

Gleb Gerasimenko
Science tutor N. Tesliuk
Academy of Public Administration (Minsk)

ROLE OF INSTITUTIONS IN THE NATIONAL ECONOMY

Institutions matter. These words have changed a lot in the world of economic theory. These words provide the answer to the eternal question: Why are some countries so rich and others – so poor? Institutions have a strong influence on our life. They determine the main way of the development of the whole nation and a lot of scientists are sure, that institutions are the key to success in rich and powerful countries.

Thorstein Veblen was the first to raise this problem [1]. But it was widely disseminated only in the 1970s in the USA and then in Europe. No wonder, that there is no generally accepted definition of the term '*institution*'. We rely on the definition given by economist Douglass North: 'Institutions determine the rules of the game in society or, more formally, create human limitations, which form the relationship between people' [2, p. 12]. According to the definition, we can highlight five main characteristics of this phenomenon: 1. Institutions are created by people; 2. They imitate human behavior; 3. Their main effect is manifested as a result of motivation; 4. All institutions are connected with each other; 5. They are characterized by the level of their stability: some of them can change relatively quickly (political institutions) while others cannot (institutions in the sphere of culture).

Institutions can be divided into two large groups: formal and informal.

Formal institutions are established by the law. They include some elements like the rule of law and property rights, strict compliance with the terms of the contract and the independence of the controlling systems. The government can influence these institutions, it legislates, protects private property, introduces some necessary systems or institutions, conducts macroeconomic stabilization and others necessary policies.

Informal institutions appeared due to human interaction. They include traditions, social characteristics and form the social capital of society. Informal institutions are less visible, but they are also very important. Largely due to them some social groups and even nations, choose certain patterns of behavior. It explains why African countries have such a high crime rate, corruption and poverty despite the fact that they adopted foreign progressive constitutions, the legal system and even completely western institutions [3, p. 1–25].

Economic institutions in each country include four main groups:

1. Market Formation Institutions that protect property rights and execution of contracts. They stimulate business activity and increase efficiency and productivity.

2. Market Stabilization Institutions that deal with monetary circulation and tax regulation. They are used to tackle cyclical crises in the national economy, thus

helping to reallocate resources effectively, which leads to the formation of new economic sectors.

3. Market Regulation Institutions. They are formed by authorities, which control casual activities of organizations and include antitrust regulation. These institutions are necessary because they determine rules for economic entities.

4. Market Legitimizing Institutions working in the social sphere, public health, in the educational system. They form human capital and are responsible for citizens' quality of life.

The quality of institutions is estimated by such international organizations as Transparency International, Freedom House and others. The national economy of each country is based on institutions. And there is a strong correlation between the quality of institutions and the country's economic development, its economic growth, development of entrepreneurship, the inflow of foreign direct investment [4, p. 1369–1401]. We need to examine this phenomenon in the Republic of Belarus to define its quality. And it is also necessary to research our informal institutions and detect their risks. We can also use this information to fix all risks. There is a serious problem connected with work discipline which can damage the productivity in our country. Belarus inherited it from the time of the Soviet Union. This problem can be solved by introducing effective motivation mechanisms. As a result, it will lead to the development of market institutions. We can also increase the efficiency of formal institutions. It will be a great idea to use sociological surveys of ordinary people to appreciate the trust of people to these kind of institutions. Surveys will demonstrate what relationship dominates in different spheres: formal or informal. Belarusian economic model is characterized by a high level of government regulation that has a negative influence on the formation of market institutions. This causes inefficient allocation and use of economic resources. The most effective tool to deal with this situation will be liberalization of our national economy. So we can conclude that research of national institutions is vital to the development of Belarus.

References:

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