European Research Studies Journal
Volume XXV, Special Issue 3, 2022

pp. 167-184

Institutional Management versus Economic Growth Factors and Equilibrium Problems

Submitted 02/09/22, 1st revision 23/09/22, 2nd revision 06/10/22, accepted 30/10/22

Zbigniew Staniek[1]

Abstract:

Purpose: *The aim of this article is to indicate the importance of effective institutional management in theory and practice. Economic growth potentials can be used in case of economic disturbances and changes in institutional balance.*
Design/Methodology: *The article is of theoretical character, however is related to previous empirical research of the author and other representatives of institutional economics. This article is based on research methods used in institutional economics, related at the same time, with methodological issues of economic theory and management sciences.*
Findings: *The concept of higher range institutional balance is crucial in view of discussed problems. It favors utilization of growth factors with simultaneous incorporation of chain and hierarchical relations in economics.*
Originality/Values: *Development of institutional balance concept as a condition of balanced social and economic development expansion.*

Keywords: *Institutions, economic growth, growth factors, economic balance, institutional balance.*

JEL codes: *A12, B52.*

Paper type: *Research article.*

[1]*Professor, Department of Management, Faculty of Social Sciences, Calisia University – Kalisz, Poland, z.staniek@akademiakaliska.edu.pl;*

1. Introduction

The issue of balance can be understood in different ways. Static, short term perspective of balance is one of such ways. In this sense, balance is referred to in categories of stability, immobility, repeating the same behaviors and relations. It is "existence in an optimal state". Taking into consideration these model assumptions, there is no place for crisis. There is no place for dynamic changes and development processes.

The role and significance of institutions and their quality is ignored. In reality, better institutions serve the development, nevertheless, higher level of development favors better institutions at the same time. Better institutions are more effective institutions. The following three attributes accompany effective institutions: general character, confidence and openness (Groenewegen, Spithoven, and Van Den Berg, 2010, p. 29).

Using returns to scale and indispensable complementarity of institutional solutions favors effective institutions. Institutions effectiveness constitutes an independent development factor (Rodrik, 2007). Institutions are simultaneously characterized with dependence on preferences and behaviors of entities, as well as some synergic – emergent properties which shape expectations of management system entities after being subjected to appropriate transformations. Limitation of inflation expectations is especially important for economic growth. It is strictly connected with economic and institutional policy of a state.

Mechanisms of market competition and economic entities cooperation appear at the same time in economics. In practice these mechanisms depend to a great extent on general legal framework, ownership rights structure, transaction costs amount, type of functioning institutions – organizations, domination of particular social norms, economic structure, economic policy or entities preferences. Low quality of institution or an institutional gap cause that mechanisms of management may not meet expectations and lead to crisis situations.

Thus, institutional management is one of the fundamental conditions of achieving economic successes of particular entities in micro scale and of the whole economics in macro scale.

2. Materials and Methods

The author's current research in the area of institutional economics – especially related to institutional balance, adaptive effectiveness and institutional conditions of economic growth has been used in this article. Materials from already prepared second version of the study – "Stan gospodarki światowej a rozwój teorii ekonomii – nowe problemy. Rekapitulacja" ("The state of world's economics versus

development of economic theories – new issues. Recapitulation") (co-author R. Bartkowiak) have also been used in this elaboration.

Theory, its state and dominant paradigms, has a crucial influence on political elites' point of view. It can also express, in an indirect way, certain economic interests. These viewpoints and interests define character of reforms and practically realized management model (as, for example, recommendations of Washington Consensus). The essence of institutional economics rejects the projects of creating a universal – optimal model of market economics.

Theory also includes attitude called 'pure science', modeling within the frames of assumptions. Methodology of conducted research is based on model – abstract assumptions in neoclassical economics and to a great extent in economics of so called main stream.

These assumptions concern mainly the concept of a representative entity, concept of balance as a main reference point, zero transaction costs assumptions or adopting a strong hypothesis of economic entities rational expectations. Mainstream economics prefers advantages of 'free market' and market competition.

Different versions of 'homo oeconomicus' concept are applied. Institutional economics pays attention to the role of market institutions, and at the same time emphasizes the importance of entities and groups cooperation, where appropriate institutional solutions are also necessary.

Theory presents various approaches to balance, such as for example Nash equilibrium, Walras equilibrium or long-term equilibrium in different models of economic growth, including balance growth models. It often also refers to models of general equilibrium, both static, as well as dynamic (DSGE)[2].

