

The organic relationship among institutions, mechanisms, policies, operating mechanisms and behaviors

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Abstract:

Institution plays a special role in our socio-economic life. It reflects the natures and functions of the ruling State; at the same time, directly or indirectly affecting all social activities. It can be said that institution play a leading role in an organic relationship with mechanisms, policies, governance mechanisms and behaviors of all citizens. In that sense, this paper wishes to further clarify the position of the institution in the State's socio-economic management.

Keywords: *Institution, formal institution, informal institution, mechanisms, managing behavior, policies.*

1. General knowledge on institutions

Institutions play a special role in the socio-economic life. They have reflected natures and functions of the State, directly or indirectly affected all social activities at the same time. It can be said that institutions play a leading role in organic relations with mechanisms, policies, operating mechanisms and behavior of all citizens. With that in mind, this article wishes to contribute a small part to clarify the position of institutions in the socio-economic management of the State.

The term “institution” in Vietnam has only been officially acquainted with its real meaning in documents of the 10th Party Congress of the Vietnam Communist Party. Previous documents often used “mechanisms, policies”. Essentially, institutions, mechanisms, policies and operating mechanisms are a chain of means, measures at different positions and levels. They have an organic relationship in national economic management and administration, in which institutions plays the head role.

Socio-economic institution has been defined by domestic and foreign scholars in different standards and views. In reference to their opinions, along with the our inherent perceptions, we consider institution (socio-economic) as a legal system including: constitution (mother laws, basic laws); codes (basic laws and behavior laws), regulations, rules, etc.... They all have been created to harmonize the rights and responsibilities of every citizen and organization in a social order, towards the integration of the community interests.

The natures of institution are represented in the following characteristics:

- Institution is the product of social system. It deeply reflects the natures and functions of the governing State. Constitution can be considered as the “soul” of a social regime.
- Institution is adjusted to the changes of the current political regime.
- Institution can also be modified or even abolished locally, depending on the reform or renewal of State socio-economic relations, and

