Institutions and Economic Performance

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***Abstract*. The aim of the current paper is to survey significant literature on the role of institutions in economic performance. A recent body of literature has argued that the institutions are the fundamental cause of differences in economic development. Section II outlines the debate on the role of state in economics. Section III describes the theoretical framework of institutions. Section IV illustrates the role of institutions in economic performance by quantitative proof. Section V concludes the article.**

***Keywords*: institutions, institutional environment, governance, economic performance, economic development.**

I. Introduction

A recent body of literature has argued that the institutions are the fundamental cause of differences in economic development. Institutional economics goes beyond the scope of traditional micro and macro analysis. It argues that efficient operation of market requires more than setting the right prices and allocating resources in right proportions.

Although large literature in institutional economics focuses on the formal institutions, most often – the property rights and rule of law, it is only the most visible part. Also culture, religion, legal origins and even historical events long after they have passed play an important role in modern economics. Indeed, the informal institutions determine the efficiency of formal institutions. Therefore there cannot be a universal institutional design that fits every country and institutional implantation often fails. Moreover, institutions that operate efficiently in developed countries most likely will not work in less developed countries, what the experience in the Third World and most recently in transition economies shows.

The aim of the current paper is to survey significant literature on the role of institutions in economic performance. The authors focus on the latest findings in the particular field. The structure of the paper is as follows. Section II outlines the debate on the role of state in economics. Section III describes the theoretical framework of institutions. Section IV illustrates the role of institutions in economic performance by quantitative proof. Section V concludes the article.

II. Historical Framework

During the last centuries a large literature has been devoted to the role of state in economics. Boettke and Horwitz identify two theoretical tensions in the debate about the role of government. The first proposes that state should provide the basic framework for mutually beneficial exchange. The second assumes that state should design a new framework for interaction in society and "actively participate in the game of economics" [1].

In the 18th century moral philosophers, in particular the Scottish Enlightenment, stressed the importance of trade and commerce in economic development. Division of labour and trade expanded the interaction between individuals. It resulted in more civilised social order and more peaceful relations not only among individuals, but also nations. The notion of invisible hand by Adam Smith implies that the institutions were the key to the wealth of nations. Therefore the state was seen as a provider of institutions "like a gardener who cultivates an environment in which plants can thrive" [1]. As Adam Smith wrote in the Wealth of Nations: "commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government" [2].

The economic thought of mercantilists in Great Britain and continental Europe, as well as the "national economics" in the United States and Germany acknowledged the importance of trade and commerce. But they focused on the state's role in providing wealth for the particular nation. A nation was their unit of analysis and the interests of nations were put over the interests of individuals. Free trade was not desired in all situations, as the main goal of a state was to generate positive balance of trade (in mercantilism) or productive power of industry (in "national economics"). Protectionist strategies were proposed in order to give sufficient amount of time for local industries to become competitive in world markets. Thus the state was advised to take a much more active part in economics than before [1].

In the late 19th and early 20th century the debate on the wealth of nations and the state's role in economics saw contributions from the supporters of the both sides. Max Weber opposed the common belief that differences between nations could be explained by the natural resource endowment and proposed that Protestantism had been the main reason for rapid economic development in Western Europe. Moreover, he contrasted the Western legal tradition with the Chinese law, which was based on spiritual and magic practices. He concluded that the Western legal tradition led to the development of capitalism in Western Europe. Weber also stressed the importance of fixed tax system, which along with legal certainty provided incentives for making responsible decisions [1].

At the same time, mainstream economics shifted its focus from analysis of institutions of good governance to analysis of government's economic development policies. The shift to a proactive role of government in engineering the economic development was strongly influenced by the rise of

Keynesianism in the post-Great Depression Western World, wartime experience with strong state intervention, the success of Soviet planning in industrialising agricultural Russia, the emergence of independent states in the Third World and the creation of international organisations for promoting development. Formalism focused on the search for equilibrium by optimisation against constraint, and positivism neglected the role of institutions as they were sustained through ideological systems. As Boettke and Horwitz put it, "measurement equalled science, whereas discussions of property rights, rule of law, constitutional constraints, and legitimating belief systems dismissed as prescientific musings by worldly philosophers". Thus the development was equalled to rise in the statistical aggregates, first of all GDP. And underdevelopment was seen just as a shortage of investment, technology and stock of human capital [1].