Different models of equilibrium in macroeconomic scale should also be mentioned. These models are presented in various forms and completed with additional elements being 'closer to economic practice'. However, it does not change their highly abstract character. The role of institutions and their mutual relations is ignored here. Equilibrium present in institutional system is generally omitted. In practice, institutional balance may concern different states of economic balance.

Moreover, institutional balance can sustain ineffective economic systems functioning for quite a long time. It can be referred to as lower range equilibrium. Lower range equilibrium appears under conditions of relative durability of

[2]*Economic balance, notwithstanding the way it is performed, is not the economic goal. It is a condition allowing to avoid permanent crisis phenomena, including inflation or deflation gap.*

corruption phenomena, free rider issue and relatively wide range of 'grey economics' existence in economics.

Regulation treated as institution – organization is an indispensable aspect necessary for effective functioning of markets in economic practice. J.R. Commons discusses so called 'administered equilibrium' where market mechanisms are corrected by different kinds of regulation tools. Regulation issue require appropriate theoretical approach and making use of regulation theories.

The following main three theories should be mentioned at this point: positive – normative regulation theory (regulation on behalf of public interest, limiting market failures phenomena), economic theory of regulation (reconciling interest of politicians, companies and households) or capture theory (regulation in the interest of regulated companies). Regulation decisions in practice are a resultant of recommendations related to all these theories.

Costs of regulations are higher and markets function in a less effective way under shallow markets conditions. Institutional management (including regulation), a an element of public governance, refers to performing actions aimed at using growth factors and at preventing crisis situations.

The next methodological challenge, crucial from the point of view of presented considerations, is answering the following question: Why some countries get richer and develop faster, and the others lag behind within the frames of world's economy? This issue was discusses in number of books and articles available in literature on economy and management scope (Acemoglu and Robinson, 2013).

Adopting appropriate gauges or indicators of development or backwardness becomes a methodological problem as such. It requires including both, so called traditional growth factors, as well as historical, geographical – environmental and institutional factors. In practice we are confronted with different models of market economy as a manifestation of regulation sphere competitiveness. There are also various institutional systems in world's economy (Ostrom, 2005).

3. Results

Dynamic changes of economic systems are a result of external shocks and endogenous mechanisms of economy. Long- term empirical research (including this article's author's research) show the following main economic growth factors: expenditures on physical capital (mainly infrastructure) and appropriate level of direct foreign investments, human capital, financial sector development, foreign trade liberalization, optimal sizes of public and private sector, wide range of economic freedom, political stability, limiting inequities in society (Próchniak, 2006).

Proper level of social capital, technical progress (digitalization influence) and institutional balance should also be added at this point. Taking into consideration historical, social and institutional factors causes that 'economic growth becomes some kind of social and economic development' (Polanyi, 2018).

Shortages or lack of these developmental factors favors phenomena related to lack of equilibrium or crisis phenomena, manifesting themselves simultaneously in macro and microeconomic scale. Increase of crisis phenomena results from different kinds of demand and supply shocks.

Every growth factor is connected with formal and not formal institutions, as well as institutions – organizations' existence. Institutions quality indexes as a variable in growth equations seem to explain differences in economic development better than variables responsible for historical and geographical conditions or trade conditions (protectionism, free trade) (Shirley, 2005, p. 611; Acemoglu, Johnson, and Robinson, 2005). Material accumulation of capital constitutes a growth factor influencing directly production growth pace, and indirectly productivity work factor growth.

The increase of material accumulation is conditioned with the increase of household savings, increase of companies' investments, the possibilities of saving investment expenditures (for example for transfer within redistributive policy incomes) or the increase of investment expenditures of public sector. Increasing tendency to make savings is related to system regulations (e.g., relation of permanent and current incomes), as well as to social norms system which shape behaviors of a certain community (e.g., Protestant deed related to saving).

Precaution instinct and inter-generational transfers (future generations' interest) are also significant. Processes of saving and investing is favored by reorientation of welfare state in the direction of rationalization of social expenditures. Formal institutions, such as protection of ownership rights and its popularization also influence effective savings allocation and investment expenditure (Acemoglu, Johnson, and Robinson, 2002, p. 33).

Taking into consideration, for example, relative institutional backwardness and underdevelopment, companies or individual investors prefer savings deposits and investments in areas and spheres of economy where relatively fast withdrawal of invested capital and capital short return period is possible.

Relative stability of legal regulations, political stability and effective allocation of all ownership rights are of great importance, except for ensuring appropriate size of capital for the investment. Appropriately developed financial market, responsible functioning of financial institutions in view of social interest (banks as institutions of public trust), and pro-investment economic policy of a state (complementary

character of public investments – investments in public goods and infrastructure) are also necessary.

