

“Institutions and Growth in Factor-driven, Efficiency-driven and Innovation-driven Economies”

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Keywords – institutions, growth, development, values, governance

I. INTRODUCTION

Institutional economics argue that institutions are the fundamental cause of differences in socioeconomic development. Institutions are “the rules of the game in society” [33]. They consist of (1) formal, public-order institutions as laws and constitutions and (2) informal, private-order institutions as values, norms and beliefs [17, 34]. Moreover, the informal institutions determine the efficiency of formal institutions.

The aim of this paper is to evaluate the impact of institutions (measured as values and dimensions of governance) on the socioeconomic development in factor-driven, efficiency-driven and innovation-driven economies.

II. DATA AND METHODS

To measure the level of governance World Bank’s Worldwide Governance Indicators (voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; control of corruption) were used. To measure the level of values the results from the World Value Survey were used. Moreover, the results to specific questions were transformed to indicators that measure the level of trust, initiative, collectivism and post-materialism by assigning weights to the given scale of answers.

To measure the level of socioeconomic performance in a comprehensive way such indicators were used as the GDP per capita and life expectancy at birth from the World Bank Database and the satisfaction with life from the World Value Survey. Such indicators include objective and subjective evaluation of the quality of life.

The analysis was performed in such groups of countries as factor-driven economies, efficiency-driven economies and innovation-driven economies by calculating regression coefficients; the classification of countries is based on the methodology used in the World Competitiveness Reports. The analysis covers 54 to 108 countries on the world scale depending on the data availability.

III. RESULTS

The results of the regression analysis show that institutions significantly influence such socioeconomic development indicators as GDP per capita and the satisfaction with life and to less extent – also the life expectancy at birth.

In factor-driven economies important role is played by institutions that shape formal conditions for the economy such as private sector regulation and government effectiveness. Also such values as post-materialism, collectivism and initiative influence the economic performance (Fig. 1). These results approve that well established property rights and efficient markets and fundamental preconditions for

socioeconomic development because they encourage investing in capital and human resources.

In efficiency-driven economies an important role is played by such governance dimensions as corruption control and voice and accountability. Corruption control increases the efficiency of markets, as well as decreases costs for economic agents because corruption acts as an additional tax. Whereas voice and accountability increases the participation of economic agents in decision making thus shaping legislation that supports and encourages socioeconomic development. Also government effectiveness, post-materialism, collectivism and initiative have a significant impact on the socioeconomic performance in this stage of development.

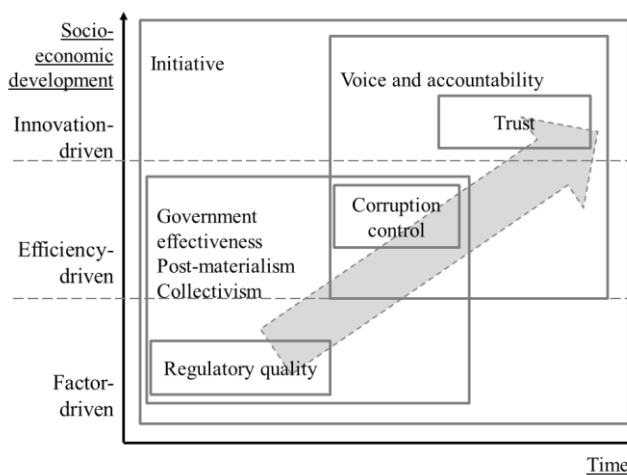


Fig 1. Institutions and growth

Last but not least, in innovation-driven economies the critical role is played by such informal institutions as trust, initiative and voice and accountability. These results suggest that once formal institutions are in place informal institutions play an even more important role in socioeconomic development processes.

IV. CONCLUSIONS

The results of the analysis approve that institutions measured as values and the dimensions of governance play an important role in socioeconomic performance. But the importance of specific institutions depends on the socioeconomic development level of the economy. It should be taken into account when shaping public policies to improve institutional environment in a specific territory. It is especially important for post-soviet countries like Latvia because of a different historical and cultural experience.

V. REFERENCES

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