However, at the end of the 20th century economic thought returned to the analysis of institutional environment. This shift was influenced by the collapse of communism, the transition from socialism to capitalism in post-soviet countries and China, as well as the persistent underdevelopment in the Third World. It has been acknowledged that market will not function effectively unless the institutions of governance (both public and private) form an environment that fosters productive action [1], [3], [4]. Boettke and Horwitz characterise it as a "move from the government directly orchestrating economic activity to providing the fertile conditions for bottom-up development", in which "the role of economic policymaker moves from engineering economic development to cultivating economic development" [1].

III. Theoretical Framework

A. New Institutional Economics

There is a wide discussion on the causes of differences in economic performance around the world. As Rodnik et al put it: "it is hard to think of any question in economics that is of greater intellectual significance or of greater relevance to vast majority of the world's population". Recent studies have stressed the crucial role of institutions in economic performance (e.g. [2] – [10]). It has been argued that such factors as innovation, economies of scale, education, capital accumulation are not the causes of growth, but the growth itself, and that the political and economic institutions are the fundamental cause of differences in economic development [6], [11].

The literature on new institutional economics implies that the neo-classical approach (the Chicago tradition) and macro-analytical approach (the Harvard tradition) are insufficient in analysing economic development, because it focuses on the operation of markets, not the development of markets. Macro-analytical approach focuses on the macro-economic aggregates, such as savings, balance of payments, and the balance between sectors (mainly industry and agriculture), whereas the neo-classic approach focuses on getting the right prices by eliminating tariffs, quotas and subsidies and making the markets work [4]. North explains that the new institutional economics modifies neo-classical theory by retaining "the fundamental assumption of scarcity and hence competition and the analytical tools of micro-economic theory", but modifying the rationality assumption and adding the dimension of time [11].

New institutional economics analyses alternative modes of organisation in economics and politics, in firms and markets, thus helping to understand bureaucratic and incentive differences in different economic systems. New institutional economics is closely related to such disciplines as development economics, new industrial organisation, new comparative economics and economic history [4].

B. Institutions and Economic Performance

North, the author of one of the most influential works in new institutional economics "Institutions, Institutional Change and Economic Performance" and the winner of the Nobel Prize in Economic Science in 1993, defines institutions as "the humanly devised constraints that shape human interaction" – they are "the rules of the game in society" [6]. North explains that "[institutions] are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behaviour conventions and self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies" [11].

Institutions affect investment in physical and human capital, as well as the organisation of production. The crucial importance of institutions lay in the costliness of transactions. The neo-classic results of efficient markets hold only if it is costless to transact, but empirical research shows that it is not the case, e.g. Wallis and North found that the transaction sector accounted for 40% of US GNP in 1970. Transaction costs consist of the costs of measurement, costs of protecting rights and costs of enforcing agreements. Strict wealth-maximising presupposes that exchange parties will cheat, steal, or lie when the payoff of such behaviour exceeds the payoff of alternative options. Therefore the parties have to get information about the valuable characteristics of what is being exchanged. Parties also have to be sure about their rights, first of all – property rights, to what is being exchanged. And last but not least, parties have to be sure that there will be a third party who will enforce the agreement, if necessary. Thus, efficient economic institutions reduce transaction costs by decreasing information costs and risks, e.g. decrease uncertainty about the quality of products on the market, reduce risks of confiscation and increase contract enforcement [6], [11].

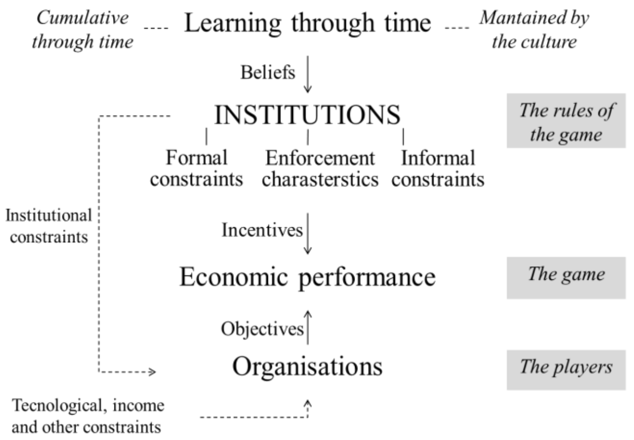

Fig. 1. Institutions and economic performance
[made by the authors based on [11]]