Nowadays, effective investing is investing under conditions of ESG (environment, social responsibility and corporate governance). In world's economy, the size of direct foreign investments – especially for countries which undergo economic transformation or implement revolutionary economic reforms is of great importance. Under contemporary conditions of governance, effectiveness of investments require increasing level of human capital (permanent investment in this capital and skillful utilization of its potentials in 'good governance' policy).

Human capital (as a measure of technical competences) is, in reality, a result of three factors: wide range and high quality of education, production experience – learning by doing and workers' health. Free access to education, system of permanent education, unobstructed educational paths are also indispensible.

Human capital is favored by permanent cooperation of educational institutions with economic practice entities, which is institutionally manifested in, for example created clusters. Closer relations between science – research activity, educational policy and implementations of technological innovations. As it follows from, for example, Romer Model, creating knowledge constitutes peculiar 'by-product' of investments.

Investments in the area of health protection shaping public health are also crucial from the point of view of human capital. Public health refers to whole operations of various entities in a society, which are oriented on prolonging human life in health. Legal regulations in the following spheres are required, prevention, diagnostics, treatment, monitoring and rehabilitation.

Policy of optimal relations between public and private sector is also required. Financial strengthening of this policy is related with establishing health care system a priority of countries' social policy (regrouping in public finances), as well as wider possibilities of raising private capital. It is crucial to join economic and medical criteria in health care policy in a skillful way.

Human capital is connected with social capital which generates positive external effects for group members. Bigger social capital favors making collective decisions and decreases appearing coordination defects. It also eases technical progress diffusion due to additional transfer and information exchange possibilities. Societies basing on trust can have greater return on human capital in the form of higher remunerations. It also allows to perform policy of employment according to qualifications.

All kinds of capitals require financial markets development adequately to real sphere markets development in economy. Financial markets are characterized with different

kinds of positive feedback, which lead to the increase of various financial parameters oscillations. Positive feedbacks may lead to creation of 'virtual values' detached from their foundations.

Their appearance may result in violation of financial stability constituting an element of institutional equilibrium. Financial crisis is some kind of institutional system crisis. The term financialization is referred to a phenomenon in which profits are mainly absorbed through financial channels, and not through trade or production.

Financialization means increasing domination of financial sector in economic activity (the increase of financial sector in GDP) and detachment of financial sphere from the real sphere[3].

Financial sector captures too much of the economic surplus created in real economy sphere in relation to performed services. Different kinds of financial speculation and expectations of permanent incomes growth in real sphere entities favor this process.

Financial markets have the strongest bonds within globalization processes. They support all areas of international division of work including foreign trade. Liberalization of foreign trade is to support international competitiveness increase, which is achieving maximal profits from international division of work by a certain state or company. These profits are related to positive impact on economic growth (higher productivity of production factors) with preserved equilibrium of balance of payments. Competitiveness, in general, is the ability to achieve better results than competition.

These are also such institutional conditions which favor effectiveness resulting from open economy share, achieving predominance on product markets and production factors markets. In economic practice of many countries, there have always been elements of free trade and protectionism (custom duties, quotas, standards, subsidies etc.). The role of international institutions such as, for example, WTO, GATT and others, is very important.

Competing economic and political interests in a global scale (USA, UE, China and others) make their presence felt. This game concerns not only interests, but also values. Profits from international division of work definitely prevail over costs, which is, for example, proved by global competitiveness reports. There are, however, possibilities of improvements of many institutional solutions in a global and regional scale. We are dealing with institutional underdevelopment in the world's economy.

---

[3]*This phenomenon is also characterized with: domination of financial assets in assets in general, decisive role of financial management in management of companies, strategic role of capital market institutions in functioning and development of companies, and decisive role of financial motivation in economic entities activities.*

Freedom in starting and conducting business activity is the foundation of market economy. Well defined ownership rights and great significance of 'personal freedom' in legal regulations and social norms system (e.g., the importance of relation between freedom and sense of security) are especially crucial for economic freedom system. There is no entrepreneurship without long- term freedom.

There is also no freedom without inclusive, but not extractive character of an institution (Acemoglu and Robinson, 2013, p. 73). Inclusive economic institutions should be supported by inclusive political institutions. Larger range of market freedom of economic entities indicated the increase of importance of non formal rules of governing.

Changes of non formal institutions, however, happen slower than the formal ones which violates coherence of institutional relations and weakens effectiveness of changes. A phenomenon of 'speeding consciousness changes' may support coherence of institutional relations.