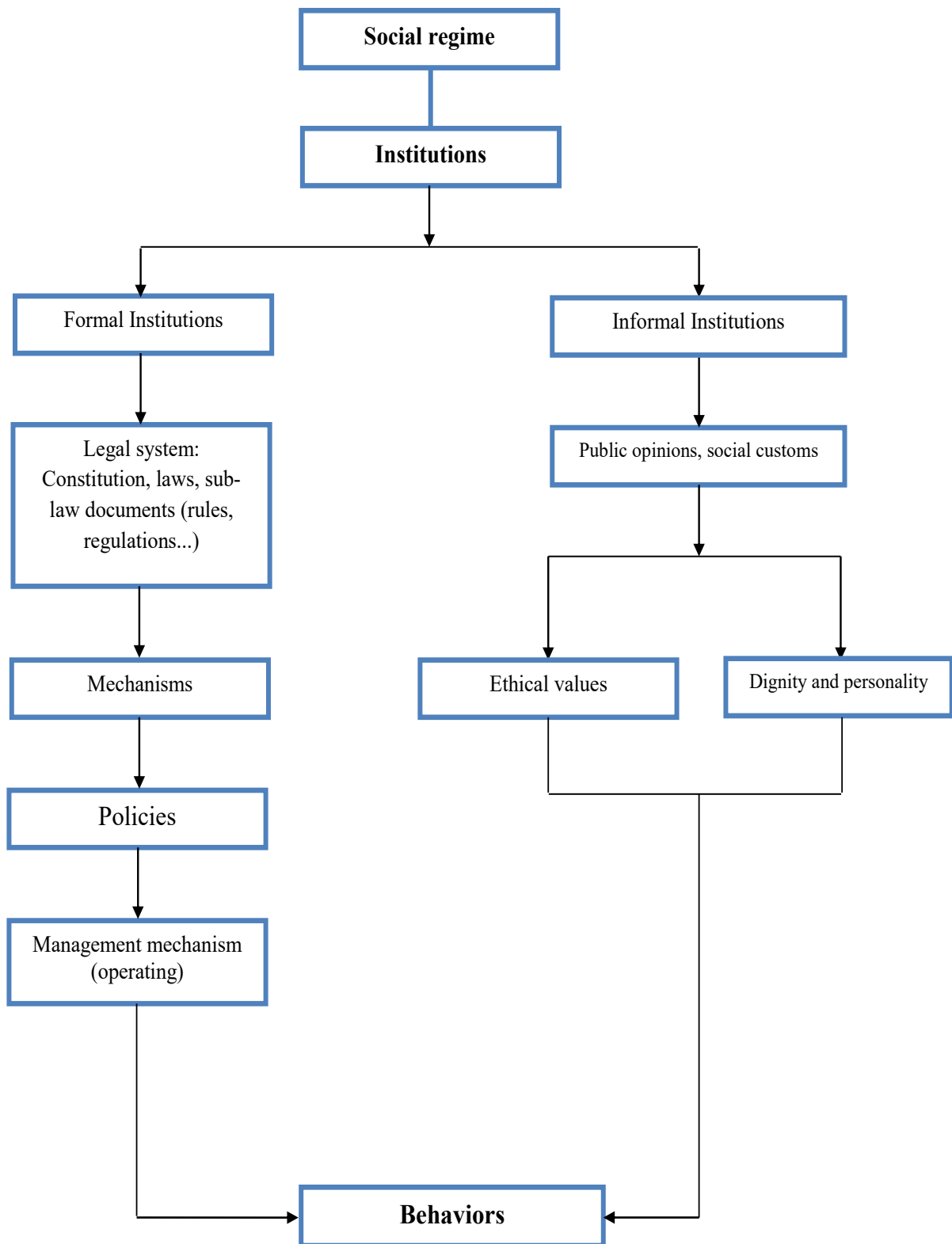


Figure 1. The relationship among the factors in vertical dimension

Source: The author (2023)

adapting to the historical conditions of the country.
 - Institution plays a decisive role in the formation and operation of mechanisms, policies and human behavior.

Institutions include formal and informal ones:

- Formal institutions: the legal system, which is the “rule of law”

- Informal institutions: public opinions, contributing to the formation of morality, lifestyle and human dignity. They are under the category of “virtue policy”

2. The organic relationships among institutions, mechanisms, policies, operating mechanisms and behaviors

To analyze the above relationships, it is necessary to observe the graph below:

2.1. The chart showing the relationships among resonant factors derived from the position of institutions (socio-economic).

This chart is represented in “vertical” and “horizontal” relationships. Through these dimensions, it is possible to see the role of each of mentioned “resonance” factors and the interacting effects between them in the process of socio-economic management.

2.1.1 Vertical dimension

This relationship reflects the role and position of each factor affecting systematically and orderly the formation of institutional organic relationships, mechanisms, policies, operating mechanisms (management) and behaviors in society.

In that view, the relationship among the above factors is shown by the Figure 1.

Thus, the vertical relationship mentioned above express the importance of each factor ranked orderly in terms of their impact roles in socio-economic management, both in macro and micro.

2.1.2 Horizontal dimension

This relationship signifies the interplay and complementarity among factors: institutions,

mechanisms, policies, management mechanisms (administration), and behavior.

The interaction in their movement is an objective requirement in the operation of the State. That process also creates causes that lead to the adjustment, modification or even reform of socio-economic relations to adapt to each stage of development.

If the “vertical” impact reflects the origin, role and position of each of the above factors, then the “horizontal” effect is reciprocal. These two dimensions of impact constitute a system including macro and micro tools in the socio-economic management of the State.

2.2. The organic relationship among institutions, mechanisms, policies, operating mechanisms and behavior

2.2.1. The relationship between institutions and mechanisms

The concept of institutions has been defined above. Institutions directly affect the mechanism (socio-economic).

In order to identify the term mechanism, it is also necessary to clarify its concept. The mechanism can be understood in a general way which is a socio-economic structure or organizational structure such as: the relationship between the superstructure and the infrastructure; State structure..., established by a corresponding mode of production (labour forces) + production relations (ownership relations, distribution relations, management relations)) belonging to the governing State. Of course, as mentioned above, the mechanism is directly affected by the institution because the institution is the main political product of the State, reflecting in the rule of law system under its superstructure.

