

**DEBATE/DEBATE:** THE QUALITY OF INSTITUTIONS. AN INTERDISCIPLINARY PERSPECTIVE /  
LA CALIDAD DE LAS INSTITUCIONES. UNA PERSPECTIVA INTERDISCIPLINAR

# The Quality of Institutions and its Relationship with the Economy: A Review of the Conceptual Foundations and Empirical Studies

La calidad de las instituciones y su relación con la economía: una revisión de las bases conceptuales y estudios empíricos

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**Received/Recibido:** 12/06/2023

**Accepted/Aceptado:** 11/09/2023



## ABSTRACT

The fragility or strength of some economies in facing economic crises can largely be explained by the quality of their institutions. Institutions play a fundamental role in shaping society and the economy. Through political and social actors, economic agents and judicial bodies, among others, a regulatory and institutional framework is built with the capacity to shape the economic system in matters such as stability, equity and protection of individual rights. This article addresses the current state of institutional quality studies in the field of economic sciences. It presents the theoretical foundations and methodologies that underpin the main approaches, as well as the results from several relevant empirical studies, along with specific studies for the Spanish context and their implications. The conclusions highlight the contributions, strengths and weaknesses, and suggest possibilities for improvement by drawing on the integration of concepts and methods from various disciplines.

**KEYWORDS:** institutional quality; economy; organisations; institutions; economic development; organisational culture.

**HOW TO REFERENCE:** Pedraza Rodríguez, J. A. (2023). La calidad de las instituciones y su relación con la economía: una revisión de las bases conceptuales y estudios empíricos. *Revista Centra de Ciencias Sociales*, 2(2), 129–148. <https://doi.org/10.54790/rccs.38>

The Spanish (original) version can be read at <https://doi.org/10.54790/rccs.38>

## RESUMEN

La fragilidad o fortaleza de algunas economías para afrontar las crisis económicas puede ser explicada en gran medida por la calidad de las instituciones. Las instituciones desempeñan un papel fundamental en la configuración de la sociedad y la economía. A través de los actores políticos y sociales, los agentes económicos y los órganos judiciales, entre otros, se construye un marco regulatorio e institucional con capacidad para moldear el sistema económico en cuestiones como la estabilidad, la equidad y la protección de los derechos individuales. Este artículo aborda la situación actual de los estudios sobre calidad institucional en el campo de las ciencias económicas. Se presentan los fundamentos teóricos y las metodologías que respaldan los principales enfoques, así como resultados de varios estudios empíricos relevantes, junto a estudios específicos para el entorno español y sus implicaciones. En las conclusiones se destacan las contribuciones, fortalezas y debilidades, y se sugieren posibilidades de mejora acudiendo a la integración de conceptos y métodos procedentes de varias disciplinas.

**PALABRAS CLAVE:** calidad institucional; economía; organizaciones; instituciones; desarrollo económico; cultura organizacional.

## 1. Introduction

This article examines the importance of institutional quality in the economy based on research that has addressed the impact of institutions on fundamental aspects of growth, the efficiency of economic processes and socio-economic development in general. It describes how the literature on institutional quality has evolved and how indicators have been developed to measure the quality of institutions and their impact, primarily taking the country or nation-state as the unit of analysis.

The idea that institutions are the key to the development or stagnation of countries is part of the foundations of contemporary economic thought (Acemoglu and Robinson, 2012). The main argument of economic institutionalism is that the fundamental aspects of the economy and, therefore, economic and social development, are conditioned by a set of attributes of the institutions that give them the capacity to promote a series of basic behaviours and processes. These include the stability of the actions on the economic system, the compliance with contractual agreements, the protection of property rights, the impartial enforcement of the law, transparency in economic relations, reduction of corruption and promotion of trust in the system, among others.

A group of studies within this current of thought use the label “quality of institutions”. The main feature they have in common is their attempt to empirically capture the essential elements of institutions from a practical perspective. They search for those aspects of public policies, regulations and facets of social organisation that can be subject to intervention. To stimulate innovation in this field, institutionalist economists seek to explore the quantitative and qualitative aspects of the transparency and impartiality of the legal system, the action of governments in a responsible manner and the effectiveness of bureaucracies, among other attributes, to analyse how they shape high or low levels of institutional quality and, consequently, how such factors promote social and economic development.

