, which was called "rational hero times". Smith emphasized both historical and logic analysis, but Richard pushed the latter to the extreme and established the constructivism convention. Richard analyzed the reality with abstract model, and he trusted its ability to reconstruct real world. Some economists called it "Richard's evil practice". Then constructivism gradually became the main stream in economics and the "Senior-Mill-Cairness-Robbins system" was formed.

Senior copied the Descartes' logic method from philosophy to economics and designed four axioms from phenomenon as the base of economic analysis. Mill defined economics as an abstract science in which man can make a conclusion as he does in geometry. Cairness ascertained the function of constructivism in his book "the nature of political economics and logic analysis method". Robbins summed up the content of constructivism convention in his book "the nature and the value of economic science", which includes four points: ①economic theory takes several hypothesis as the base of analysis; ②the nature of economics is science about spirit that is the result of thinking and judgment; ③the validity of economics exists in the explanation of hypothesis, but not experiment and experience.

The constructivism convention developed quickly after "marginal revolution". Especially the neo-classical theory absorbed many new achievements in its system, which takes "Arrow-Debreu equilibrium model" as the base of analysis. The convention influenced many economic theories just as equilibrium theory, monetary theory, the transaction-cost theory and traditional game theory, and so on.

### 2.2 The evolutionism

The evolutionism convention never gave up criticizing the constructivism in past few years. In the 1930s' argument, Hayek pointed out that man could not understand everybody and everything in reality with limited knowledge and information. He made a conclusion about the design of socialism system that the mistake of socialism comes from "fatal conceit", and it will fail in the long run.<sup>4</sup>

The further understanding in evolutionism always was related to the topic of institution in modern times. The institutional theory developed in 1930s, which inherited the historical analysis tradition, and take totally culture and social elements into economic policy. Those economists who accepted institutional theory, paid more attention to the relationship between social system and the judger's behavior, and emphasized the process of social evolution. They pointed many

<sup>4</sup> Hayek, *The routine to be slave*[M]. Chinese social science press, 1997.

mistakes in constructivism, for example Simon took "limited ration" to substitute the hypothesis of totally rational judger, and Leibenstein took "X-inefficiency" to doubt the behavior in searching for maximum profit.

The new-institutionary theory pushed the evolutionism convention to go far. Coase thought that institution includes total characteristics in culture and economic development, and it is the result of conflict and compromise in society, but not rational construction. He emphasized the movement and the process in institutional transition, and refused to use mathematic method. At the same time, North take "routine-dependence" and "informal institution" into institutional transition model. He pointed out that the formal institution elements and informal institutional elements caused different institution in reality together.<sup>3</sup>

With the influence of evolutionism, more and more economists take it into their theories, which include organization's behavior analysis, new-institutionary theory, evolutionary game theory, comparative analysis about institution and new-political economics.

### 3. THE MODEL OF INSTITUTIONAL TRANSITION AND GOVERNMENT'S BEHAVIOR

Economic science should give the explanation for the reality and pay attention to people's individual behavior in development. The government's behavior was very important in the institutional transition process and influenced its direction. So many economic theories took their main topic on government's behavior and the pattern of its tactic.

#### 3.1 The case in macro-economy

We noticed the case in macro-economy on the country and international relationship. The most interesting cases are the reform in Russian and China, which give us different experience.

##### 3.1.1 the drastic reform in Russian and constructivism

The institutional transition in Russian includes two meaning: political reform and economic reform. Most of economists were interested in the latter, which was designed by Sachs and was called "shock treatment". Sachs pointed out that the right way to reconstruct economic system is to rapidly liberalize price, privatize property right and stabilize politics. In this case, the Russian government is a leading role in this reform, and it privatized most of state-owned enterprise even in

eight months.<sup>4</sup>

Many economists agreed with the viewpoint that the political reform was successful in Russian but its economic reform failed. The "shock treatment" whose object is to reconstruct a set of market economy system, includes the internal coincidence in market economy. Is it another kind of "fatal conceit"?

Putin took a set of action to reconfirm the direction of institutional transition and the tactic of government's behavior on the base of culture, civilization and economy in Russian. He changed the thought in Yeltsin's times, and he noticed the mutual effect in politics and economy. So the central government's behavior will change in Russia.

##### 3.1.2 The gradual reform in China and evolutionism

The gradual reform in China is mainly on economic institution, which transferred social system from planned economy to socialism market economy. Hong (2001) pointed out that the market-oriented reform has three stages: the first stage is to create competitive market; the second stage is to adjust the structure of property right; the third stage is to cultivate the modern market economy.<sup>5</sup> China's reform is in the second stage now. Many economists agreed that these stages are not the result of design, but the transition process in reality. In the past first stage, Chinese government adopted additional development, double-price system and experiment in certain region. it created the "Chinese mystery" in the way of "crossing the river by touching stone".

