

Institutions as a factor in sustainable development

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Abstract: For many years, the concept of 'sustainable development' has been the subject of interest both in theory (variety of interpretations) and the broader social and economic life practice. It is also the subject of legislation - the principle of sustainable development is a constitutional norm in many countries. The focus is present in various international agreements and regulations of regional integration groups, such as the EU. Sustainability can be considered from various perspectives and approaches, including institutional. Institutions are becoming less of a condition than a factor in development processes. At the same time, institutions are characterised by relative permanence (mainly cultural elements and social norms) and variability at different times. Persistence is a problem of institutional equilibrium, while variability results from technical, technological and social conditions and development needs. This interweaving of endo and exogenous institutional factors underpins the institutional determinants of sustainable development characterised by a peculiar balance between environmental, economic and social values. It is also the increasing interconnection of local problems with global change. Dynamic economic changes result from many factors, including technological change - mainly digitisation and containerisation. Development dynamics require openness to new institutional arrangements. The institutional system contributes to the realisation of sustainable economic development mainly by improving the quality of institutions, a kind of approximation to the desired institutional pattern. This takes place at various levels of analysis, both on a global, regional, state scale and on the scale of a particular economic entity - mainly an enterprise. In doing so, the institutional matrix is supplemented by new institutions reconciling the requirements of efficient management with environmental goals and social inclusion processes.

Keywords: sustainable development, development factors, institutions, institutional balance

1. Introduction

Sustainable development in the literature is mainly understood as *sustainable development*. There are many different definitions of the term in the literature. How to measure sustainable development, e.g. ISEW, HDI, DPSIR, ecological metrics and others, remains an open problem. Measuring the impact of institutions on growth and development processes more broadly is also a complex issue (Wilkin, 2011). It is not the purpose of this article to discuss these issues, although their importance is high for the subject under discussion. In the simplest terms, sustainable development should be understood as development carried out in such a way that 'tomorrow is not worse but perhaps better than today'. Achieving today's management goals must not impair the conditions for achieving the goals of future generations. The understanding of this concept changes with the successive generations of individual societies. It has an intergenerational character.

Determining the content of sustainable development concerns the social, economic and environmental conditions of life, the functioning of society and the economy and its various actors. Some authors view sustainable development principles as economic, social and environmental sustainability interrelationships (Wilkin et al., 2019). Institutional sustainability should be added here. This is about paths of enquiry and relationships in dynamics, not static equilibrium points (Aoki, 2001). In all types of equilibrium of a dynamic nature, factors of technological change, mainly relating to digitalisation and transport, are of fundamental importance. Implementing technological progress is possible under clean and cheap energy conditions.

The implementation of sustainable development always takes place within a specific institutional system. Different historical experiences, persistent cultural differences and different geographical and climatic conditions mean that in practice, we are dealing with techniques such as the social market economy system (e.g. in Germany), the Anglo-Saxon liberal market economy system (e.g. in the USA), the Asian system with its various variations (e.g. in Japan, China, India, South Korea) and the Scandinavian welfare state system (e.g. in Sweden). These systems mainly concern countries at a higher level of socio-economic development. Their experiences, especially the Anglo-Saxon system, were the basis for the recommendations of the Washington Consensus for less developed countries or countries of systemic transformation. On the other hand, the requests of the Beijing Consensus are addressed to countries wishing to deepen ties with the Chinese economy, such as many African countries.

It should be noted that institutions are strongly influenced by place and time. The influence of the cultural-historical factor is decisive. In most countries, it is difficult to import isolated institutions that are taken out of the whole institutional and socio-cultural system. Social groups and individuals should also accept 'Imported' institutions in advance. A well-functioning institution in one country does not necessarily produce the same results in another. It is, therefore, difficult for institutional systems in the global economy to become similar in the short term. The formation of desirable patterns of institutional systems can only be considered over a more extended period and under conditions of social acceptance of these processes.

The level of development and the quality of institutions condition each other. There are different kinds of feedback between them. Higher levels of development foster better institutions and, at the same time, effective institutions encourage development. Institutions are created bottom-up and top-down. E. Ostrom (2005) writes about the existence of institutions at the constitutional and operational levels. Changes to institutions at the constitutional level increase transaction costs more than at the operational level. Institutional constructivism is more characteristic of countries with lower levels of development. In countries with higher levels of development, new institutions emerge more endogenous, driven by the bottom-up needs of economic actors.

The text presented here aims to synthesise the impact of institutions on sustainable development. Various linkages of a complementary nature characterise institutions. These linkages are institutional equilibriums, which can vary in nature. As a result of the research and theoretical considerations carried out so far, the text attempts to identify the characteristics of higher-order institutional equilibrium.