In a more general sense – as uncertainty characterises the economic and political choices we make, we cannot fully rely on the rationality assumption, which presumes that individuals do what is in their interests and act accordingly. "History demonstrates that ideas, ideologies, myths, dogmas, and prejudices matter; and an understanding of the way they evolve is necessary for further progress in developing a framework to understand societal change" [11]. Time is an important dimension regarding institutions, as institutions evolve as a result of learning processes of human beings – not just individuals, but societies. Thus, institutions are endogenous, determined by the choice of society and a result of learning through time, which is maintained through culture (Fig. 1). Moreover, as knowledge is transferred between generations through the communal culture, institutions are strongly influenced by path dependence. There is no guarantee that past experience will help to solve new problems; therefore societies might get stuck in underdevelopment [6], [11]. North argues that "in fact most societies throughout history got "stuck" in an institutional matrix that did not evolve into the impersonal exchange essential to capturing the productivity gains that came from the specialisations and division of labour that produced the Wealth of Nations" [11].

North makes a clear distinction between institutions and organisations. If institutions are "the rules of the game", than organisations – "the groups of individuals formed to achieve particular objectives" – and their entrepreneurs are the players. Some examples of the organisations: political – parties, the parliament, city council, agency; economic – firms, trade unions, farms, cooperatives; social – churches, clubs, associations; educational – schools, universities, training centres. Sometimes organisations are called authorities. Organisations are created as a function not only of institutional, but also technological, income and other constraints. Furthermore, the level of knowledge and skills by the organisations and their entrepreneurs will determine the economic performance – "the play of the game" [6], [11].

Williamson distinguishes between the institutional environment – the political and legal rules of the game (e.g. rules governing elections, property rights, the right of contract), and institutions of governance – firm and market modes of contract and organisation (the arrangements that govern the way in which economic units can cooperate and compete). He emphasises the importance of the latter and the bottom-up rather than top-down approach to economic organisation. Williamson argues that the role of the governance branch of new institutional economics is to search for key principles to assess contracts in product markets, labour markets, finance, governance etc.

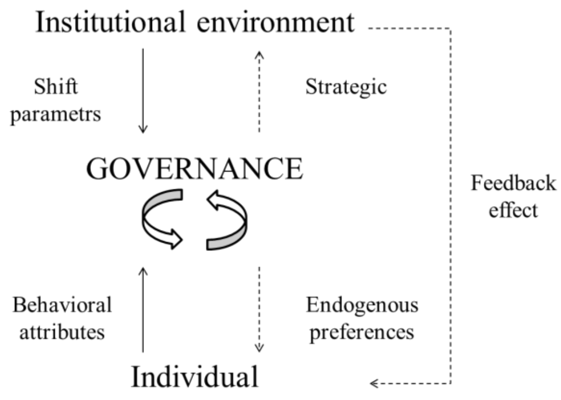

Fig. 2. A layer schema [4]

Figure 2 illustrates the interaction between the individual, the governance structures and the institutional environment where the governance embodies de facto transactions in the society. Moreover, the arrow in governance reflects the proposition that "organisations have a life of their own", so governance can have a feedback on institutional environment and individual level [4].

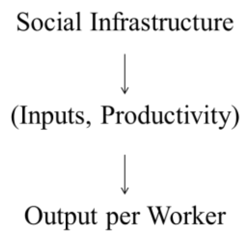

Fig. 3. Social infrastructure and output per worker [10]

Hall and Jones in their article "Why Do Some Countries Produce So Much More Output per Worker than Others?" argue that the differences in output per worker are caused by social infrastructure (Fig. 3). They define social infrastructure as "the institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output". In order to reach a high level of output per worker, social infrastructure should provide an environment that supports productive activities, encourages capital accumulation, skill acquisition, invention and technology transfer. The ability of social infrastructure to protect against diversion is essential (e.g. theft, corruption and rent-seeking), because diversion acts as a tax on output, as well as leads to the necessity to invest resources in avoiding diversion. Social control of diversion in most cases is cheaper than private control due to returns to scale. Moreover, the power to make and enforce rules against diversion might be a powerful preventive instrument itself. “It is not that the city can put fences [to fight burglary] more cheaply that can individuals: in a city run well, no fences are needed at all” [10].

