Aidis, Ruta, Laws and Customs: Entrepreneurship, Institutions and Gender During Economic Transition

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This book is based on the author's Ph.D. dissertation, supervised by Michael Ellman, Professor of Economics at the University of Amsterdam. The author poses and seeks to answer selected research questions: How it is that entrepreneurship emerges and manifests itself in small enterprises? What is the role entrepreneurship plays in transition by replacing allocation based on centralized planning with decentralized market activity? What is gender's role in the formation and performances of small enterprises contributing to economic transition?

This study makes reference to selected contributions of Thorstein Veblen and his understanding of "institution." With Veblen's contribution considered, the author finds that the [neo] institutional approach, based largely on contributions of Douglas North, is especially deserving as a theoretical underpinning for this study.

North's understanding of institution is both general and open. North thinks of an institution as: "… any form of constraint that human beings devise to shape human interaction." Aidis takes this definition to heart, and concentrates on institutions that emerge as "constraints' to Lithuania's economic development in the period of post Soviet transition. Aidis also considers what are viewed as "formal" and "informal" rules [institutions] as constraints on economic development and transition.

North and some others have noted that formal rules governing an economy can be maintained even when their outcomes are judged inefficient. Informal rules are viewed as tenacious barriers to economic development, as informal rules tend to remain as a residual manifested as habitual behavior – or *culture* – as it were.

Aidis tends to think of "gender" as an informal institution. That gender is an informal institution means that the roles of men and women tend to be embedded in patterns that are customary in society. Gender and gender roles can also become encoded in laws and can thus stand as a formal institution. However, Aidis

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notes that laws of most lands tend to declare equality of the genders. Since formal institutions governing gender suggest equality, then the informal institutions affecting economic participation of women in the world of small enterprises are deserving of Aidis's consideration.

Entrepreneurship is also introduced as an institution. Several thinkers and their understandings of entrepreneurship are considered. However, Aidis accepts William Baumol's notion that the entrepreneur is both a Schumpeterian "innovator," as well as a "manager." Baumol's also refers to institutions such as "… rules of the game…" that provide the incentives for economic activity. Baumol had introduced the notion that an entrepreneur could exhibit behaviors that are "unproductive," such as rent seeking. Entrepreneurs could also exhibit "destructive" effects, through acquiring productive assets and running them down. Aidis recognizes problems with unproductive entrepreneurship, but is given more toward understanding productive entrepreneurship for her case study of Lithuania.

Aidis understands productive entrepreneurship involves the seeking of wealth, power, and prestige through innovation. Borrowing from the ideas of Bruno Dallago, four types of entrepreneurs are considered in transition countries. Included are those of the 'old' political elite, entrepreneurs rising to the occasion after transition, returning migrants, that is those who left prior to 1989, returning in the transition period with some capital and know how. Finally, foreign entrepreneurs are considered for their roles in transition.

After a brief examination of forms of entrepreneurship in Central and East European Countries and selected members of the Common Wealth of Independent States, the subject of the book centers around what the author views as constraints affecting Lithuania's transition, including formal and informal constraints to small enterprise activity. That Lithuania's transition is characterized by unregistered businesses and unreported incomes is noted to render statistical calculations of small enterprises incomplete. Consequently, the author introduces a survey to fill the data gap. Aidis's research instrument is known as "Survey 2000." This survey was conducted by mail between September and December 2000. A total of 332 economically active, small enterprise owners made up the final sample group. In addition, an interview process was used for gathering qualitative information. The author takes special interest in the small traders engaged at the Gariunai market, located about ten kilometers from Vilnius, an open air market that cropped up in the wake of the collapse of the Soviet Union in 1991, and that has since mushroomed to become the key center for small enterprises and entrepreneurial activity of concern to this author.

A regression model considers variables deemed most imposing as barriers to economic development. These barriers are ranked in order of importance, based on J.H. Ward's "hierarchical clustering." Barriers are suggested to have clear linkages, and these linkages are interpreted to suggest a form of path dependence.

Tax policy is noted as a formal barrier with a high level of statistical significance. Corruption is noted as an informal barrier also exhibiting a high level of statistical significance. In addition, environmental barriers are noted. These include competition from illegal and legal businesses, as well as lack of information. Skill barriers are also examined for their statistical significance.

Women entrepreneurs running small enterprises tend to suffer a host of disadvantages relative to men. Aidis's data bears out this phenomenon in Lithuania. However, the author finds that Lithuania's data for women entrepreneurs tends to conform with OECD trends, generally.