2. Materials and methods

Associated with each growth and development factor is the presence of formal institutions, informal institutions and institutions-organisations. Indexes of the quality of institutions as a variable

in growth equations explain differences in economic development bigger than variables corresponding to historical, geographical conditions or trade conditions (protectionism, free trade) (Shirley, 2005). This issue - for many years - has been the subject of the author's interest, research and analysis. A synthetic expression of this is the monograph 'Institutional Economics. Why do institutions matter? The relationship between institutions and development has been the subject of the author's research to varying degrees. They have also been the subject of several scientific publications combining practical experience (e.g., privatisation or the financial market) with theory—mainly development economics and institutional economics.

Institutions generally have a longer-term impact and are closely linked to the immediate drivers of economic growth (Staniek, 2009). The additional consideration of historical, ecological, social and institutional factors results in. "economic growth, as it were, automatically becomes socio-economic development" (Polanyi et al., 2018). The main factors of economic growth or development more broadly include investment in physical capital (mainly infrastructure) and an adequate level of foreign direct investment, human capital, development of the financial sector, liberalisation of foreign trade, the optimal size of the public and private sectors, a significant degree of economic freedom, political stability, reduction of inequalities in society (Prochniak, 2006). To this should be added an adequate level of social capital, technical progress (mainly the impact of digitisation) and institutional potential with institutional balance. The deficiency or lack of the abovementioned development factors favours the emergence of imbalances or crisis phenomena in the economy manifested simultaneously at the macro (global, regional and state level) and micro (various types of enterprises) levels.

The indirect impact of institutions on growth mainly concerns the different types of capital and labour. The in-kind capital accumulation (resources for investment and stockpiling) is a growth factor directly influencing the output growth rate and indirectly increasing the labour factor's productivity. To increase material accumulation, household savings, business investment increase, opportunities to save budget expenditure (e.g. rationalisation of transfers), and an increase in public sector investment are essential. Many factors influence savings, including current income. An increase in this income increases the propensity to save. This expresses the instinct for foresight, the desire to increase wealth over time or intertemporal preferences, and intergenerational altruism (saving for children). The development of institutions in the financial market (such as banks, investment funds, insurance companies, pension funds, brokerage houses and others) promotes a greater propensity to save and invest. Financial institutions foster efficient choices of investment ventures by reducing the costs of obtaining information (economies of scale effects).

In the conditions of the Polish economy, investments are of particular importance, ensuring their appropriate level. The investment rate has recently decreased by 4 percentage points and is a significant barrier to the realisation of sustainable development. For investments, apart from raising an appropriate amount of capital, relative stability of legal regulations, political stability, and effective allocation of the whole bundle of property rights are of great importance. For investments, the sustainability of ownership arrangements and the adequate protection of property rights - including the right to assimilate investment effects - are essential. A pro-investment state economic policy is also important, especially the complementary nature of public investment - investment in public goods and infrastructure. Effective investment today is an investment under conditions of compliance with ESG (environment, corporate social responsibility and corporate governance).

An essential element of sustainable development is implementing a sustainable transport concept, considering economic, environmental and health impacts. This is based on cheap, clean and widely available energy. This is reflected in lower electricity prices and lower environmental costs. Such power ensures low transport costs and is essential to globalisation (Garbicz, 2023). Low transport costs provide the development of production links between companies, create global value chains and contribute to tourism development. Low transport costs ensure the profitability of relocating production through offshoring processes and capital and labour flows to new investment and production locations. This also applies to logistics infrastructure.

Within the transport structure, maritime and air transport is growing in importance and significance, linked to the increasing use of containers and jet engines. This has a varying impact on the natural environment, related to the scale of fuel emissions and the amount and nature of waste. The widespread use of containerisation in transport and logistics infrastructure (stations, ports, logistics centres) is crucial for sustainability. Containerisation also encouraged the development of intermodal

transport, resulting in increased labour productivity and reduced direct and indirect transport costs. Facilitating the delivery time of products and services - mainly in international trade, which concerns primarily air transport - is also significant. The processes of digitalisation of transportation should also be borne in mind.

An appropriate proportion of the private and public sectors is essential for sustainable development.¹ In countries with developed market economies, the public sector became complementary to the private sector, and the economy remained a market economy. In transition countries at a lower level of economic development, only establishing market institutions, the public sector was and stayed for a long time overextended and less covered by market rules. The institutional environment (including the role of regulatory authorities) of both public and private sector enterprises was also qualitatively different. Various forms of public-private partnerships have also helped achieve development goals.

The mutual proportions of ownership sectors result from historical traditions, the market economy model pursued, the physical structure of production, the extent to which public goods and market goods are present, and the strength of individual interest groups. Also important is the trusteeship of the public interest by actors in different sectors and their adaptive efficiency.² Sectoral shares are changing under the influence of privatisation processes and transfers of ownership rights as part of capital market development (share trading). Privatisation in many countries has been based on using the methods and tools of the capital-market model, the state-administrative model and the social enfranchisement model.

The pace of privatisation (including foundational privatisation) and the so-called privatisation of the state's public functions (entrusting the resulting tasks to private companies) also mattered. This is all the more important, the greater the public debt and the difficulties in public finances (sometimes with an officially understated budget deficit). Sustainable development is challenging to achieve without transparency in public finances. The reform of the public sector and the possibility of accelerating the growth rate are limited to the scope of income redistribution by the budget, considering the business cycle phase and pursuing an effective stabilisation policy.