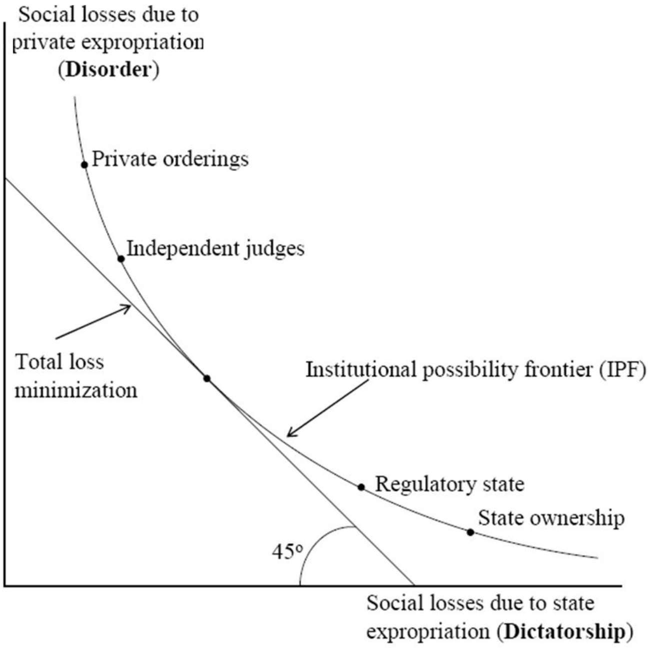

Fig. 4. Institutional possibilities [3]

At the same time, while government is the most efficient provider of protection against diversion, it might turn to public diversion – e.g. expropriation, confiscatory taxation, as well as corruption. Therefore a good social infrastructure will limit the scope of rent-seeking [10]. Djakov et al have developed a theory of institutional design dealing with the conflict between the objective to control disorder, which leads to dictatorship, and the objective to control the abuse of state intervention, which leads to disorder (Fig. 4). Disorder reflects private expropriation in such forms as banditry, murder, theft, violation of agreements, torts, monopoly pricing, whereas dictatorship refers to expropriation by the state in forms as murder, taxation or violation of property. In general, as far as market forces can control disorder, dictatorship by the state is needless [3].

Djakov et al argue that the location of institutional possibility frontier is determined by the civic capital. Civil capital is a broader notion than social capital (cooperation in community) and is influenced by culture, ethnic homogeneity, factor endowments and the physical environment, and last but not least – the human capital. The slope of institutional possibility frontier determines the efficient choice of the form of social control over business (litigation, private enforcement of public rules, public regulation or state ownership) and that efficient institutional design should be specific to a country or a sector. State intervention will lead to fewer social losses, if the state has a “more effective government, greater transparency, and greater freedom of the press”, whereas developing countries need less regulation because of the significant risk of public abuse of business. Also “in sectors with more effective market discipline, lower inequality of resources among participants, and weaker tendency toward monopoly” state intervention will be less efficient in terms of reducing disorder. By analysing the transplantation of institutions via wars and colonisation and more recently – in a voluntary way, Djakov et al suggest that transplantation of institutions rather than local industry conditions and the power of interest groups has influenced national modes of social control over business. They conclude that this might be the cause for inefficient institutions, as the efficiency of state intervention depends on the state specific characteristics [3].

$$I = \sum \alpha_i p_i - \delta I. \qquad (1)$$

Evidently, Hall and Jones define social infrastructure as institutions and government policies [10]. Rodnik et al in their article “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development” propose to “view institutions as a cumulative outcome of past policy actions” (p. 20). Equation (1) shows policy (p) as a flow variable and institutional quality (I) – as a stock variable; i denotes dimension of policy (e.g. fiscal, monetary, trade), α – the impact of policy on institutional quality and δ – the rate at which institutional quality decreases absent countervailing action [2].

