
Changes in Institutional Systems during Covid-19 Pandemic from the Institutional Conception of O.E. Williamson

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Abstract:

Purpose: This work explains the theoretical background of these various changes among various countries. This article aims to demonstrate the heuristic capacity of the institutional analysis of O.E. Williamson in deductively explaining differences in institutional solutions introduced as part of activities aimed at counteracting the adverse effects of the COVID-19 pandemic in different countries.

Design/Methodology/Approach: The article is primarily based on deductive-nomological considerations. In addition, the analysis of selected literature and the case study method was used to show how the government imposed various institutional changes in society and the economy of selected countries.

Findings: The research results indicate that the issue of the pandemic and the actions taken to combat the crisis it triggered, as well as the attitude towards social distancing, varied even though the COVID-19 pandemic had similar effects in different countries. Interestingly, the same approach to the pandemic and the adopted institutional solutions were presented differently by politicians and public media during pandemic COVID-19.

Practical Implications: Research shows different sources of varying institutional changes that can be analyzed and explained from the point of view of O.E. Williamson's concept.

Originality/Value: The research shows that topics important for the functioning of the state, such as the rapidly deteriorating condition of public finances or the entry of the economy into recession, were not the main reason for introducing varying institutional solutions.

Keywords: Institutions, COVID-19 pandemic, institutional analysis.

JEL codes: D02, E14, N01.

Paper Type: Research Paper/Case Study.

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1. Introduction

The modern concept of institutional systems and identification of factors of potential impact upon the dynamic structures of socio-economic order belong in the realm of New Institutional Economics - NIE (Kapp, 1976). Proponents of this school of academic thought emphasize the fundamental role of institutions as vehicles of economic development (Williamson, 2000). NIE researchers also emphasize the correlation between formal and informal institutions and the level of economic development. Therefore, institutions and institutional changes should be considered factors that significantly impact the economy, which is particularly evident in extraordinary conditions, such as the COVID-19 pandemic. So it seems rational to assume that institutions play a significant role in the development of the business environment and the entire economy of the whole country.

Also, some of the changes introduced in legislative regulations are designed to stimulate the effectiveness of the institutional system, defined here as a combination of both formal and informal institutions. In other words, changes in legislation should stimulate the increase of system effectiveness and ensure a dynamic state of institutional equilibrium, i.e., proper synchronization between institutions and their reciprocal complementarity (Pejovich, 1999). At this point, it may be worth noting that any given set of legislative regulations may produce different effects, depending on the degree of conformance or synchronization between various regulations and informal institutions (North, 1990). Thus, it may be wrong to assume that a direct replication of solutions designed for a country characterized by a different institutional structure - with no regard for the specificity of the intrasystem institutional correlations and culture (defined as a set of informal institutions) may bring the desired effect in another setting.

Such differences in institutional actions of countries were revealed during the COVID-19 pandemic when different countries shaped new institutional orders ad hoc in various ways - precisely thanks to the top-down modification of formal institutions. In this context, it must be remembered that institutional systems are not modular structures; one cannot assume that a change of a single module (such as a formal regulation) of a structure of this type can be introduced without proper evaluation of its potential effects on other modules (regulations) and the entire system, due to the nature of correlations between various formal regulations and those between formal and informal regulations. The purpose of this article is an attempt to demonstrate the heuristic capacity of O.E. Williamson's institutional analysis in deductively explaining differences in institutional solutions introduced as part of activities aimed at counteracting the adverse effects of the COVID-19 pandemic in different countries. The goal formulated in this way implies the following structure of the article: the first part defines the institutions, the institutional system, and the institutional balance. The next one presents O.E. Williamson's institutional analysis as a concept that serves as a theoretical basis for explaining the forms of differentiation of institutional transformations in the conditions of different countries.