The process of creating non formal institutions happens in a spontaneous and bottom-up way, as well as it is stimulated top-down through particular organizational solutions. Market interactions still provide new information, unacceptable outside this market, on the basis of which the whole market process reproduces itself, however, in permanently changing scale and form.

Creating conditions for entering contract flexibly favors achieving cooperative surplus as they were independent from already existing legal regulations. These solutions have greater importance in situation of dominance of business entities non cooperative behaviors. Tendency to cooperate is a process resulting from production experiences.

Effective regulation on the part of the state treated as an institution – organization is necessary to expand the range of economic freedom. The state unites features of economic and political institution. The quality of the state's institutions conditions development processes. It is their competence to define ownership law and to conduct economic and institutional policy. The quality of governing elites becomes evident in anti-crisis policy (anti inflation and anti deflation), raising foreign capital or limiting bureaucracy, etc.

Governance effectiveness (allocation and adaptive effectiveness) is supported by political stability. Such stability manifests itself in low probability of changing governing elites in an undemocratic way. Whereas change of governing elites in performed parliamentary democracy, which is additionally favored by wider use of permanent rules of governance and automatic stabilizers of economic prosperity does not cause negative changes.

Good governance practices realization increases at the same time the probability of political leadership continuance by currently governing elites of pro-reform character. Meanwhile, the manifestation of good governance is: the effectiveness of statutory law, obeying the principles of law ('rule of law), corruption control, public administration functionality, political stability, democratic ways of authorities change, citizens' participation in exercising power (civil society), and social control.

D. Rodrik states that '… good institutions are the ones which stimulate public officials to provide public goods which support market with possibly low costs caused by corruption and a phenomenon of pension chasing. Such thinking allows to make the concept of good governance endogenous' (Rodrik, 2003, p. 14). Good governance favor political stability.

The rule of law and functioning of effective institutions is connected with political stability. It is also important to obey constitutional rules and changing them to adjust to the will of electorate. It is also about obeying in practice the rights of minorities and lack of 'authoritarianism of the ruling ones'. Political stability is the requirement is consensual political order, which is compliance of governing elites and opposition parties as to main directions of development and the place in globalization processes.

Political stability is also a skillful balancing of power of influence of different interest groups, as well as taking care of socially approved national interest. Institutional choices are related with conflicts of interest of various groups and entities. Real and formal political power of such interest, which change over times, is of fundamental importance here. Formal political power depends on political institutions, and real political power depends on resources distribution.

Distribution of real political power conditions directions of institutional changes. Political institutions, as for example, constitutional changes or system transformation are a result of collective choices with the preservation of various power of influence of particular entities. Political power explains relatively long functioning of 'bad' institutions, which do not support development but bring profits to the groups of interest.

Political stability and sustainable development requirements need optimal relations of private and public sectors. These relations are more of a complementary characters than substitutive. The range of public sector refers not only to the number of functioning entities of this state-owned enterprises and local government's companies, but also to the range of state regulations as governing an entity. Excessive regulations can 'nationalize' private property in an economic sense.

On the other hand, lack of precision in specifying responsibilities and range of competences of entities which aspire to the state property may lead to its real 'privatization'. The influence of public sector on the private one manifests itself in two main channels of influence: the influence of public capital (technical and social

infrastructure) and the range and form of state regulation (solutions of social – economic and institutional policy).

Public capital is connected with public goods which supply demands decisions related with defining social expectations within the amount of goods, its financing and indicating an entity to produce them. Specifying the amount of goods is an issue of social consultations and arrangements mechanisms, These mechanisms constitute an element of democratic system in the functioning of the state.

Democracy not always favors effective economic solutions, however, it is a some kind of value itself. Democratic system allows for: peaceful removal of the 'bad' politicians, full consideration of citizens – electorate preferences, better protection of ownership rights (democratic control), lower transactional costs due to lower uncertainty while limiting the range of discretionary policy, better management of social conflicts and creating better institutions.

However, on the other hand, democratic conditions may allow groups of interest come to power. These groups inhibit the long term economic growth. Some research point out the influence of development on democratization of political life. There are different kinds of feedback between democracy and development. These dependencies are of nonlinear character (Barro, 2000). Solutions of 'enlightened autocracy', such as for example in South Korea, may be economically effective in particular historical conditions.

The power of groups of interest and populist tendencies of political elites can be manifested in democratic conditions – especially when the state of social awareness is on a low level. The phenomena of 'the state unreliability' may be relatively permanent (Totleben, 2018). Populist policy is supported with the state of social inequalities and differentiated perception of this phenomenon.