This article offers a critical review of studies on institutional quality from the field of economic sciences, drawing on intellectual currents and emblematic empirical works. Following this introduction, Section 2 outlines some conceptual clarifications on the usual institutions in the economy and summarises the most important contributions of the key schools of thought in this field. Section 3 deals specifically with studies on institutional quality. The main dimensions, groups of indicators and methodologies of empirical studies are discussed. Section 4 provides a summary of the issue surrounding institutional quality in Spain by drawing on the reference studies on the subject. The conclusions take stock of strengths and weaknesses of these studies aimed at generating new questions in future research.

## 2. What are institutions and why are they important? Common assumptions in economics

Economic thought has always paid certain attention to institutions. Classic currents of economic thought emphasised that institutions are the normative and legal framework (private property, rule of law, competition rules) that allows voluntary exchange in transactions. On the other hand, for the neoclassicists, although they recognised the fundamental importance of institutions, they took on a more secondary role as they did not consider them decisive for understanding and explaining economic results. They tended to interpret them in a dichotomous way: the rules of the game are “good” or “bad” for boosting or limiting market performance, although they do not go into explaining individual behaviour or interactions in the market. The foundations lie rather in the microeconomic analysis of prices and production. Both function as adjustment mechanisms in the markets between supply and demand. Consequently, the study of the behaviour of individuals, companies and markets from this point of view has been based on the principles of utility, consumer maximisation and marginal analysis.

Criticisms of the limits of neoclassical assumptions focus on the fact that their proposals did not remedy the shortcomings of the free market, nor did they address the problems of economic developmentalism that were evident in the maintenance of inequality between countries, in the deterioration of labour rights and equity and in the environmental consequences. Likewise, the emergence of new economic approaches such as the theories of endogenous growth (Romer, 1990) gave increasing relevance to institutions as an alternative to explain the problems of economic development. This has stimulated the emergence of new explanatory perspectives of the socio-economic reality that try to incorporate cultural, social, political and environmental aspects into their analyses.

In the 1980s and afterwards, the new institutional currents began to play a prominent role in contemporary economic thought, particularly since the Nobel Prize was awarded to authors such as Oliver Williamson, Douglass North, Elinor Ostrom and

Joseph Stiglitz. Interest has continued to grow after it was repeatedly proven that the redistributive capacity of the capitalist economic system between capital and labour is deficient without the interaction of useful institutions to cushion the negative effects of economic crises, regulate commercial and financial relations in the liberalised market or safeguard private property rights.

As a consequence, institutionalism is currently a fundamental line of research for investigating the determinants for the development of countries. The unique case of the European institutions is a good example to explain how from 1950 to 2020 the expansion of GDP has affected all European economies, simultaneously and with similar intensity. This has been attributed to the existence of a single market driven by the European institutions and a set of common laws rather than to the functioning of monetary policy, especially in recent decades (Álvarez-Gonzalez, Gadea and Gómez-Lozcos, 2021). In the European case, institutionalism is a relevant theoretical framework for understanding the causes and consequences of development. The integration of European countries into a common political, social and economic space entails specific challenges for research because each country has its own institutional idiosyncrasies<sup>1</sup>.

Institutional economics has resulted in an increasingly common understanding of institutions among economists. It is characterised by a series of assumptions about what institutions are and how to define them, the preferred problems of study, the assumptions of the behaviour of economic actors and, ultimately, the way to understand economic facts. Neoinstitutional economists adapt the neoclassical approach to accommodate a wide range of social phenomena within the canon of economic thought. They recognise that institutions play a fundamental role in shaping human behaviour and in the functioning of different sectors of society (a description of the usual meta-theoretical principles of economics compared to those of other social sciences is included in the introductory article to this Debate) (Fernández Esquinas, 2023).

An especially influential definition is provided by North (1990). He considers institutions to be “the humanly devised constraints that shape human interaction” (*ibid.*: p. 3). Institutions are creations that determine the rules of the game, encompassing both formal written rules and informal social norms that condition or generate opportunities in the economic system.

In current economic thought, it is considered that rules, whether formal or informal, can restrict the set of options faced by the actors of the economic system and change their benefits (Hodgson, 2006). Furthermore, actors in interdependent situations operating under a common set of rules form shared mental models in the situation of choice that determines the benefits of the interaction (Aoki, 2007). When this happens, cooperation between market players can become a dominant strategy that tends to drive and foster efficient institutional frameworks.