2. Literature Review

The article is a nomological-deductive discussion. Thus, in the nomological layer, the explanandum generates the phenomenon of creating formal institutions resulting from an extraordinary event, and more specifically, extraordinary circumstances, such as the COVID-19 pandemic. On the other hand, the layer of informal institutions that shape formal solutions is an explanation. The deductive layer is based on O.E. Williamson's institutional analysis scheme, which defines the direction of interactions between what is informal and what is formal. The article is based on the hypothesis that the layer of informal institutions influences how formal institutions are shaped. This dependence is illustrated by the case study of Polish and Swedish solutions to the epidemic threat faced by Europe. Therefore, the article is an attempt to substantiate the hypothesis that O.E. Williamson's institutional analysis has heuristic values that allow for a reasoned explanation of institutional differences.

2.1 Institutions, Institutional System, Institutional Equilibrium

Literature provides many interpretations of term institutions and transaction costs (Kingston and Caballero, 2009). For the purpose at hand, the author employed the definition by D.C. North (1990), which describes institutions as rules of play or, more formally, limitations imposed by humans with the view of shaping the activities of whole groups. In effect, institutions construe a structure of stimuli in the sphere of human exchanges of interpersonal, political, social, and economic character (North, 1990). According to D.C. North, formal institutions represent written rules, such as the constitution, legal provisions, or ownership rights. In contrast, informal institutions are expressed in sanctions, taboos, customs, traditions, religions, rules of conduct, and other constructs formed based on the group's cultural inheritance. Ultimately, institutions represent formal and informal limitations and means of enforcing them (North, 1991). Lastly, *transaction costs* are defined here as the cost of market mechanism utilization, borne by individuals and enterprises (Allen, 2000).

Proponents of the New Institutional Economics claim that there can be no proper understanding of the economic reality without due consideration for the institutional environment of the studied market and its practical significance. It seems that this kind of statement is also valid today when various countries shape a new institutional order and steer the economy and social life through institutional solutions aimed at counteracting or reducing the adverse effects of the COVID-19 pandemic. In other words, the institutional system serves to constitute the legal, political, social, and economic order and shape the course of economic processes (as well as social processes). Many authors seem to subscribe to the view that effective institutional systems and equally effective enforcement methods serve to improve interpersonal relations, reduce the uncertainty inherent in any exchange process, limit the transaction costs, and stimulate the economic growth and level of innovation (Milgrom, North, Weingast, 1990; Greif 1994).

In this context, the institutional system represents various formal and informal institutions (Williamson, 2000). However, the concept itself may also be defined as a network of reciprocal correlations between the main streams of economic activities, namely: consumption, production, and exchange; alternatively as a system of rules, beliefs, norms, and regulations designed to ensure regularity in all activities undertaken by economic entities. It must be noted that every society is characterized by its own set of institutional structures consisting of formal and informal institutions.

Assuming the complete harmonization of an institutional system, i.e., its capacity to maintain accord between all its constituent elements, the efficiency of institutions serves to increase the predictability of interpersonal relations, thus reducing the uncertainty of economic processes. In effect, the so-called high-quality institutions may also reduce the transaction costs inherent in many economic processes, such as an exchange.

2.2 Institutional Conception of O.E. Williamson

The Institutional analysis proposed by O.E. Williamson (2000) is one of the most widely recognized and studied approaches to the conceptualization of the methodological base of the NIE (Aoki, 2007; Rutherford, 2001). Analysis postulated by Williamson represents a clear line of approach to studying relations between the various analytical levels of institutions, supported by a wealth of research material describing each level of analysis. This analysis postulates a distinction of four distinct levels, namely: Embeddedness (level 1 - L1); Institutional environment (level 2 - L2); Governance (level 3 - L3); Resource allocation, and employment (level 4 - L4).

Each of these levels is described by frequency, i.e., the rate of institutional change, and by purpose. In addition, each of the levels is associated with a specific detailed theory. Thus, the first level of analysis is described by the most generalized theory representing the broadest outlook upon the studied social phenomena, with consecutive levels employing more detailed theories addressing specific and narrow segments of the socio-economic reality. In addition, O.E. Williamson supplements his analytical approach with a dynamic element, in the form of reciprocal impact and feedback loops between all levels, based on the assumption that any given level of analysis exerts an impact upon the one positioned directly above it. In contrast, higher levels are related to the lower ones using a feedback loop mechanism. It seems that such dependencies may constitute the theoretical basis for institutional differences, i.e., the implementation of different legal solutions in the context of counteracting the COVID-19 pandemic in various countries. It can also be assumed that, in the case of various informal institutions located at the lower level in O.E. Williamson's hierarchy, institutional solutions introduced at the highest levels will differ.