The relationship between economic growth and the level of inequalities of property – income character in a certain society (more specifically social inequalities)[4] is still a complex problem. Achieving market success or lack of such success is one of the main causes of objective inequalities. However, inequalities may also result from performed redistributive policy.

Technical and institutional problems connected with collecting income taxes form capital are somehow compensated with progressive taxation of labor income. On the other hand, high taxation of these incomes does not favor accumulation of human

[4]*The indicators of social inequalities, except for property and incomes, can also be such factors as, for example, access to education and healthcare centers, possessing a place of residence, political participation or chances of getting a job. Identification of social inequalities manifestations and limiting then should become the basis of the state's social policy.*

capital, which in turn impoverishes growth factors. The estate which is the result of savings and investments, as well as estate being inherited or being implemented by the law of succession require different treatment.

Developmental processes require shaping social inequalities (Bartelski, 2011) in such a way that they were accepted by basic social groups. Inequalities acceptation increases proportionally to higher economic effectiveness and higher work productiveness. It becomes the bigger, the higher property and income differentiation concerns poverty spheres limitation.

Inequalities acceptation is a resultant of stimulation development and social acceptation (connected with the sense of justice). Processes of relative deprivation, which are comparing own situation to the situation of others, are also not without significance.

Inequality acceptance increases the level of social capital, and thereby supports economic growth. These issues require permanent dialogue on the part of the state, trade unions, and Association of Employers, as well as a system of social consultations. Technical progress causing the increase of importance of qualified workforce as complementary factor with respect to capital favors differentiation of positions in social hierarchy.

Technical progress and its various types and forms has been the main growth factor for a long period of time (Moe, 2016). These type and forms are conditioned by anticipated changes in demand and relations between expected profits and costs. Institutional solutions supporting technical progress are as follows: intellectual property protection, research crediting, copyright and patent law, antitrust legislation directed at monopoly profits, access to scientific information, 'foresight' institution, relation of research and development sector and production sector, technology parks and others.

Creating such institutions-organizations as, for example technology transfer centers, business ecosystems, innovation incubators, advanced technologies clusters, circular economy institutions development (e.g., Silicon Valley, Guangzhou, Bangalore) with considerable share of state resources in financing their activity is very important in advancement of research and development sector.

A barrier of not full and asymmetric information under conditions of defined growth capacity becomes visible. Enterprises make their decisions on the basis of different information and with some delay in relation to the changes in their surroundings. Pursuit to so called equilibrium points of a company inhibits development dynamics connected with technological and institutional innovations.

The above mentioned difficulties are limited by implementation of digitalization services. It concerns three basis tools: Internet, Smartphone and Big Data. IT

platforms create new business models. New vertical and horizontal solutions of hierarchical and network character are created economic configurations. Customer profiling processes lead to asymmetry of distribution of profits from IT services for the owners and political elites.

At the same time, profiling allows to limit logistics costs. At this point a challenge related to information circulation regulations and an issue of transnational IT corporations taxation becomes apparent.

Institutional innovations are strictly connected with technological innovations. Such phenomenon as inertia - sustaining the whole complex of institutions including ineffective ones is very strong in the institutional sphere.[5] The issue of competing economic interests of different groups and entities makes itself known (loosing and winning at innovations). Maintaining ineffective institutions has historical and cultural background, which especially concerns legal regulations and domination of certain social standards, such as, for example, inheritance law in Islam or caste system in India.

Coordination defect is also noticeable with institutional changes. Overcoming the phenomena of market failures and government failures is one of the manifestations of institutional system effectiveness. Other manifestation is decreasing transactional costs.

Transactional costs are essentially 'friction costs' in the economic system. They also concern startup costs of all previously discussed growth/development factors. Among them, the following costs are of a rudimentary importance: costs of collecting and processing information, costs of legislating and protecting ownership rights, costs of entering incomplete contracts in principle, costs of opportunistic behaviors of business entities, costs of widely understood process of measurement (e.g. appraisals of companies or production quality), as well as costs of financial settlements.

These are also costs of institutional surroundings of companies, the choice of the way of transactions are to be connected with management structures or costs of public goods supply etc. Creation of institutions is, to a great extent, a response to IT limitations, as well as manifestation of risk and uncertainty rationalization in governance.