Sectoral interaction is mainly concerned with developing social cooperation as complementary to market competition and conducive to sustainable development. M. Garbicz distinguishes four areas where the institutional system is essential for cooperation: transparency in social relations, effective enforcement of contracts, dealing with agency problems, and limiting risks arising from coordination defects and institutional traps (Garbicz, 2012). The cooperation mechanism requires an appropriate level of informal institutions, of which social capital is a synthesis. Market interactions constantly provide new information based on which the whole market process reproduces itself, although on a continually changing scale and form. The institution of contracts, more or less complete, plays an important role here. Effectively concluded contracts result in a cooperative surplus.

The cooperative surplus is one of the manifestations of the public interest. The ability of actors to create this surplus can be indirectly measured by the size of institutional capacity and the amount of transaction costs (Cooter & Ulen, 2011).³ Obtaining this surplus requires the freedom to enter into contracts between actors with bundles of property rights and trust in each other. The conclusion of these contracts occurs, as it were, "in the shadow of the law". Legal arrangements should incentivise economic agents to participate in efficient bargaining between them. The law should be shaped in such a way as to remove obstacles to private agreements that benefit the parties to the transaction and bring about economy-wide benefits. Differences in the legal systems of different countries and the relationship between national law and international law can be one of the main barriers to the realisation of

¹ The share of the public sector varies between countries with the same level of development. This is influenced by both economic efficiency and social preference considerations.

² Adaptive efficiency represents the ability of a system of institutions to solve socio-economic problems over time, which requires constant adaptation of institutions to changing economic conditions based on certain patterns of solutions. This efficiency is a combination of economic, social and political efficiency. At the micro level, it is an economic strategy combining economic success with corporate social responsibility, considering environmental objectives and implementing corporate governance.

³ *Bargaining theory* as one form of game theory is applicable here. The cooperative surplus is the difference between "the combined payoff from cooperating and the non-cooperative value of the game". bargaining strategy is particularly important in the creation of surplus. itself. The distribution of the cooperative surplus, in turn, is mainly the appropriate tax system.

sustainable development. In the long term, there can only be an integration of regulations coming from civil law on the French model and common law of the British tradition.

The economic justification of the extent of the public sector in the real and regulatory spheres is important for sustainable development. The state owns many economic entities (the public sector in the real sphere) and is the main regulator of all economic entities, regardless of their ownership. Public sector firms can meet the challenges of the market insofar as they operate in an environment of private sector enterprises and within a system of market institutions. 'Hard budgeting' is also necessary. At the same time, well-targeted public spending increases the productivity of private capital, which encourages development processes. T

This relates mainly to the sphere of infrastructure. In this respect, an infrastructure providing various services (education, health and others) that allow, for example, to increase human capital or foster cost reductions for companies is of great importance. Infrastructure is characterised by high risk, high fixed costs, poorly measurable effects, provision of services with the characteristics of a public good and numerous positive externalities. These characteristics do not encourage private sector operators to enter; profit prospects are limited here. This area is a relatively sustainable place for the public sector, which also has its development limits.

In doing so, the public interest should not be equated with the presence of the public sector in the economy; the trustees of this interest can successfully be private sector companies. This depends on the nature of the goods and services produced in the economy; public goods (especially 'pure' public goods) require the public sector, and market goods require the private sector. However, public goods can be provided by both public and private sector enterprises. The economic calculus and the public procurement system are fundamental to this. Public goods are an important factor in creating positive externalities for the private sector and a source of increased economic efficiency for private enterprises.

For the effective and efficient implementation of sustainable development tasks, institutional strengthening of the phenomena defined as the debate of public interest and vested interests (individual and group) is needed. This is what, for example, the system of negotiations and social contracts serves. Economic interests form a complex network with formal and informal influences on decision-making in the institutional system. There is a process of 'interweaving' of public and sub-interests. In an economic society, there are areas and types of activities and value systems with widespread acceptance by actors, individuals and social groups. For example, one can mention the fight against poverty or the security of citizens. However, there are areas of the economy where the market mechanism fails or functions flawlessly. At the same time, these areas have a high degree of social utility, such as public health or environmental protection. In such areas, the importance of state regulation and the need to specify the content of the public interest increases.

The public interest category is ambiguous and defined according to several criteria, which creates vast possibilities for various interpretations and political manipulation. At the same time, we are dealing with the multi-entity expression of the public interest by different actors, e.g. different government agencies. This can be described as a subjective decomposition of the public interest. Under these conditions, it is easier to determine what is not the interest than what is. Ultimately, however, the state gives substance to the term 'public interest' in its institutional and organisational set-up. These include various programmes to meet needs or development plans linked to a management strategy, e.g. sustainable development. The problem remains in translating the objectives arising from these into the day-to-day business practice of the individual entities. Economic activity may be conducted with or without a sense of social responsibility (Dąbrowski & Majchrzak, 2022). Entities guided by social responsibility directly reconcile the public interest with their sub-interest. This is helped by being guided simultaneously by the values of altruism and egoism.