In this context, the different levels in O. E. Williamson's hierarchy should be discussed. Embeddedness represents the lowest level (L1) of analysis and comprises informal institutions, customary practices, traditions, and religious norms. This level

is highly durable. Its constituent elements may remain relatively unchanged for hundreds or even thousands of years. Institutional changes observed at this level will develop in an evolutionary rather than revolutionary fashion. Changes in customs typically extend beyond the time limit of a single generation, and this trend is particularly notable concerning substantial changes that affect the entire structure of the embeddedness level. Objectives at this level are non-calculative and spontaneous. However, a certain degree of reservation must be applied in this context since clear and precise social objectives can be identified even concerning informal institutions formed spontaneously in the evolution of the social order.

Next, The level of institutional environment constitutes the order of formal rules. This level is typically formulated based on the assumption that institutions are the rules of the game in a society, with formal institutions commonly defined in terms of constitutional, parliamentary, and legal systems (in the broad sense of the term; see: Hodgson, 2004; North, 1991). Institutions contain not only sets of rules (or limitations) but also those related to the execution of such rules (North, 1990). Thus, the level of the institutional environment represents a system of reciprocally correlated institutions. The institutional environment is formed purposefully and designed to ensure proper organization of the political and economic environment (North, 1991) or the entire social environment in more general terms. However, some researchers seem to support the view that this level also displays certain forms of social evolution.

Nonetheless, the main focus is placed on planned activities undertaken by (and affecting) individuals. Therefore, changes observed at this level are decidedly more expedient than L1 and described by frequency of anywhere between several and several tens of years. A generation would be a sufficient measure in this context, as the institutional environment is often characterized by changes from one generation to the next.

The governance level of analysis represents the formation of governance structures, i.e., regulations characterized by a lesser strength of impact, designed to supplement the formal structures of the law system. This means that practices should never be perceived as parallel to ideas at the level of individual activities. Consequently, contractual refinements are needed to define and safeguard the relations between individual elements of the social (or economic, in NIE) environment. Contracts of this type may be used, for instance, to support the transfer of parts of the property rights with the view of increasing the benefits of each party or limiting the social cost of such transfer.

The governance level represents a network of contractual regulations between entities, including the private sector, non-profit organizations, and even those public institutions which are not covered by formal statutory regulations. Compared to formal institutions of the law, solutions of this type are more flexible and more prone to effective change. At the same time, they may - and are intended to - optimize the reciprocal relations between the parties. Their expected timeframe (frequency) is

measured in years or decades. The last level of analysis is represented by resource allocation and employment, corresponding with the postulate of marginal value balancing. This level is associated with the continuous balancing of relations between resources and their allocation by micro-entities of the economic environment.

3. Case Study

So far (18.06.2021), in the countries of the European Union, a total of 32 992 059 cases of COVID-19 infections was identified. Among these cases, 735 566 deaths were recorded, attributed to COVID-19 infections (Table 1).

