



New Challenges of Economic and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

SOCIAL DIMENSION OF INSTITUTIONS

Mg.oec. Alise Vītola
Riga Technical University
Meža iela 1/7, Riga, LV-1048, Latvia
Phone: +371 29519983
E-mail: vitola.alise@gmail.com

Dr.oec., Professor Maija Šenfelde
Riga Technical University
Meža iela 1/7, Riga, LV-1048, Latvia
Phone: +37167089430
E-mail: maija.senfelde@rtu.lv

Keywords: institutions, institutional economics, social capital, culture, values

A recent body of literature has argued that the institutions are the fundamental cause of differences in economic development. 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 [1].

Institutions are the rules of the game in society, which shape the interaction in society and provide incentives for regularities of behaviour. They are made up not only from formal, state-order rules, but also informal, private-order beliefs, norms and conventions. Moreover, formal and informal institutions are complemented by their enforcement mechanisms. Social, political and cultural processes, as well as historical events play an important role in economic development [1-2].

The goal of this article is to survey significant literature and make conclusions on social (informal) dimension of institutions and their role in economic performance. Culture and religion is a key determinant of values, preferences and beliefs, which shapes economic performance. The most famous example is Weber's theory about the role of Protestantism and especially Calvinism in the origins of industrialisation [3]. 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 [4]. Values change rather slowly; in large corporations or government the change of values takes about 10-15 years, whereas in the society – at least a generation [5].

Acknowledgements

This work has been supported by the European Social Fund within the project "Support for the implementation of doctoral studies at Riga Technical University".

References

1. North D.C., *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, 1990, 152 p.
2. Greif A. The fundamental problem of exchange: a research agenda in historical institutional analysis, *European Review of Economic History*, Vol. 4, 2000, pp. 251-284.
3. Acemoglu D., S. Johnson and J.A. Robinson. Institutions as a Fundamental Cause of Long Run Growth. In *The Handbook of Economic Growth*, Vol. 1, P. Aghion and S. Durlauf, Ed. Elsevier, 2005, pp. 385-472.
4. Djankov S., E. Glaeser, R. La Porta, F. Lopez-de-Silanes and A. Shleifer, "The New Comparative Economics", *Journal of Comparative Economics*, Vol. 31, 2003, pp. 595-619.
5. Emery F.E. and E.L. Trist, The causal texture of organizational environments, *Human Relations*, Vol. 18, 1965, pp. 21-32.