The gradual reform in China obviously belongs to evolutionism. In fact, in the shortage of knowledge and information about market economy, policymakers in China cannot make sure the final object of reform and the tactic of government's behavior. Then they adopted the gradual pattern of economic reform. Many evidence proved that the gradual pattern cost lowly in the first stage, which took the relationship between economic elements and social culture into thought, for reducing mistakes from constructivism.

The gradual reform in China was successful according to its economic effect, which existed in the developing rate, the resident's living level and the private organization's efficiency. On the other hand, we should notice many problems such as bureaucracy, unfairness and imperfect social guarantee system in the transition process. So the Chinese government should adjust the tactic of its behavior.

<sup>3</sup> Nian Zhou, what's institution? How do we understand institution?[J], *The comparison of social economic system*, 2000 (6).

<sup>4</sup> Tianqi Mao, the present research of institutional transition[J], *The guidance of opening*, 2004 (6).

<sup>5</sup> Yinxing Hong, the explanation of gradual institutional transition in China[J], *Economist*, 2001 (1).

### 3.2 The case in micro-economy

In this part, we discuss the case in regional micro-economy and organization. Especially in the eastern region of China, the government's behavior shows obviously gradual characteristics. Because of the direction in socialism market economy, the regional government transferred his behavior from "inactivity" to "activity", from unconscious evolutionism to "evolutionary rationalism".

#### 3.2.1 The regional government's "inactivity"

At the beginning of China's economic reform, more and more private economic organizations existed in the eastern region, which improved the regional economy. But regional government in eastern China confronted the choice between the regional economic development and political stability. Being short of knowledge and information, they tried many ways and finally adopted inactive tactic.

Inactive tactic doesn't mean that the regional governments give up any control and regulation in the regional economy, which means inactive action when it confronts difficult problems. This tactic obviously is a better choice when those governments don't want to make mistakes. We call it "limited ration".

Because of this tactic, private economic organizations in eastern China became stronger and stronger, which improved the regional economy. With the gradually clear macro-tendency, those regional governments in eastern China will ascertain the object of their behavior and become more and more active.

#### 3.2.2 The regional government's "activity"

The document named "the central authorities' decision about the socialism market economy" (1993) emphasized clearly the direction of institutional transition in China. Those regional governments in eastern China had the consciousness to regulate and control the regional economy. At the same time, those problems in the developing process of non-state-owned economy became apparent, such as imperfect market system and unharmonious regulation, and so on. These two sides make regional governments transfer their tactic, which belongs to "evolutionary rationalism". The regional government in eastern China will take more activity in the regulation and regional economic development.

The "evolutionary rationalism" ask for the clear boundary of government's behavior. What should he do? What does he must do? Many economists were interested in these topics. According to experience in the eastern China, the regional government should take his activity on two points: the first thing is to take all elements in this region into economic policy such as special social culture and economic conditions; the second thing is to build the perfect surroundings in the regional economy. These changes stimulate us to research further the regional government's behavior.

## 4. THE APPROPRIATE CHOICE OF GOVERNMENT'S BEHAVIOR

The constructivism convention and the evolutionism convention in economics influenced government's behavior in many cases of institutional transition. There are some key factors for us to decide how to solve these problems in institutional transition and economic development, and how to compromise the constructivism convention and the evolutionism convention inside the government's behavior in China. We address two principles: the compromise of different conventions and the specific characteristics in different regions.

### 4.1 The compromise of different conventions

The constructivism convention and the evolutionism convention in economics separately correspond the drastic reform and the gradual reform in reality. Many Economists paid more attention to their cause and characteristics, but not their result. Yang pointed out in his book "economic reform and political transition" that the core of institutional transition is political transition, and the effects of institutional transition cannot be judged by the rate of economic development. Kolodko (2000) also showed his viewpoints in his book "from shock to treatment" that drastic reform and the gradual reform should take place in different region: firstly, the drastic pattern should be adopted to liberalize price and stabilize political situation; secondly, the gradual pattern should be adopted in privatizing property and reconstructing the structure of economic organizations; thirdly, the gradual pattern suit the reconstruction of micro-economy.<sup>6</sup>

So we find out that the constructivism convention and the evolutionism maybe will turn into compromise. Looking back the institutional transition in China, the gradual pattern pushed the Chinese economy to better situation, but it has a limited boundary. The neo-classical theory told us that the market economic system should keep in coincidence. However, the "shock treatment" was formed only in the economic coincidence, but not in the whole social economic system. We learned from it that the constructivism supports the object of institutional transition and its theory, which call for the coincidence of market economy system; and the evolutionism supports the criteria for government's behavior in the institutional transition process, which call for thinking about all historical elements and experience in certain region.