Table 1. COVID-19 in UE

Country	Cases	Deaths	Cases on 100 000	Deaths on 100 000	Date of data collection
Austria	645 133	10 415	6,4513	0,1042	18.06.2021
Belgium	1 078 157	25 117	10,7816	0,2512	17.06.2021
Bulgaria	420 859	17 980	4,2086	0,1798	18.06.2021
Croatia	358 918	8 165	3,5892	0,0817	18.06.2021
Cyprus	73 444	374	0,7344	0,0037	18.06.2021
Czechia	1 665 818	30 275	16,6582	0,3028	18.06.2021
Denmark	291 017	2 528	2,9102	0,0253	18.06.2021
Estonia	130 751	1 267	1,3075	0,0127	18.06.2021
Finland	94 081	970	0,9408	0,0097	18.06.2021
France	5 750 433	110 663	57,5043	1,1066	18.06.2021
Germany	3 720 031	90 270	37,2003	0,9027	18.06.2021
Greece	417 253	12 494	4,1725	0,1249	18.06.2021
Hungary	807 428	29 950	8,0743	0,2995	18.06.2021
Iceland	6 622	30	0,0662	0,0003	16.06.2021
Ireland	267 949	4 941	2,6795	0,0494	18.06.2021
Italy	4 249 755	127 190	42,4976	1,2719	18.06.2021
Latvia	136 544	2 482	1,3654	0,0248	18.06.2021
Liechtenstein	3 026	59	0,0303	0,0006	12.06.2021
Lithuania	278 254	4 360	2,7825	0,0436	18.06.2021
Luxembourg	70 503	818	0,7050	0,0082	18.06.2021
Malta	30 585	420	0,3059	0,0042	17.06.2021
Netherlands	1 674 554	17 700	16,7455	0,1770	18.06.2021
Norway	128 679	790	1,2868	0,0079	18.06.2021
Poland	2 878 276	74 734	28,7828	0,7473	18.06.2021
Portugal	861 628	17 057	8,6163	0,1706	18.06.2021
Romania	1 080 070	32 115	10,8007	0,3212	18.06.2021
Slovakia	777 643	12 464	7,7764	0,1246	18.06.2021
Slovenia	256 784	4 730	2,5678	0,0473	18.06.2021
Spain	3 753 228	80 634	37,5323	0,8063	17.06.2021
Sweden	1 084 636	14 574	10,8464	0,1457	13.06.2021

Source: Own elaboration based on data of European Centre for Disease Prevention and Control (2021).

The first case of COVID-19 in Sweden was announced as early as January 31, 2020 (Folkhälsomyndigheten, 2020a), and although Sweden acknowledged the COVID-19 pandemic, this did not translate into the introduction of epidemic restrictions. Sweden did not decide to proclaim the so-called lockdown, as numerous other EU countries did. In the initial stages of the COVID-19 pandemic, a relatively slow increase in the number of cases could be observed, as shown in Figure 1. Sweden decided to adopt the COVID-19 prevention strategy only on December 14, 2020, while the government provided information on good (voluntary) practices to prevent COVID-19, i.e., (Folkhälsomyndigheten, 2020b):

- stay at home if you have any symptoms of COVID-19,
- wash your hands frequently and thoroughly, or use hand sanitiser,
- stay up to date with any specific recommendations issued by the Public Health Agency of Sweden and the regional medical officer,
- avoid being near one another,
- work from home as often as this is possible,
- seek to mix outdoors where possible,
- maintain your distance from others and avoid crowded settings,
- ensure that you travel in a way that minimises the risk of infection,
- face masks on public transport for people born in 2004 or earlier,
- engage in sporting and leisure activities in a way that minimises the risk of infection.

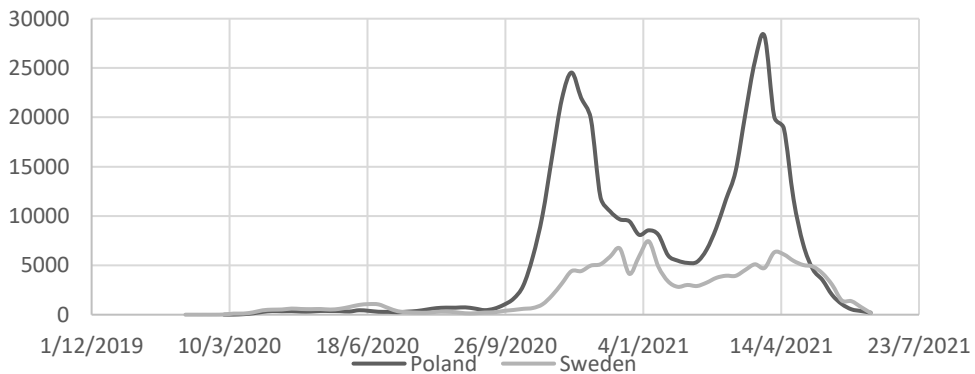
On January 8, 2021, a temporary law was introduced to empower the government to decide on more binding infection control measures than the earlier period (Regeringskansliet, 2020a). The pandemic law has allowed the government to impose restrictions on businesses, including shops and malls, museums, gyms, restaurants, bars, public transport, venues, and private events. Coercive measures may also affect certain outdoor areas, such as public parks and beaches, whereas possible restrictions may include capacity limits, restrictions on the opening hours of facilities, or, in extreme cases, even their closure (Regeringskansliet, 2020b).