Chapter Seven considers a changing set of rules introduced by Lithuania's joining the European Union in May of 2004. An "Appendix" provides a perspective on Lithuanian's economic, social, and political history, as well as some of its contemporary challenges, such as declining birth rates.

The theoretical review includes some prominent contributors to economic theory, in general, and to transition theory, in particular. The review of theory is especially well formulated, didactic, and useful. Nevertheless, the review of theory – and about everything else in the book – for that matter – attempts to shed light, either indirectly or directly, on Lithuania's transition. Thus, I think it more accurate and a better service to those engaged in research on Lithuania to include this country's name in either the book's title or subtitle.

Researching and writing doctoral dissertations is certainly an important activity: as novel ideas are typically introduced, and budding scholars acquire many important skills in the process, skills that carry them through their careers. However, such should not be taken to suggest that doctoral dissertations – in general – make brilliant books that change the course of history, or even a reviewer's set ways of thinking.

Borrowing from this author's interest in theory, doctoral dissertations could be characterized as based on an "informal institution." Embedded in custom is that a dissertation includes a research question to be examined, a review of the literature and its limitations, followed by some original contribution from the author that carries the reader beyond the realm of existing knowledge. When considering "informal" constraints to knowledge, econometrics tends to be included for an economics' dissertation to pass a committee (has yet to be taken up and decided upon by the Supreme Court and rendered a "formal" constraint). Based on custom, a regression portion of a dissertation tends to include laborious efforts on the part of the candidate that involve: a) creating a survey, b) collecting data, c) choosing the relevant variables and constructing them into a model, d) running the model, and e) interpreting results. All of these efforts are suggested to lead to a degree of scientific authority when stating the obvious. If the data does not state the obvious, then sound reasons exist to omit portions of the data from the sample, and to narrow down to say, 332 small enterprises whose owners are not afraid of responding to mail inquiries from a social scientist. This is what this author appears to have done. A sample of 20 might also have highlighted the same formal and informal constraints that serve as the backbone of Aidis's study. Or several nights of vodka drinking with business owners in Lithuania would likely have yielded the same discoveries.

That this book is based on a dissertation implies that a regression model will be introduced, run, and its results interpreted. The model Aidis presents has probably proved more useful for fulfilling degree requirements and satisfying the criteria of a dissertation committee – than in establishing sound scientific knowledge. Were this book not based on a dissertation, an enlightened discussion of the constraints to Lithuania's economy during transition – based on reliable data sources – could appear equally convincing.

A book suggests to me composition and flow of ideas. Importance of institutions does run as the leitmotif throughout most of this book. Such offers coherence. Outside of this leitmotif, many other ideas in this book are presented in a choppy manner. Connections between Chapters Six, Seven, and the Appendix are not at all apparent.

Douglas North is a heralded scholar, a most prominent Economic Historian, and a Nobel Prize recipient to boot. Nevertheless, this reviewer is left with some doubts to convey. North introduces – and Aidis accepts – the notion that institutions are "constraints" on economic activity. In this book Aidis continuously suggests a corollary: namely, that economic activity would take place more efficiently if [Lithuanian-style] institutions did not [exist] constrain economic activity. I cannot help but then think that North's notion of economic activity is some kind of a "Platonic," or even better, a "Northian" ideal. That is, economic activity takes place originally and best between the ears – of a Northian mind. When economic activity descends to earth and becomes manifest in the real world, said activity is constrained by the wholly inferior human and societal institutions. Less than ideal [Northian] institutions are created, perpetuated, and these institutions are noted to evolve over time in some frail effort to make the economy work. Such is an interesting notion. But I am left pondering. The idea that institutions are limiting -- are constraining to economic activity – suggest that maximum efficiency of output is the whole purpose of human and societal organization. I know that we are all economists here, but might human existence and the institutions humans create for material and service provisioning be judged on other grounds than with efficiency as the criterion? I do not like to sound like a heretic, but I think we should remain open to other criteria. Monuments on which we base today's tourist sector were not typically created with efficiency in mind. Nor were the great works of art on which cultures build, or the monuments in which culture is housed.

Though Lithuania might exhibit problems with its formal and informal institutions, so do most other countries, for that matter. And such appears as the state of affairs for as long as the nation state has existed, and will continue to exist. So, I suspect something else is afoot that the author, Aidis, should consider in the next research investigation.