It should also be emphasized that among the factors constituting the production mode mentioned above, the ownership relationship has a profound and direct influence on the nature and function of

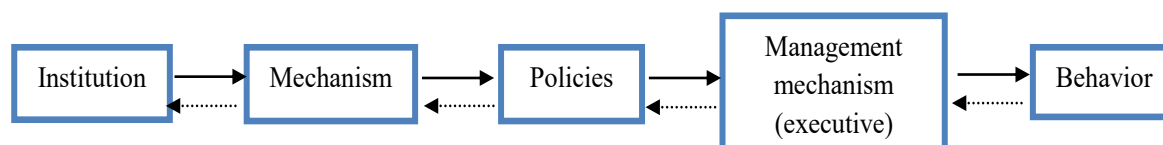


Figure 2. The relationship among the factors in horizontal dimension

Source: The author (2023)

the State. This was proven by the formation of the system of socialist countries in the 20th century (including Vietnam). For the first time in the history of human development, the socialist system has negated private ownership and established ownership of the whole people. Corresponding to the regime of ownership by the entire people is a unitary economy, under the exclusive ownership of the State.

From operating in centralized mechanism, our economic management by subsidized planning has adapted to the market economy (socialist-oriented).

In Vietnam, the period of renovation took place from the late 1980s to early 1990s of the 20th century; at the same time market economy institutions were implemented. This affected market mechanism, transforming from the exclusive economic mechanism of the State to the economic mechanism of many sectors and many social classes. There was an open policy for foreign investment in Vietnam. The transition from the State economic monopoly mechanism to the multi-sectoral, multi-ownership economic mechanism, along with the observance of objective economic laws, has created a strong growth and development engine for the national economy.

2.2.2. The relationship between mechanisms and policies

This is an organic relationship rooted in the chain effects of the institutions. Institutions create foundation for policy formation, and policies play a role in directly affecting the operation of mechanisms. Thus, mechanisms and policies are mutually related.

So how can we understand the policies? In our opinion, it is possible to understand the general concept of policies as rules adapting to the characteristics and conditions of socio-economic development, and aiming to ensure the correct and positive operation of the economic mechanism.

The overall policies consists of basic ones and “response” ones. Basic policies are long-term and medium-term policies, and ones that “respond” to arising characteristics, to some extent they can be called “strategies”.

In the process of movement, the interaction of these two factors is always evolving. For example,

when Vietnam changed to the market economy with a multi-sectoral and multi-ownership economic mechanism, corresponding policies were always presented: equal development policy among economic sectors, equitization policy... For international economic integration, policies to attract foreign investment and to reform administrative procedures are very necessary. In order to encourage local economic development, we need suitable policies to classify revenues and expenditures reasonably between the central budget and local budget. To overcome consequences of the international financial crisis (2008 - present), the policy of economic restructuring towards globalization has been very important.

The reciprocal interaction between these two factors is the “driving force” contributing to institutional improvement, thereby interacting with the adjustment of mechanisms and policies in each stage of development.

2.2.3 The relationship between policies and management mechanisms

Policies are realized by using executive tools (management mechanisms).

If that tool is a bureaucratic administrative imperative in the subsidized planning mechanism, economic management must be done by economic tools that we call the economic method in the market economy mechanism.

The economic method is an indirect but very effective one. Commonly used tools to manage the economy at the macro level include: taxes, State prices, credit interest rates, exchange rates, institutions, sanctions...; and at the micro level: wages, bonuses, labor contracts...

These above tools constitute a management mechanism which use economic methods to run the economy. Thus, it can be understood: the management (administration) mechanism is the use of tools to regulate economic activities in the direction of limiting inefficient or unprofitable activities for the national livelihood.

Among the economic instruments mentioned above, taxation is a multifaceted, sensitive, highly effective regulatory instrument; because it penetrates into all socio-economic activities and is considered the leading macro-regulatory tool. State prices are aimed at encouraging profitable and effective

business activities, while guiding consumption, ensuring fair interests among social classes. The exchange rate makes sure for the validity of Vietnam currency, positively impacting on the balance of international payments and efficiency in import - export. Credit interest rates tend to balance monetary supply and demand in society, stabilizing money circulation and controlling inflation. In addition, there are also insurance tools, social assurance...in social life.

In summary, the operation of management mechanisms through the influence of economic leverage instruments towards stimulating or adjusting economic relations is reflected by the socio-economic policies of each period.

2.2.4. The relationship between institutions and behaviors

As mentioned above, institutions consist of formal and informal ones. Functions of formal institutions are to guide and regulate all activities of individuals and social organizations, according to the principles of harmonious combination of the interests. Formal institutions are constitutional. Informal institutions have the function of educating morals and human qualities by means of public opinion. Informal institutions are virtuous. The combination of lawfulness and virtue directly affects the behavior of people. In addition, behavior is also indirectly influenced by mechanisms, policies and management mechanisms in the process of interaction activities in society.