From philosophy to conventions in economics, the central government and regional governments changed their tactics in the institutional transition, which result in

<sup>6</sup> Klodko, *From shock to treatment*[J]. Shanghai eastern press, 2000.

“limited government”. The “limited government” doesn’t mean the little government, but the clear tactic of government’s behavior in the institutional transition and economic development. This notion includes three points: the first meaning is to ascertain the direction of institutional transition and the guidance; the second meaning is to cultivate the supporting system such as public facilities, regulation institution and law for the market economy; the third meaning is to provide more chance for free competition and avoid interfering the action in market.

## **4.2 Specific characteristics in different regions**

These different initial specific characteristics result in different patterns of institutional transition in different regions, which influence the tactic of government’s behavior. We want to analyze this topic in two sides: firstly, the model of institutional transition and central government’s behavior in China cannot be substituted and copied; secondly, the characteristics of regional government’s behavior in eastern China and western China are so different.

### **4.2.1 The specific characteristics of Chinese institutional transition**

According to Zhou’s (2002) viewpoints, the specific characteristics of institutional transition come from six elements: the first is the structure of social institution on the base of economic development; the second is the central government’s preference and interest; the third is the structure of powerful group; the fourth is the style of powerful group’s game action; the fifth is the pattern of public policy; the sixth is the common view to form the public policy.<sup>7</sup> Because of these elements, the routine in different society cannot be same. Many economists emphasized the specific characteristics of initial conditions and policy-making process when they analyze Chinese reform. These elements result in the special routine of Chinese reform and the “dependence of routine”. So “transplanting institution” is infeasible and market economy system in modern country cannot be simply used in China. At the same time, the lesson in Chinese reform cannot be copied in other countries.

So we make a conclusion on the specific characteristics of Chinese reform, which the central government should search for the routine of institutional transition and development according to the special initial conditions. Economists have no excuse to doubt the central government’s policy according to the model of modern market economy in western countries. The specific characteristics naturally cannot be the excuse to avoid responsibility for the central government. We set up criteria to judge the government’s behavior, for

example the economic efficiency, the extent of social development and the living level.

### **4.2.2 The difference in eastern China and western China**

The difference in eastern China and western China exist not only in the extent of economic development, but also in the social culture and the structure of economic organization. For the sake of historic and regional elements in eastern China, private economy in eastern China developed quickly; economic organizations have different styles; the supporting system for market economy is forming; private organizations are searching for better economic institution. So regional governments in eastern China have the ability and motive to change their behavior. They should set a new model to make policy on the base of special initial conditions and the need of new regional economic situation. Their responsibilities are not only to serve the regional organizations, but also to set a better supporting system for the inner coincidence of market economy. In a word, they will transfer their behavior from unconscious evolutionism to “evolutionary constructivism”.

However, western China has different conditions in regional economic development, social culture and geographical features. He fell behind of eastern China. The first task of regional governments in western China is to develop, and the institutional transition is the second task. These regional governments in western China should pay more attention to perfect the surroundings for the private investment and improve the efficiency of regulation. They shouldn’t destroy the whole social economic institution at present and construct new one. So we can say that the regional government in western China should learn more from the evolutionism.

Until now, we analyze the government’s behavior from philosophy to conventions in economics, from the case of institutional transition to the tactic of regional government’s behavior at present. We have gotten a certain belief: man should search for the truth in reality, but he cannot know everything. The government will find out his right tactic from the constructivism convention and the evolutionism convention. In the final, the sole reason of his behavior is the need of political group and economic organizations, and the sole criteria to judge his behavior is to improve the fortune and the fairness in the real world.

---

<sup>7</sup> Xiaoliang Zhou. The difference and multiplicity of external institution: review of institutional revolution in institutional transition theory. *The review of economics*, 2002 (3).

**THE AUTHORS**

**Yang Haitao**(1975~), male, PHD, majoring in Macroeconomics and new political economics, working in Southwestern University of Finance & Economics in China.

Address: Haitao Yang, Economics School in Southwestern University of Finance & Economics, Chengdu, Sichuan, 610074, P. R. China.

Email: waveyang1975@hotmail.com; waveyang@163.com

**Fang Jie**, Professor, Chengdu University of Information Technology. China.