In an open market economy, foreign direct investment is becoming increasingly important. There is the creation of new companies from scratch (with the transfer of innovation) and investment in existing companies. The form of FDI chosen depends on the level of development and institutional arrangements, mainly legal and tax. Along with capital transfers come flows of all factors of production. Global value chains (GVCs) are increasing, fostering a convergence of development between countries worldwide.

Global value chains (as one of the main manifestations of globalisation) refer to the fragmentation of management processes (research and design, production and distribution) between companies operating in different countries to optimise costs for different production sequences. Optimisation while

maintaining quality levels. GVCs have developed with technological (digitalisation and containerisation) and institutional changes (liberalisation of international trade within the WTO, standardisation of regulations).⁴ It was and is also essential to compare wage savings with transport and logistics infrastructure expenditure. The main actors organising logistics infrastructure and GVC flows are transnational corporations. They are the leading actor in the benefits of participating in this form of production and trade relations. Less developed countries and companies from these countries also benefit, e.g. through increased labour productivity. Relatively cheap labour in these countries means participation in labour-intensive production tasks. It should be noted here that advances in the robotisation of many jobs may reduce the labour demand in countries with a lower development level.

For specific locations in GVCs, the theory of comparative advantages in terms of particular production tasks is used. Capital from leading transnational corporations (mainly US capital) participates in capital income also obtained in peripheral countries. In the fragmentation of production and trade lines, outsourcing and offshoring solutions are used, considering production-cost relations, including logistics costs (a component of transaction costs). The theory of incomplete contracts is also applicable. Offshoring requires an inevitable increase in logistics costs (production and distribution coordination costs and international logistics), which is more than covered by increases in labour and capital productivity.

At the same time, logistics costs are decreasing as warehouses are closer to suppliers or customers according to the '*just in time*' formula derived from Toyota's operating practices. The development of containerisation in transport and forwarding facilitates this. Due to sustainability requirements, the environmental impact and ecological costs must also be considered in GVC locations. Increasing the distance between GVCs can lead to more significant greenhouse gas and carbon emissions. In turn, decarbonising economies is one of the tasks of sustainable development.

National and international investments are closely linked to various forms and types of technological progress. Particularly relevant for sustainable development are 'clean or green' technologies, renewable energy sources (RES), closed-loop economies, healthy food production, environmentally friendly means of transport, etc. Of fundamental importance, however, is digitalisation.

Digitalisation involves the proliferation of three essential digital assets in an economic society: personal computers - smartphones, the internet and large-scale storage (Big Data). Artificial intelligence or blockchain technology can be added to this and used in developing the cryptocurrency market. Today's primary productive resource is information (its acquisition, flows, collection, processing and use). Despite reducing the unit cost of data, transaction costs are not falling similarly due to increased demand for new information. In their business strategies, this demand is reported by 'old' and 'new' companies, where innovation in production and products remains a crucial issue. Innovation with sustainability requirements in mind.

In practice, the barrier of incomplete and asymmetric information under conditions of specific growth capacity makes itself felt. Companies make decisions about environmental changes based on disparate information states and with a certain time lag. Pursuing the company's so-called equilibrium points inhibits the growth dynamics associated with technological and institutional innovation. The implementation of digitisation services makes it possible to limit the above difficulties. New challenges are emerging about centralised or decentralised management. IT platforms are creating new business models. A new social space is taking shape, detached from the traditional territorial dimension. New relationships between nation-states and large corporations like Apple or Google are being created.

Real-world socio-economic systems are a mixture of hierarchies and networks, interweaving vertical and horizontal links. The development of digital goods leads to new hierarchical-network relations. These relationships result from the degree of control over the factors of production, including information. We have network relations in hierarchical systems, and new hierarchies are formed in networks. In information networks, we have varying degrees of possession of power and control, leading to the 'verticalisation' of relationships. Customer profiling processes lead to an asymmetry in the distribution of benefits from IT services in favour of platform owners and political elites. At the same time, profiling makes it possible to reduce logistical costs as part of transaction costs. This raises the

⁴ Emerging environmental, health risks (e.g. pandemics) or geopolitical risks (e.g. US-China-EU rivalry) may result in a reorientation from global to regional value chains and a move away from purely efficiency goals to supply security. The question of deglobalisation also remains open.

challenge of regulating information flows and the issue of taxing transnational corporations from the IT sphere. There is excellent institutional potential in this area.

Institutional arrangements conducive to technological progress include, in particular, protection of intellectual property, credit for research, patent and copyright law, anti-monopoly legislation targeting excessive monopoly profits, access to scientific information, the institution of '*technological foresight*';⁵ relations between the R&D and manufacturing sectors, technology parks, support for the start-up ecosystem and others.