From the analysis of the aforementioned organic relationships, it can be seen that the institution plays the leading role in the system. Because it profoundly expresses the nature and socio-economic function of a political regime. It belongs to the superstructure of the society.

Considering vertical and horizontal relationships, the organic relationship among institutions, mechanisms, policies, governance mechanisms and behaviors is organic and dialectical. The frequent movement of such relations greatly contributes to the completion of the national policy.

3. Conclusions and suggestions

We author suggest some solutions to deal with this matter, as following:

3.1 Building the State of Jurisdiction – taking people as the root

This also means that the spirit of the Constitution (mother law) of the country is established based on morality: “State of the people, by the people and for the people”, with a focus on civilians and human rights.

In that sense, institutions need to be built in the following principles:

- No one and no organization is beyond or above the Law.
- Ensuring the operational independence of legislative, executive and judicial bodies.
- The institutional system must fully demonstrate the function of jurisdiction in a comprehensive and effective manner.

3.2 Undertaking one deep administrative reform, focusing on the bureaucracy

The existing government system using the administration style has put people under a lot of pressure. Its main cause is that the system is too heavy, ineffective, and employee have not met the requirement of thinking and vision.

The administrative bureaucracy creates a serious resistance in attracting foreign investment, especially high-tech investment capital, pillar technology, which are in need of accelerating the process of industrialization and modernization of our country. All solutions must trend to create an institutional system which is transparent, honest and taking practice as its standards.

3.3 Enhancing the role and position of private sector in the multi-sectoral economic structure

The private sector inherently plays a decisive role in a true market economy. Vietnam has developed a socialist-oriented market economy, thus the role of private economy is limited. However, following future trends, it is necessary for Vietnam to put the private sector in its place.

To do that, we need prerequisites:

- Creating a truly fair environment for economic sectors in competition and development.
- People are allowed to do business in any industry which is helpful for national livelihood, unless prohibited by law.

The development of private sector will bring many positive benefits to society:

- Creating equality for all classes in the society.
- Because the private sector focus on working efficiency, it values real capacity, does not ask for

qualifications.

- The private sector effectively supports the State by investing in all fields of socio-economic activities, so that the State has conditions to expand welfare and social security.

- The private sector, especially small and medium-sized enterprises, creates a large middle class. This class contributes significantly to socio-economic stability.

- The private sector is flexible to respond negative fluctuations, even in crisis economic conditions. Its proper placement in the market economy mechanism is objectively necessary today.

3.4 Completing macroeconomic and microeconomic management mechanisms.

The focus mentioned here is the separation between economic state management and business administration of state-owned enterprises. The demarcation in this relationship is: The State manages business with guiding economic tools, and uses leverages to run business, through tax policies, credit interest rates, State pricing policies, exchange rate...and other macro tools. It is an effective macro management in the market economy mechanism.

3.5 Utilizing and develop talents

In order to improve the quality and efficiency of the bureaucracy, it is imperative to develop talents.

In our opinion, we should have a roadmap to discover and develop real talents in the following main directions:

- Firstly: There is a policy to detect and promote socialized talents, maybe they currently do not have positions in State agencies but they are real talents.

- Secondly: In order for Vietnam to shorten the path of industrialization and modernization, it is necessary to focus on training a great team of talented experts who are fully capable of acquiring and deploying the most advanced technologies. That was the way to make Japan become one of the leading countries in the worlds for decades.

3.6 Increasing innovations

From the economy of people ownership, Vietnam changed to the market economy that has created a significant transformation in the process of economic development. The renovation is still ongoing because of the pressure of globalization.

There has been many public opinions on

continued innovation in Vietnam. In our view, the current increasing renovation needs to mainly focus on two aspects: Perspective and Ways to do.

+ Firstly, Perspective: It is necessary to highly regard the importance of increasing innovation. Our country's innovation must base on an objective and comprehensive perspective.

Being objective is to respect reality and to regard reality as the standard of truth, always seeing things moving in unison.

+ Secondly, Ways to do: Vietnam needs to choose the shortest path to industrialization, modernization, and move towards a knowledge-based economy. This has long been deliberate. We can learn experiences of Japan, South Korea...

To take the shortest path, Vietnam need a huge team of intellectuals (experts) who are good at acquiring, applying and deploying modern technologies.

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