C. Economic and Political Institutions

The most important economic institutions are the structure of property rights and the presence and perfection of markets. Property rights provide incentives for investment in human and physical capital. Protection against expropriation serves as a powerful incentive to invest, especially in physical capital and more-durable assets. Moreover, regimes that provide strong support for physical and intellectual property rights attract high-technology industries and industries that benefit from specialized, durable assets. Indeed, the quantitative analysis by Rodnik et al confirms that institutions have a larger impact on physical capital accumulation than human capital accumulation and productivity: “in the 80-country sample the coefficient on physical capital accumulation is about six times greater than on human capital accumulation and about 3.2 times greater than on productivity”. The literature also implies that the credibility is more important than the actual form of property rights. It points at the experience of modern China and Russia, where institutional quality scores much lower in Russia with a regime of private property rights than in China where there is no formal legal protection of property rights. This example stresses that de facto institutions are more important than de jure institutions [4], [8].

Market as the most decentralised form of organisation ensures the most efficient allocation of resources, highpowered incentives and outstanding adaptability [4]. The supreme role of market in economic performance is most often illustrated by the comparison of socialism, which is characterised by the dominance of hierarchies and capitalism. There is no consensus between the authors whether socialism collapsed due to inefficient allocation of resources or lack of incentives. Roemer in his speech on socialism reflected on the works of Friedrich Hayek and Joseph Schumpeter, which were written almost 70 years ago, and the book “Farm to Factory: A Reinterpretation of the Soviet Industrial Revolution” by Robert Allen (published in 2005). Hayek argued that firm managers would not be able to run firms productively without the pressure of competition, which would force them to decrease costs and innovate. Hayek and Schumpeter both implied that the lack of material incentives would not impede socialism, because money could be substituted with other forms of prestige being more important to highly talented people and entrepreneurs. Allen claimed that the error of the system was the inability to create a mechanism for fostering innovation in the 1970s, when the potential for extensive growth had gone. Romer concluded that the failure of Soviet economy came from failure of coordination rather than failure of incentives, because there was no shortage in highly educated work force in the Soviet Union [12]. Williamson traced the causes of soviet collapse to “the cumulative burdens of bureaucracy” referring to Oskar Lange, another participant in the early debates about the vitality of socialism, who wrote that “the real danger of socialism is that of a bureaucratisation of economic life, and not the impossibility of coping with the problem of allocation of resources”. Interestingly, Lange argued that the bureaucratisation might become an even larger problem in monopolistic capitalism [4]. Harrison explained the collapse of socialism by the fundamental problem of command in hierarchies. The principal-agent problem occurs when the principal desires an allocation of resources that differs from the agent’s self-interest and calls for enforcement mechanisms to find equilibrium between the interests of principal and agent. He argued that the feasibility of centralisation of information reached its limits in the 1970s, and the enforcement mechanisms to solve the fundamental problem of command (e.g. promotion, penalties, criminalisation of disloyal networks, heavy defence spending and secretiveness) became too costly [13].

Nevertheless, it is a conventional wisdom that socialist countries were unable to move from extensive growth, characterised by constant increase in physical and human capital stock, to an intensive growth with high productivity. The estimates by Crafts and Toniolo indicated that in the period 1960–1970 the contribution of total factor productivity to labour productivity growth in the Soviet Union was 0.90, while in the United States it was 1.54. In the period 1970–1990 it even became negative in the Soviet Union (-0.06), while in the United States it decreased to 0.43. Moreover, the relatively low growth in total factor productivity in USSR was not a result of low investment in research and development, as it amounted to 3 per cent of GDP in the 1970s [14].

The most important issues in political institutions are the form of government and the extent of constraints on politicians. They closely interact with economic institutions. Acemoglu et al argue that political institutions and distribution of resources are the two main static variables in a causal relationship (Fig. 5). Political institutions form de jure political power, distribution of resources in the society – de facto political power. Together de jure and de facto political power determines political and economic institutions; and economic institutions, as already discussed, determine economic performance and the distribution of resources. Thus, economic institutions are chosen for their distributional consequences. Which economic institutions emerge depends on the one who holds the political power. Exactly the differences in political institutions and the distribution of political power determine the variations in economic institutions [8]. As North argues in his Nobel Prize lecture, “institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to create new rules” [11].