In turn, in Poland, the first case of COVID-19 was diagnosed on March 4, 2020 (Ministry of Health, 2020), while the state of epidemic threat was announced on March 14, 2020 (Regulation of the Minister of Health, 2020a). This state lasted until March 20, 2020, when, following the regulation of the Minister of Health, the epidemic was announced (Regulation of the Minister of Health, 2020b). In the initial stages of the COVID-19 pandemic in Poland, a relatively slow increase in the incidence could be observed, which resulted in the introduction of several regulations and a lockdown. In Poland, as in Sweden, numerous (obligatory) recommendations were also introduced regarding social distance, cleanliness, wearing masks, etc. In turn, on March 2, 2020, the Sejm of the Republic of Poland introduced the Act on unique solutions related to prevention, counteraction, and combating COVID-19,

other infectious diseases, and the emergencies they cause. It entered into force on March 8, 2020 (Act, 2020). Later, new legal documents regarding COVID-19 were introduced in Poland, i.e., (Lower Silesian Voivodship Office in Wroclaw, 2020):

- eight acts;
- six regulations of the Council of Ministers;
- twenty ordinances of the Minister of Health;
- eight Decisions of the Minister of Health;
- numerous documents issued by voivodes, e.g., in Lower Silesia it was a total of 365 documents (ordinances, announcements, orders, decisions).

Figure 1. *The number of new COVID-19 cases in Poland and Sweden (weekly moving average)*



Source: *Own elaboration based on data of Our World in Data (2021).*

Therefore, it is clear that there are differences in the measures related to counteracting COVID-19 in Poland and Sweden, although the course of the COVID-19 pandemic in both countries was similar, i.e., there were two primary waves of the disease, while their intensity was different (Figure 1). Closer analysis of the time series showed that the pandemic developed earlier in Sweden. The time shift is three weeks. By shifting the time series of the progress of the pandemic in Sweden, according to the method of A. Sokolowski and K. Zając (1987), three weeks forward, the highest Pearson correlation coefficient is obtained (0.861). Moreover, based on the progress of the pandemic in Sweden, one can forecast the development of the pandemic in Poland. This proves a substantial similarity of the progress of pandemics.

Poland has a higher incidence rate per 100,000 cases and a higher mortality rate than Sweden (Table 1). It is also worth noting that in Poland, various types of restrictions were introduced just after announcing the COVID-19 pandemic. In Sweden, on the other hand, only voluntary recommendations were introduced, and the pandemic law only came into force in January 2021. In other words, there could be observed two completely different approaches to counteracting COVID-19, but the progression of the pandemic is analogous.

4. Results and Discussion

First of all, it should be noted that O.E. Williamson's institutional concept may explain some differences in institutional arrangements (formal or informal) used in different countries during the COVID-19 pandemic. Above all, it should be noted that institutional systems in different countries are diversified informal institutions (legal regulations) and, significant for this article, informal institutions (norms, customs, religion, etc.) are characteristic for a given cultural circle. In his concept, O.E. Williamson (2000) convincingly pointed to the differences between individual analytical levels of institutions while citing a wide range of research works describing individual, institutional levels. Each of these levels is characterized by a frequency - a period of institutional change and a specific type of goal. In addition, each level has a correspondingly detailed theory assigned to it. In the analyzed case, the first level of embeddedness directly influences the second level, i.e., the institutional environment, which affects the third level of governance, and this one, in turn, affects level four, or Resource allocation and employment. Additionally, feedback occurs between these levels. This type of dependency may be the cause of differences in informal institutions that have been adopted to counter the COVID-19 pandemic in different countries, such as Poland and Sweden.