A comparative analysis of benefits and costs should be carried out when protecting intellectual property rights. The benefits of the protection of these rights (motivation for further research, receipt of fair income, participation in the externalities of technical progress, increase in human capital, etc.) should be compared with the costs of this protection (transaction costs, social costs due to ineffective activity of creators, costs of research carried out). The analysis of the benefits mentioned above and costs should be reflected like patent and copyright law as institutions protecting the interests of creators. However, complete exclusivity of innovative rights is not possible. The effectiveness of solutions in the field of intellectual property also depends on complementary institutional solutions, e.g. in the field of research financing or the tax system.

In developing the R&D sector, it is essential to create such institutions-organisations such as the establishment of technology transfer centres, business ecosystems, innovation incubators, high-tech clusters, and the development of institutions of the circular economy. High-tech centres and a place for cooperation between corporations and scientific research entities such as Silicon Valley - USA, Shenzhen - China, and Bangalore - India are important. New technological challenges give rise to new institutional challenges, e.g., social safety nets and changes in labour market institutions. New relationships described by the *network economy* or *sharing economy* are emerging. These relationships foster sustainability, such as reducing over-consumption by leasing multiple goods or services.

Complementary to technical progress, the factor of production is highly skilled labour and human capital. In modern economic conditions, an increasing level of human capital (continuous investment in this capital and its skilful use in financial practice) is needed for the effectiveness and efficiency of investment.

Appropriate knowledge of the relationship between the economy and the environment or of the social objectives of management is needed to realise sustainable development goals. This can be expressed, for example, in environmental sustainability analyses, the effects of climate change, waste management, environmentally friendly logistics, sustainable consumption and many others. Human capital is fostered by the ongoing cooperation between education and business practice actors, which is institutionally reflected, for example, in the strong participation of Stanford University in Silicon Valley.

Closer links are also needed between scientific and research activities, educational policies and technological innovations put into practice. In education, its level, equal availability and market distribution with competition mechanisms are essential. A system is also needed to identify talent and create professional and productive advancement pathways. Startups, i.e. new companies operating using new technologies, e.g. artificial intelligence, and focused on international expansion, should have an essential place in this. Start-ups should be regarded as high-risk ventures, capable of changing their business model or profile, learning from their mistakes and relying on networking (lasting business relationships) (Andrejczuk, 2023).

Investments in health care to shape public health are also important for human capital. Public health refers to the activities of various actors in the economic society directed at extending human life in health. This requires regulation in prevention, diagnosis, treatment, monitoring and rehabilitation. Financial strengthening of this policy means prioritising public health protection in the social policy of states (restructuring in public finances) and broader opportunities to attract private capital. There is room in health care for complementary interaction between the public and private sectors while maintaining the state's regulatory role.

⁵*Technological foresight* is a kind of ongoing process of thinking in advance about the future development of science and technology in order to identify the technological needs of development (especially sustainable development) and to analyse the socio-economic effects of, for example, developing artificial intelligence. It should also consider the compatibility of economic and environmental objectives or the social nature of management.

Human capital is linked to social capital, generating positive externalities for members of different groups. Through additional opportunities for the flow and exchange of information, it also promotes the diffusion of technological progress. Societies based on trust can have a higher return on human capital through higher wages. It also allows hiring policies to be pursued per the qualifications obtained. Social capital is significant under conditions of strategic complementarity when coordination defects arise. Better coordination of activities requires a greater willingness of actors to cooperate under market rules of competition. For cooperation, the elimination of opportunistic behaviour and free-rider attitudes is needed. The richer the societies, the fewer the coordination defects. A higher level of social capital increases information potential and reduces information asymmetry. It also reduces transaction costs.

All types of capital require the expansion of financial markets in line with the development of the needs of the real sphere in the economy. Financial markets are characterised by positive feedback of various kinds, which give rise to increasing oscillations of different economic parameters. Positive feedback can lead to the creation of 'virtual values' detached from their fundamental basis. Phenomena, where profits are assimilated mainly through financial channels rather than through trade or production and services, are referred to as financialisation. There is a detachment of the financial sphere from the real sphere. The financial sector captures too much of the economic surplus created in the real sphere of the economy in relation to the services provided. This is fostered by various forms of financial speculation and the expectation of constant profit growth in entities of the real sphere. The intensification of the phenomena of financialisation restricts development processes.

Financial markets are the most interconnected markets within globalisation processes. They serve all areas of the international division of labour, including foreign trade and foreign direct investment. Liberalising foreign trade is intended to increase global competitiveness, i.e., maximise the benefits of a country or company's participation in the world economy. These benefits positively affect economic growth (higher factor productivity) while maintaining a balance of payments equilibrium. In general terms, competitiveness is achieving better results than the competition, including environmentally beneficial effects. Those institutional conditions also allow better solutions to problems in the global economy.