We are dealing with coexistence of 'newly created' and 'existing' institutions on a certain level (Munshi and Rosenzweig, 2006). Institutional balance stands for mutual adjustment of selective mechanisms and processes of creating new institutions. There is a specific institutional matrix with different kinds of bonds and

[5]*This issue is more comprehensively discussed in this article's author's book 'Ekonomia instytucjonalna. Dlaczego instytucje sa ważne', Difin, Warsaw, 2017.*

interdependencies, as well as goods, money and information transfer. 'Institutional matrix' of D. North is a collection of base institutions shaped in a historical process.

This matrix adjust flexibly to technological, demographic, cultural changes and to system shocks (North, 2014). Creation of new institutions does not change the essence of matrix, enriching its coherence. This balance is manifested in such institutions collection and their relations which allow to realize basic functions of institutional system.

Higher level equilibrium ensures harmonic reconcilement of partial interests with public interest – both on a level of formulated expectations and their actual realization. At the same time, a directional consent of business entities expectations (expectations balancing) takes place. It is also adjustment of institutional changes to historical and cultural conditions and including structural features of economy and society. It is internalization of social standards. At the same time, interests of entities being at a disposal of power of influence are taken into consideration.

A lot of institutions are characterized with relative stability and the will to exist irrespectively of changes in social, economic and political environment. In more developed countries creation of new institutions is of more endogenous character, shaped in a bottom-up way.

Crisis of institutions system is referred to as a lack of institutional balance, which causes a decrease of institutional system adaptive effectiveness. This crisis may be an effect of the state's policy subordinated to realization of particular party institutions.

However, it may also result from external pressure of implementing reforms such as, for example, recommendations concerning assumptions of so called Washington Consensus for countries with different historical conditions. Without taking into consideration historical factor, it is very hard to realize economic reforms effectively (e.g. India, South Korea and other countries, so called "Asian Tigers').

4. Discussion

Equilibrium is treated as a main reference point in the mainstream economics. Entities such as companies or households aim at specified optimum state – being their equilibrium state. Collectivity, wholeness is here a simple sum of micro entities. There is no place for mutual relations, competitiveness and cooperation mechanisms or synergy effect. There are no barriers in accessing markets and all entities are subjected to the same rules. Macro equilibrium, in such perspective, is the sum of partial optimums (Garbicz, 2016).

Equilibrium understood in such a way stands for the lack of growth or, in wider sense, development. Using the before mentioned development factors violates

existing states of equilibrium. The state of imbalance becomes the state corresponding to the use of growth factors. It can be defined as economic imbalance functionality.

The possibility to make use of natural resource depends on the state of knowledge and technical advancement. All kinds of natural – supply shocks deepen the states of imbalance. These shocks and their results have asymmetrical character (Bartkowiak and Staniek, 2011).

At the same time, in a governance society, changes of social relations and corresponding institutions are continuously happening. Individuals, social groups and entities (as social collectives) enter into different kinds of interactions, contracts and undertakings. Feedbacks of certain entity's situation and its surroundings changes always take place. Different kinds of competing interests come into being.

There are also mechanisms and institutions which direct and settle these interests. Economic imbalance processes can be accompanied by processes of institutional equilibrium which stabilizes existing rules. Relative permanency of institutions mainly results from path dependencies. Future trajectory of development depends on past development path (Greif, 2006).

Transfers from one to the other state are past states function. This concept is related to changeability of economic and political institutions in time and their influence on development. As W. Kwaśnicki states: '…the basic reason for existence of development paths on an institutional level, is the existence of mentioned network effects (external effects, remark of an author Z.S), scale benefits of scale and complementarity within a certain institutional matrix…' (Kwaśnicki, 2003, p. 2).

Crisis phenomena connected with COVID pandemics emphasized practically existing hierarchical relations, as well as networks in the whole economy and in different areas of economy. Due to amorphousness of information and a phenomenon of information asymmetry, institutions of network character are much more suitable to obtain information. It does not, however, indicate loss of relations of hierarchical type. There is still the issue of control over information.

All kinds of social and economic systems are a mix of hierarchical and horizontal network connections. These relations are highly dynamic. The networks themselves can be the source of differentiation and building hierarchy. Vertical hierarchical structures are created in horizontal network relations. Interest of users-clients and IT platforms owners or the possibility to manipulate information by political authorities come into play. This issue deserves separate in-depth analysis and research.