At this point, it is necessary to point out the differences in the institutional systems of Poland and Sweden. Swedish institutional system possesses specific features that stem from informal institutions, which is a feature of any separate institutional system. It is specifically about the Swedish legal culture, which belongs to the so-called Nordic legal tradition. One of its features is its focus on written legislation as an expression of the will of the democratically legitimate legislator. This implies that the Swedish legal system relies on a high degree of trust in the wisdom and understanding of public bodies that pursue the nation's wellbeing (Letto-Vanamo and Tamm, 2019). The manifestations of the strong bond of trust and wisdom with the system of democratic opposition were discussed, among others, by M. Castells (2015), who wrote about the case of Iceland, which also belongs to the Nordic countries.

Historically, Sweden has developed a collectivist culture that focuses on relationships between public authorities and citizens who can depend on each other. This means that in Sweden, we are dealing with a kind of trust-based not only on the structure of law (formal institutions) but also on the so-called good faith, established in informal institutions (Strömholm, 2010). This type of relations, i.e., informal institutions in the Swedish institutional system, will be equivalent to the embeddedness level in O.E. Williamson's concept. As a reminder, this level represents the lowest level of institutions (L1) of analysis and comprises such elements as informal institutions, customary practices, traditions, and religious norms. This level is highly durable. Its constituent elements may remain relatively unchanged for hundreds or even thousands of years. Institutional changes observed at this level will develop in an evolutionary rather than revolutionary fashion. This level also influences others, including the legal system represented by the institutional environment (L2) and governance (L3) levels.

Therefore, it can be assumed that the choice of legal tools (formal institutions) and the method of their enforcement is a derivative of specific systemic features, i.e., informal institutions within Swedish society. It is also important to emphasize that the lack of constitutional (L2 - an institutional environment in O.E. Williamson's concept) conceptualization of the roles of the state's powers is of significance for understanding the peculiarities of Swedish public law (L3 - governance in O.E. Williamson's concept) in terms of the COVID-19 crisis (Weander, 2021). In other words, the small number of regulations that only came into force in 2021 was a derivative of certain limitations at level two of Williamson's concept and institutional analysis. Thus, according to this concept by O.E. Williamson, institutions of the first level affect the second level, and those influence those of the third level, etc. Additionally, there is feedback between them.

In turn, in Poland, the legal system is characterized by entirely different formal and informal institutions with a four-level approach, according to O.E. Williamson's analysis. For example, the constitution (Constitution of the Republic of Poland, 1997), which represents the second level in O.E. Williamson's hierarchy (L2 - institutional environment), defines the competencies and scopes of activity of the government, local governments, and other public bodies, which is a difference compared to the Swedish system. Moreover, differences from Sweden can also be identified already at the first level of O.E. Williamson's concept (L1 - embeddedness), which affects the others. In Polish conditions, trust in public authorities is at a relatively low level. Research conducted in 2020 clearly shows that only 13% of Poles trust the government (CBOS, 2020). This result is relatively high compared to research conducted by external organizations (Statista, 2019; The World Bank, 2021).

The same indicator in Sweden is around 40% (Statista 2020; The World Bank 2021). The most likely sources of distrust in the state are historical events and informal institutions, the origins of which are believed to be in the partitions of Poland and socialist realism developed after World War II. In Poland's turbulent history, patriotic attitudes often meant opposition to the formal state authority.

To summarize, it can be assumed that O.E. Williamson's concept of institutional analysis may at least partially explain the sources of institutional differences in various countries, such as in Poland and Sweden, during the COVID-19 pandemic. Therefore, this concept should be considered essential and heuristically valuable, which has numerous operational and extrapolative values in the deductive layer. Therefore, it is correct to hypothesize that O.E. Williamson's institutional analysis has heuristic values that allow for a reasoned explanation of institutional differences.

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