In the economic practice of many countries, elements of free trade and protectionism (tariffs, quotas, standards, subsidies, etc.) are constantly intertwined. The role of international institutions such as the WTO, OECD and others is increasing. However, the game of conflicting economic and political interests on a global scale (USA, EU, China and others) is constantly making itself felt. The largest and most innovative transnational corporations play an essential role in this game. This game is about interests and values (e.g. authoritarianism vs. democracy, freedom vs. security, community vs. individualism and others). The benefits of the international division of labour outweigh the costs, as evidenced, for example, by global competitiveness reports. However, there is still room for improvement in many institutional arrangements globally and regionally in this area. There is an institutional underdevelopment in the global economy. The G - 7 or G - 20 meetings also express the need for international institution building. The current task remains to address *global governance* issues as an element that can significantly increase the effectiveness of development goals such as environmental sustainability.

The basis of the market economy is the freedom to undertake and carry out economic activities. Particularly important for a system of economic freedom are well-defined property rights and the high importance of "personal freedom" in legal regulations and social norms (e.g., the relationship between freedom and a sense of security). Without freedom in the long term, there is no entrepreneurship. There is also no freedom without institutions' inclusive rather than extractive nature. Freedom is also, for example, the defence of consumers against profiling processes in online networks. This requires appropriate regulation against corporations operating in the IT sphere. Law costs can be significant, and only larger companies can afford them. Regulation can, therefore, strengthen oligopoly forces. The essence of code should be to remove barriers to entry in such markets.

For the expansion of economic freedom, there is a need for effective and efficient regulation by the state treated as an institution - an organisation. The state combines the features of an economic and political institution. The quality of state institutions determines the stimulation of development processes. It is within their competence to define property rights and conduct economic (including industrial) and institutional policy. The quality of the ruling elite is reflected in the anti-crisis policy (both anti-inflationary and anti-deflationary, the acquisition of foreign capital, the reduction of

bureaucracy, etc.). Economic efficiency (both allocative and adaptive efficiency) is fostered by political stability. This stability is reflected in the low probability of a change of ruling teams in a non-democratic manner. In turn, the evolution of ruling teams in a system of parliamentary democracy does not cause negative changes in long-term economic policy, which is further facilitated by the wider use of permanent economic rules and automatic economic stabilisers.

In terms of the implementation of sustainable development, property rights are important among the institutions. These rights are mainly the right of possession, the right of ownership, the right of use, the right to manage the object of property, the right to assimilate benefits from the object of property (e.g. income, consumption), the **rights to** sell ownership interests and several others. State ownership is characterised by multi-entity; the bundle of property rights is dispersed. An additional problem is the nature of these rights aligned with public goods for many environmental services. As the study's authors write, "Examples of such goods and services can be: air, atmospheric space or assimilation services of ecosystems, as long as the limits of their exploitation are not exceeded, causing the effect of congestion...." (Sukiennik et al., 2017). The extent of accessibility and non-rivalry of entities in consumption is determined by legal rules in this area of functioning. We also have to deal with the existence of various institutions - environmental protection organisations such as environmental impact assessment commissions of entities, regional directors of environmental protection, control and inspection institutions or environmental protection funds. The shaping of these institutions is mainly the responsibility of the nation-state.

The problem of state strength is also essential for development processes. "Weakness" of the state manifests itself in such phenomena as, for example, low level of social discipline, inadequacies in legislation, corruption, non-compliance with the law, domination of vested interests, use of political power for economic interests, low efficiency in the use of public funds, incompetence of officials, etc. Under weak state conditions, even the best development programmes lead to institutional incoherence and upset the institutional balance. The state's role is to counteract the emergence of 'institutional gaps' that can develop informal economic or criminal structures. A strong state is not necessarily a 'large, centralised state' but a well-governed state of a subsidiary nature with an important role for local government institutions.

At the same time, implementing *good governance* practices increases the likelihood of the continuation of political power by pro-reform teams currently in power. These policies provide a measure of political effectiveness as part of the adaptive efficiency of the institutional system. The components of this policy are democratic control, efficiency of the state, functionality of public administration, effective system of law and rule of law, quality of regulation, control of corruption and free-rider phenomena, inclusion of citizens in the process of governance (including the role of referenda), building civil society, independence of institutions from current politics, system of social dialogue and consultation, adaptation to international competition and cooperation, and effective policy towards transnational corporations (including tax collection) (Hausner et al., 2017). Good governance promotes political stability.

Political stability is linked to the rule of law and effective and efficient institutions. In doing so, constitutional rules must be respected in line with the electorate's will. It is also about respecting the rights of minorities in practice and the absence of manifestations of "authoritarianism of those in power". A requirement for political stability is a consensual political order, i.e. a directional agreement between the ruling elites and opposition parties on the main directions of development and their place in the processes of globalisation. Political stability is also about skillfully balancing the power of different interest groups and nurturing a socially agreed public interest. This requires a kind of 'bureaucratic self-restraint'.