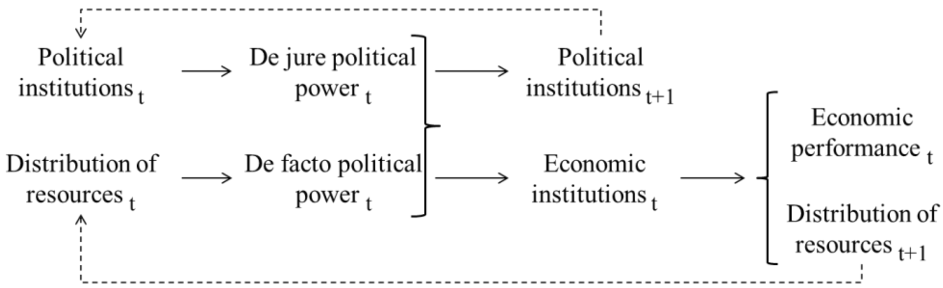

Fig. 5. Economic and political institutions and economic performance [8]

Egalitarian distribution of assets and high degree of social mobility lead to relatively equal distribution of economic resources, and representative political institutions become de facto power in society. However, as political institutions are more durable than de facto political power, usually large changes in the distribution of political power are needed to alter them. Also institutional change that does not destabilise current political situation is more likely to be implemented although it might not be the most efficient in terms of economic performance [8]. Long-run efficiency and credibility does not come easily to politicians, because their primary goal is to stay in power in the short and medium term. As Williamson puts it, "if politicians with short horizons can seize assets or otherwise reward favoured constituencies now, and if a big (and certain) piece of a small pie is perceived to be better than a smaller (and uncertain) piece of a bigger but deferred pie, credibility may get short". He argues that professional bureaucracy is more long-run productivity oriented because of the job security and a need for a reputation [4].

Everything else equal, economic growth is good for those holding political power, because it will increase income that they can tax or expropriate, as well as increase returns on their assets. However, new technologies and improvements in institutions might benefit also other groups in society that could potentially contest political power in the future. There is no outside third party that could enforce a contract between the current political power and their followers; the loss in political power cannot be compensated, at least it is not credible. Thus, the commitment problem related to the allocation of political power leads to a basic trade-off between economic productivity and distribution [8]. Acemoglu and Robinson call it a "political replacement effect". Therefore, political power will tend to improve economic performance, if: (1) political power faces intense competition; (2) political power has gained high level of assurance against commitment problem (e.g. by modifying political institutions to retain some power; (3) the level of human capital in the country is high, and thus the future gains of modernisation are higher; (4) countries face external threats of invasion [9]. Furthermore, economic change is more likely to happen when: (1) political power is in the hands of a relatively broad group of society with significant investment opportunities; (2) there are limited rents that power holders can extract from the rest of society; and (3) there are sufficient constraints and checks on those who hold political power. [8]. Acemoglu and Robinson stress that new technologies and improvements in institutions are blocked due to the fear of losing power, not the economic rents [9].

There are several theories that shape the differences in economic and political institutions. The Political Coase Theorem (efficient institutions view) says that, at least in democracies, competition among the groups in society will lead to efficient policies and choices. However, history shows that societies often end up with institutions that are not in their best interests. Therefore Modified Coase Theorem (the ideology view) emphasizes the role of ideology, when societies or their leaders disagree on what would be best for the society. In Coase Theorems it is assumed that social costs and benefits are weighted to determine the most efficient institutions. The incidental institutions view stresses that institutions are determined by historical accidents (e.g. the way agriculture is organised, legal origins) and persist for a long time and with significant consequences. For example, civil law provides weaker protection of shareholders than common law, and ownership of shares tends to concentrate. Last but not least the social conflict view says that institutions are chosen not by the whole society, but by the groups that control political power. And they will choose such institutions that primary maximise their own wealth not the total wealth. This view emphasizes that social conflict may lead to underdevelopment even when all groups in society know that the institutions are not efficient [8]. However, referring to the ideas of Hayek, from the evolutionary point of view the fittest institutions will survive in the long run [3].