Networks are actually institutions of formal –informal character. The features of network are: informal character of connections, lack of formalized cooperation plans, permanent relations, collective character of decisions, limited decisive

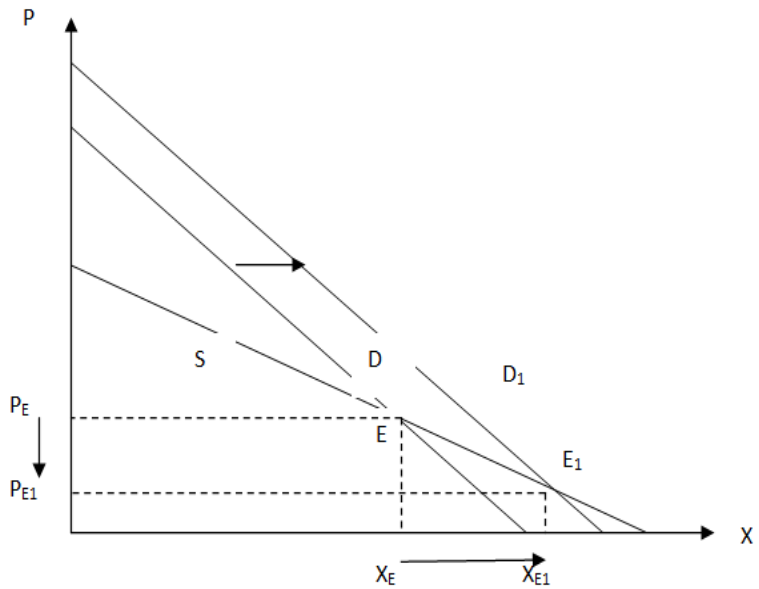
independence of a company. We are also dealing with increasing benefits of production scale and positive external effects. Positive effects are created in a situation when the sizes of a network are smaller than socially desired sizes.

The value of performed services in a network depends on the number of its users. External effects of a network are referred to as adopting specific behavior and patterns of behavior depending on the number of people already functioning in accordance with such patterns. It makes cooperation of entities in an economic system easier and decreases transactional costs.

There are also benefits of the scale in networks resulting from dependencies of effective institutional solutions from the size of particular economics and demand – costs relations.

In the network conditions, increasing demand is accompanied with decreasing prices. It can be presented as in the below presented figure.

Figure 1. *Market in network (decreasing demand curve)*



Source: *Own study on the basis of Noga (2014).*

We start from the point of market equilibrium E at an intersection of descending curves: demand D and supply S. There is market price P_E and quantity X_E. Demand curve is more vertical than the supply curve, which is related to flexibility of demand and supply curves. In networks, on the supply side we are dealing with an issue of so called supply descending curve. The increase of supply causes decrease of costs of

average and final productions, and simultaneous increase of usefulness of produced goods or performed services.

Relation of usefulness to prices is more beneficial if there are more network users, especially after exceeding so called critical mass of clients. Descending supply curve is a result of network positive external effects. It results from commonness of phenomena of increasing profits of production scale by all entities of a certain network and lower costs in a situation of greater number of costs.

The increase of demand (shift of the demand curve to the right from D to D_1) results mainly from the higher usefulness of goods in a situation of greater number of consumers. New equilibrium point E_1 stands for decrease of price of performed services to the level P_{E1} and increase of the size of services X_{E1}. The increase of demand leads to the increase of production and prices decrease. These kinds of situations require preserving existing solutions, strengthening of hierarchical and network balance as an element of institutional equilibrium.

However, processes of monopolization should not be forgotten, despite of low barriers of entering the branch. The defect of coordination, however, makes itself felt. It is related to the lack of synchronization between innovative start-up company and the number of actual users. There is also a phenomenon of competitiveness for market, rather than competitiveness on existing market. Numerous antitrust operations against transnational IT corporations are the prove of such situation.

5. Conclusions

Empirical analysis in the world's economy indicate differentiation of economic growth pace, or in other words social and economic development. Numerous models of economic growth marginally explain reasons of such state of matters. They do not explain convergence phenomenon either. Taking into consideration institutional conditions is indispensible for convergence to exist in practice. Institutions are burdened with 'historical inheritance' of habits of conduct.

Thus, institutions cannot be effective. Considering the effects of networks (external effects) in hierarchical conditions of governance, benefits of scale and complementarity within a particular institutional matrix is necessary to increase the quality of institutions.