Relationships with politicians, with the nature of a bilateral monopoly, are based on the principles of agency under conditions of information advantage for bureaucrats. It is in the bureaucracy's interest to constantly increase the supply of services that do not always serve development. The size of this supply may exceed social needs. Political stability implies the ability of the ruling elite to implement 'socially difficult reforms', which is necessary to implement from the point of view of future generations, who have no 'empowerment' in the existing institutional system. It is easier to implement such reforms when they are necessitated by, for example, EU law or more broadly agreed international law. This is especially true for the burdens of implementing solutions to prevent global warming and the energy transition towards clean and cheap energy.

Another issue is the relationship between development and the democratic system (Mukand et al., 2020). Democracy is not always conducive to effective economic solutions, although it has intrinsic value. A democratic system allows for the peaceful removal of 'bad' politicians from power, a fuller consideration of citizen-voter preferences, better protection of property rights (democratic control), lower transaction costs due to less uncertainty with reduced scope for discretionary politics, better management of social conflicts and the creation of better institutions. As empirical research indicates, in the long term, reforms of a democratic nature with the right state incentives have a positive impact on economic growth rates (Acemoglu et al., 2019).

On the other hand, however, interest groups that inhibit development processes can come to power in a democracy. Some studies point to the existence of feedback loops between democracy and development. However, these relationships are non-linear. Under specific historical conditions, "enlightened autocratic" solutions, such as in South Korea, can be economically effective. Under democratic conditions, the power of interest groups and the populist inclinations of political elites can also make themselves felt - especially when public awareness is low. The phenomena of 'state failure' can be relatively persistent (Totleben, 2018). Populist politics is fostered by the objective state of social inequalities and their differing perceptions. The development of the internet and social networks is not necessarily conducive to rationalising social consciousness, nor is the propagandistic activity of some mass media.

The relationship between economic growth, wealth, and income inequality in a given society (social inequality more broadly) remains complex. There is a directly proportional relationship between social inequalities and sustainable development (Makarewicz-Marcinkiewicz, 2015). The achievement or lack of market success is one of the main causes of objectively existing inequalities. Inequalities can, however, result from the state's redistributive policies. The technical and institutional difficulties of collecting taxes on capital income are somehow compensated for by progressive taxation of labour income. In turn, the high taxation of these incomes does not encourage the accumulation of human capital, which limits growth factors. For development processes, the social acceptance of the inequalities that occur is equally important - it raises the level of social capital and thus promotes development.

Institutions influence development processes within the systemic linkages that make up the institutional equilibrium (Rudolf, 2017).⁶ Institutional systems have both established institutions and new institutions gradually merging into existing relationships. Ineffective institutions, in turn, are liquidated. All this takes place over different time horizons. Institutional equilibrium implies the mutual adjustment of selection mechanisms and processes of creating new institutions. Once they have passed a 'critical mass', new institutions constitute their permanent components. The institutional matrix flexibly adapts to technological, demographic, and historical-cultural changes and systemic shocks (North, 2014). Institutional equilibrium can be "higher-order equilibrium" and "lower-order equilibrium". It has to do with the formation of the adaptive efficiency of the institutional system - a higher-order equilibrium is simultaneously a high level of institutional efficiency and low institutional inertia.

3. Results

Achieving higher-order institutional sustainability involves a process of standardisation of the institutional system, i.e. the adoption of proven international experience in adaptation to the circumstances of a given country. It is about stabilising institutions' functioning, affecting sustainable development's realisation. This stabilisation concerns many areas and planes of social and economic life that cannot be easily aggregated. However, having an overall balance in the institutional system is difficult without partial balances. The relationships between these balances require further research and analysis - especially empirical research. These equilibriums should also always be related to the shape and effectiveness of the institutional system, both the real system and the desired model system.⁷ The model system results from the experience of effective institutional solutions in various countries

⁶ S. Rudolf identifies this equilibrium with the influence of complementary formal and informal institutions on social and economic development.

⁷ On the effectiveness of the institutional system and the features of a model of such a system see - Staniek Z., *Institutional economics.....*, op.cit. s. 62-84

and their gradual expansion internationally. These experiences also take into account the implementation of the concept of sustainable development. From theoretical analyses (our own and those of other authors), it is possible to adopt certain research hypotheses indicating the features of institutional sustainability relating to the desired institutional system model.

The main features of such solutions include:

- implementation of solutions serving the debate of public and private interests, appropriate relations of regulation and deregulation in adjustment to the extent of the phenomena of market *failures* (*market failures*) and state failures (*government failures*), regulation of the mechanisms of market competition and social co-operation of economic agents; sustainable achievement of a co-operative surplus as one of the manifestations of the public interest;
- preferring (endogenously and exogenously) in institution-building processes solutions geared towards innovation in production processes and products; these include the implementation of digitisation processes, artificial intelligence, bio- and nano-technologies, closed-loop economies, green revolution technologies, etc.; clusters such as those in Silicon Valley in the USA, Shenzhen in China or Bangalore in India, etc. are the main institution-organisation in this respect;
- the innovation of the economy is fostered by appropriate legal regulations with a policy of defining bundles of property rights, especially intellectual property, shaping the interaction between the private and public sectors in line with the requirements of economic efficiency and the system of social preferences;
- the formation and protection of property rights are more effective and efficient the higher the level of social capital and its three dimensions - structural, relational and cognitive - in a given society, increased social trust requires the implementation of *good governance* principles, higher levels of social capital mean lower transaction costs;
- the essence of efficient institutions is the relatively low transaction costs of their functioning; transaction costs are decisively information and regulatory costs; transaction costs include logistical costs related to supply chain operations such as information circulation costs, transport and forwarding costs and warehousing costs, in a broader sense transaction costs are costs of establishing and protecting property rights, costs of concluding and executing contracts, costs of opportunistic behaviour of economic agents, measurement costs and costs of financial intermediation and settlement;
- in the area of transport, the components of sustainable transport should be further developed, including environmentally and health-friendly mobility chains, greater use of renewable energy, a greater share of public transport and structural changes to infrastructure; containerisation is particularly important for sustainability;
- in the expectations of economic actors, internalisation of the values reflected in ESG reporting is necessary (universal obligation of such reporting); economic, social and environmental-climate values should form the basis of the balance of expectations of the different actors; the need for environmental regulation;
- *path dependence* and the associated trap of inferior product imply the influence of the historical factor on the shaping of institutions; state institutional policies are supposed to combat the difficulty of transforming the institutional matrix (the set of underlying institutions) more quickly and efficiently and reduce barriers to importing effective institutional arrangements from other countries;
- social acceptance of inequalities in society determines the effectiveness of the social and economic policies implemented, which requires transformations in the remuneration of production factors, changes in the education system and the development of a consensual political order, a preference for legal regulations reconciling liberal economic principles with a reorientation of the nature of the welfare state;
- institutions limiting financialisation phenomena, mainly effective regulation of the financial market, i.e. of the actors in this market as well as of the financial innovations implemented, a greater link between the development of financial institutions and the

- needs of the real sphere of production, an increase in the importance of non-financial criteria for assessing companies in the reporting system, the shaping of financial stability;
- skilful linking of the national institutional system with the dynamically changing global institutional order (the need to eliminate institutional underdevelopment in the world economy) - strengthening the economic and political power of the system of democratic countries (including US-EU ties); the need to reconcile globalisation and regionalisation processes; developing global or regional value chains;
 - the essence of the equilibrium of the expectations of economic agents is the simultaneous subject-object approach; in subject terms, this refers to the directional congruence of the expectations of heterogeneous economic agents, in subject terms to the reciprocal of adaptive and rational expectations;
 - defining the economic boundaries of democratisation processes, democracy can foster development up to a certain limit of freedoms and economic freedom; beyond that, it can have a negative impact - mainly due to numerous interest groups and various redistributive pressures; efficiency in tax collection, anti-corruption and anti-trust policies - the role of institutions-organisations;
 - the formation of institutions that define the interrelationships of hierarchy and networking, vertical power relations and horizontal networking relations, and the need to control and regulate the profiling processes of IT network users.

4. Conclusion

Institutional support for the realisation of sustainable development, the liberalisation of international trade, increasing capital transfers through FDI, the development of global value chains, greater freedom of labour flows between labour markets, the increasing scope of the economic power of transnational corporations, the interplay of regulation and deregulation of economic processes and changes in the balance of power of political power actors are the most important manifestations of the effects of changes in institutional systems worldwide.

Institutional change affects all actors operating at different levels of the economy. The global level is particularly relevant. One should agree with the views of D. Rodrik that it is impossible to reconcile the three systemic elements, i.e. democracy, national sovereignty and global economic integration. This impossibility fosters processes referred to as multipolarity within global production and trade networks. However, multipolarity involves countries with different value systems, democratic and authoritarian countries, which leads to geopolitical rivalries. The rupture of various economic ties and links is a real threat.

Breaking these ties can be costly and increase the risk of deteriorating international security. The existing system of financial flows and the structure of production and trade will change. A measure of the existing crisis of the existing globalisation model is, for example, the reduction of direct investment flows between China and the US by a factor of 6 (2018-2023).

Entities with a relatively high degree of economic but also political power are transnational corporations. Economic power mainly stems from a leading role in the global supply chain and a leader in creating and implementing production processes and product (service) innovation. Another issue is the transfer of profits through transfer pricing in intra-corporate trade. Political power is mainly expressed in formal and informal relations with the institutions of the home state as well as the states of their production and capital locations. This refers to the influence to obtain favourable regulatory solutions - according to the 'capture theory' (regulatory capture theory).

Developing new technologies (e.g. 3D printing) encourages the manufacture of even structurally complex products locally. Many corporations want to move individual links in their supply chains closer to their headquarters. On-site production also increases the certainty of supply, which, with geopolitical threats, is essential. Manufacturing closer to markets can reduce logistics costs (transaction costs) but, at the same time, increase production costs.

All these considerations of a theoretical nature require empirical research conducted by multi-stakeholder research teams. It would also be advisable for these studies to consider both the existing objective state and its perception by the actors involved in the game of conflicting economic interests.

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