IV. Quantitative Evidence

Hall and Jones confirmed their theory of social infrastructure as a powerful causal factor of the level of output per worker by analysing data on 127 countries and measures on physical capital stock, primary languages spoken, distance from the equator, trade share, openness to trade, educational attainment and mining share of GDP and an index of government anti-diversion policies. They found that differences in social infrastructure account for much of the differences in output per worker, because countries with good social infrastructure have high physical and human capital, as well as high productivity. Moreover, the analysis of Hall and Jones affirms that differences in social infrastructure are partly explained by the influence of Western Europe, because countries with a higher share of European languages as a primary language are characterised by higher measures of social infrastructure and output per worker [10].

Also Rodnik et al show that institutional quality outweighs geography and trade. By using a large number of indicators of geography, integration and institutions in a sample of 80 and 140 countries to measure the effects of institutions, geography and trade on income, they found that the institutional quality accounts for the most part of differences in income. Rodnik et al conclude that "once institutions are controlled for, integration has no effect on incomes, while geography has at best direct effects", e.g. oil exporting countries tend to have higher income, whereas countries with the prevalence of malaria – lower income [2]. Regarding the natural resources, one must take into account various experiences in natural resource rich countries. Often a high share of primary exports leads to a decrease in GDP and increase in inequality, corruption and civil conflict (more likely regarding capital-intensive resources such as oil, but not labour-intensive resources as coffee, rice or banana). Especially countries with low institutional quality have become victims of the "resource curse" [15].

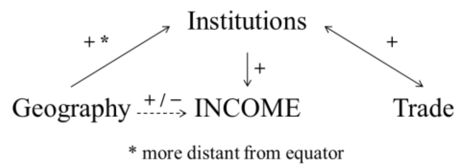

Fig. 6. Institutions, geography, trade as determinants of income [made by the authors based on [2]]

The results obtained by Rodnik et al. show that some of trade and geography indicators even enter the income regression with a negative sign; however, such institutional quality indicators as property rights and the rule of law always enter with a positive sign and are statistically significant. Moreover, when analysing the links among determinants, they found that institutional quality and integration have a significant, positive impact on each other. Also geography has a significant effect on the quality of institutions (Fig. 6). Interestingly, French legal origins have a positive effect on income; the impact of having been colonised by the United Kingdom – negative. Also, these regressions do not approve Weber's claim about the positive role of Protestantism in economic performance [2].

Acemoglu et al. argue that institutions, but not geography, explain the causes of reversal of fortune in colonised areas that were relatively rich (in terms of density in population) before the colonisation, but now are relatively poor. They oppose the view that geography has a direct effect on economic performance and suggest that the cause for reversal of fortune is an institutional reversal. However, they do not rule out the role of geography and argue that it was working through institutions. Europeans were more likely to introduce extractive institutions in areas, which were densely populated. There they could use cheap labour force to directly extract natural resources or to develop plantations and mining. Moreover, they could overtake control of already existing extractive institutions, e.g. tax systems. As institutions tend to persist, high concentration of political power has significantly altered societies in previously prosperous areas. For example, "slave trade fundamentally altered the organisation of society in Africa, leading to state centralisation and warfare as African polities competed to control the supply of slaves to Europeans". On the contrary, in sparsely inhabited areas with favourable disease (low mortality rates) environment colonisers developed institutions that provided secure property rights and thus fostered commerce and industry. In addition, in areas where a large number of Europeans settled, they demanded similar or even better rights than in their home country. Consequently, as extracting institutions are more likely to impede new technologies, these areas failed to become industrialised and remain underdeveloped. The analysis of quantitative data on urbanisation and population density, measures on current institutional quality, economic performance and geography approves their hypothesis [7].

V. Conclusions

The concept of economic development and its factors has changed over time. Institutional economics argues that formal and informal institutions, as well as their enforcement mechanisms are the fundamental cause of differences in economic development. Moreover, the informal institutions determine the efficiency of formal institutions.