Institutions – as it was in short – explained above are connected with every growth factor. Generalizing these section relations, the following areas of institutions influence on developmental processes can be indicated:

- Reduction of uncertainty and risk in governance through structuralized behaviors of economic entities (company as a social governance system and not as a

production function) and shaping rules and frames of entities and groups' activity;
- Overcoming coordination defect, easing coordination of collective activities, limiting asymmetry of information;
- Limiting transaction costs where ownership rights and social standards have a decisive role, differentiation of entities versus standardization of contracts;
- Shaping the structure of stimuli, economic entities behavior motivation (motivational systems versus governance strategies);
- Shaping permanent features of operations (habits, preferences), popularizing a desired concept of governance person – e.g. homo contractor in reference to homo oeconomicus;
- Creating conditions of gaining cooperative surplus, solutions supporting innovativeness (production process, product);
- Taking into consideration phenomena of 'dialectic of public interest and partial interests'.

Shaping institutional equilibrium of a higher level is an indispensable condition for all these positive influences of institutions. This equilibrium indicates that existing institutions are commonly accepted and contribute to economic growth mainly through increasing the quality of institutions and specific approaching to a desired institutional pattern (adequate to certain governance conditions).

Effective institutions give economic dynamics features of relative permanency. Developmental dynamics requires openness to new institutional solutions. Business entities or particular entities search for better solutions which requires institutional changes. This search is more intensive when a conviction about shortages of existing institutional solutions becomes dominant. Searches are of heuristic character which finishes in a moment of finding a satisfactory result.

References:

Acemoglu, D., Johnson, S., Robinson, J. 2002. Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. Quarterly Journal of Economics, 117.

Acemoglu, D., Robinson, J. 2005. Economic Origins of Dictatorship and Democracy. Cambridge University Press, Cambridge.

Acemoglu, D., Robinson, J. 2013. Why Nations Fail. The origins of power, prosperity and poverty. Profile Books, London.

Bartelski, A.S. 2011. Współzależności pomiędzy nierównościami społecznymi, kapitałem ludzkim i kapitałem społecznym, praca doktorska. Instytut Nauk Ekonomicznych Polskiej Akademii Nauk, Warszawa.

Bartkowiak, R., Staniek, Z. 2011. Stan gospodarki światowej a rozwój teorii ekonomii. Oficyna Wydawnicza SGH, Warszawa.

Barro, J.R. 2000. Rule of Law. Democracy and Economic Performance. In: 2000 Index of Economic Freedom (red. O'Driscoll, G), Heritage Foundation.

Garbicz, M. 2018. Społeczne i ekonomiczne skutki gospodarki cyfrowej. SGH, Warszawa.

Greif, A. 2006. Institutions and the Path to the Modern Economy. Cambridge University Press, Cambridge.
Groenewegen, J., Spithoven, A., Van Den Berg. A. 2010. Institutional Economics. An Introduction. Palgrave Macmillan
Kwaśnicki, W. 2003. Skanalizowane ścieżki rozwoju przemysłu. XX Szkoła Symulacji Systemów Gospodarczych Polanica Zdrój, Uniwersytet Wrocławski.
Landes, D.S. 2020. Bogactwo i nędza narodów. Dlaczego jedni są tak bogaci, a inni tak biedni, Wydawnictwo Muza S.A., Warszawa.
Moe, E. 2016. Governance, Growth and Global Leadership: the Role of the State in Technological Progress, 1750-2000. Routledge, London, New York.
Munshi, K., Rosenzweig, M. 2006. Traditional institutions meet the modern world: caste, gender and schooling choice in a globalizing economy. The American Economic Review, 96(4).
Noga, A. 2014. http://www.adamnoga.pl/publikacje/download/57_ 4a6b433794603cce8d2f683defda3186.html.
North, D. 2014. Zrozumieć przemiany gospodarcze. Oficyna Wolters Kluver Business, Warszawa.
Ostrom, E. 2005. Understanding Institutional Diversity. Princeton University Press, Princeton and Oxford.
Polanyi, K. 2018. Economy and society. Selected writings. Polity Press, Cambridge.
Próchniak, M. 2006. Czynniki wzrostu gospodarczego – wnioski z badań empirycznych. Ekonomista, 3, 305-345.
Rodrik, D. 2003. In Search of Prosperity: Analytic Narratives on Economic Growth (edited). Princeton University Press.
Rodrik, D. 2007. One Economics – Many Recipes. Globalization, Institutions and Economic Growth, Princeton University Press, Princeton and Oxford.
Shirley, M.M. 2005. Institutions and Development. In: Handbook of New Institutional Economics, ed. C. Ménard, M.M. Shirley, Springer, Dodrecht.
Staniek, Z. 2017. Ekonomia instytucjonalna. Dlaczego instytucje są ważne, Difin, Warszawa.
Totleben, B. 2018. Ekonomiczne i polityczne uwarunkowania upadłości państwa. Wydawnictwo Naukowe Scholar, Warszawa.