Perhaps the most interesting question regarding the institutional economics is, paraphrasing Williamson, who argued that organisations have a life of their own, whether institutions have a life of their own. Or does the notion of institutions just serve as an umbrella for all those theories that do not fit into the framework of traditional approaches? The authors of this article tend to agree that institutions have a life of their own; that they are not only an image of de facto operation of a society, but that there is also a feedback over time from institutions to the society.

We believe that the interaction between formal and informal institutions, between history and modern believes and between the individual and organisations makes institutional economics a very promising discipline. The analysis of institutions should be incorporated in economic research. It is especially important for transition countries like Latvia, where the implantation of West European institutions often fails because of different historical and cultural experience.

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Alise Vītola, Maija Šenfelde. Institūcijas un ekonomiskā attīstība
Raksta mērķis ir sniegt analītisku literatūras pārskatu par institūciju lomu ekonomiskajā attīstībā. Institūcijas tiek raksturotas kā ietvars, kurā norisinās cilvēku mijiedarbība, tās ir „spēles noteikumi" sabiedrībai. Institūcijas ir endogēnas, jo tās veidojas sabiedrības izvēles rezultātā. Tiek izšķirtas ekonomiskās un politiskās institūcijas. Būtiskākās ekonomiskās institūcijas ir īpašuma tiesību struktūra un tirgus darbība. Savukārt būtiskākās politiskās institūcijas ir pārvaldes forma un politiskās elites darbības ierobežojumi un kontrole. Institūciju ekonomikas teorija apgalvo, ka institūcijas ir ekonomiskās attīstības atšķirību pamatā, jo ekonomiskās institūcijas – pirmkārt, īpašuma tiesību struktūra un tirgus darbība – ietekmē investīcijas fiziskajā un cilvēkkapitālā, kā arī ražošanas organizāciju. Ekonomiskās institūcijas veido de jure un de facto politiskā vara valstī. De jure politisko varu nosaka politiskās institūcijas, de facto politisko varu – resursu sadalījums sabiedrībā. Tādējādi ekonomisko attīstību nosaka ekonomisko un politisko institūciju mijiedarbība. Ekonomisko attīstību veicinošām ekonomiskajām institūcijām ir šādi priekšnosacījumi: politiskās institūcijas nodrošina politiskās elites darbības ierobežojumus un kontroli; politiskā vara ir relatīvi plašai sabiedrības grupai, kurai ir iespējas veikt nozīmīgas investīcijas; politiskajai varai ir ierobežotas iespējas gūt ekonomiskos labumus no pārējās sabiedrības daļas. Lielāka varbūtība ir norisināties tādām institucionālajām pārmaiņām, kas nerada riskus esošās politiskās situācijas turpmākai pastāvēšanai, lai arī šīs pārmaiņas var būt mazāk labvēlīgas ekonomiskajai attīstībai.

Алисе Витола, Майя Шенфелде. Институты и экономическое развитие
Цель статьи - предоставить аналитический обзор о роли институций в экономическом развитии. Институты характеризуются как рамка, в которой происходит взаимодействие людей, то есть "правила игры" для общества. Институции являются эндогенными, потому что они образовываются в результате выбора общества. Различают экономические и политические институции. Существенные экономические институции - это структура права собственности и деятельность рынка. В свою очередь существенные политические институции - форма правления, контроль и ограничение деятельности политической элиты. Институциональная экономическая теория утверждает, что институции являются основой различий экономического развития, потому что экономические институции, во-первых, - структура права собственности и деятельность рынка влияет на инвестиции в физический и человеческий капитал, а также на организацию производства. Экономические институции создают *de jure* и *de facto* политической власти страны. Политическую власть *de jure* определяют политические институции, политическую влать *de facto* - распределение ресурсов в обществе. Таким образом? экономическое развитие определяется взаимодействием экономических и политических институций. У экономических институций, способствующих экономическое развитие, есть определенные предпосылки: политические институции обеспечивают контроль и ограничение деятельности политической элиты; политическая власть есть у относительно большой группы общества, имеющей возможности делать значительные инвестиции; у политической власти ограниченные возможности получать экономическую выгоду (экономические блага) от остальной части общества. Существует большая вероятность, что произойдут такие институциональные перемены, которые не создают риски для дальнейшего существования действительной политической ситуации, даже если эти перемены могут быть менее благоприятны для экономического развития.