A set of contributions to academic thought with heterodox origins have emerged from this conceptualisation. The main influences come from the theories of organisations and from various currents of political economy. In the rest of this section, the main ideas of institutional thought that are relevant for explaining empirical research on the quality of institutions are selected. The information is ordered chronologically, highlighting schools of thought and sometimes theories, which are exemplified through reference to their emblematic authors and the most influential concepts.

The classical (or post-Keynesian) school of institutional economics is among the first to postulate that institutions are fundamental to understanding economic phenomena. It is known for its critical stance towards the assumptions of neoclassical theory, questioning the idea that markets are efficient and achieve optimal equilibrium by themselves, and it is inspired by classical authors such as Veblen ([1899] 2004) and Commons (1934). They believe that institutions, understood as social norms, legal frameworks, business organisations and forms of governance, have the ability to shape the behaviour of economic agents through incentives or barriers to production and consumption. They also argued that institutions can either perpetuate or put an end to imbalances and inefficient practices in the distribution of wealth, the reduction of uncertainty and the promotion of cooperation between economic agents.

In the wake of this classical school, transaction cost theory is one of the most influential as it shows the importance of institutions in the costs associated with carrying out commercial transactions. Although it does not explicitly focus on the analysis of institutions, it highlights that rules, regulations, contracts and organisations influence the way in which economic transactions are carried out. During business operations, expenses and difficulties associated with the coordination and negotiation of agreements arise that affect the exchange process and that institutions can help reduce. Coase (1937) referred to the time and resources for finding information and reaching a satisfactory agreement, together with the costs of formalisation and contractual compliance. On the basis of this author's contribution, the importance of the interaction between economic institutions (political transaction costs) and policies (economic transaction costs) as key elements for economic progress has been established (Acemoglu and Robinson, 2012; Caballero and Lago, 2021).

On the other hand, the so-called Carnegie School, represented by the works of Simon and March in the fifties and sixties, is another important reference from the context of organisations, particularly the idea of limited rationality. They recognise cognitive constraints, capabilities to process information in complex environments and the asymmetric information flow in the market. These elements magnify uncertainty and prevent individuals from making fully rational decisions (Simon, 1991). In contrast to the neoclassical paradigm of rational choice, which assumed that market performance is automatically regulated through the conduct and individual capacities of buyers and sellers, they at-

tribute the role of providing rules and regulations that help avoid conflicts in decision-making and organisational behaviour to institutions.

Another important approach is that of the school of public choice, headed by Buchanan and Tullock (1962). They transfer the interest to the application of economic principles in politics and collective decision-making. They argue that political actors and bureaucrats act in their own interests and seek to maximise their personal utility. The indicators used by followers of this school are based on how institutions shape the incentives of political actors, including the configuration of governance systems, electoral rules and decision-making mechanisms. It also examines how institutional restrictions (through constitutions, laws and judicial systems) affect collective decisions and the protection of individual rights. In addition, the implications of economic institutions, tax systems, regulatory policies and resource-allocation mechanisms on a society's economic incentives and efficiency are explored.

The school related to the theory of regulation, promoted by George Stigler (1971), Laffont and Tirole (1993) and Baldwin and Cave (2012), among others, studies the economic effects and implications of government regulation in different sectors of the economy. Based on the aforementioned theory of public choice, they analyse how, from the political sphere, government intervention and regulation affect business behaviour and economic results. They examine how regulations affect relationships between the state, businesses and consumers in areas such as industry, utilities, finance and the environment. The indicators used assess the market power of companies, competition, economic efficiency, service quality, access to services, compliance with regulations and penalties for non-compliance.

The school of historical institutionalism (also called new institutional economics), represented by authors such as Ostrom (1990) and North (1990), deserves special mention. Building on the foundations of limited rationality, North argues that advanced societies require an economic system supported by formal and informal rules and mechanisms for their enforcement. The contributions on the influence of institutions underscore the behaviour of economic agents in order to limit uncertainty, address market failures and contribute to a more efficient allocation of resources to a heterogeneous literature with multiple ramifications.

A prominent author is Stiglitz (1994). His research in this field emphasises how economic institutions, regulatory frameworks, legal and judicial systems and public policies affect the economy. His research on information asymmetries and the information economy has been fundamental to understanding how institutions can address market failures and improve economic outcomes, as well as his contributions to the design of appropriate institutional frameworks to promote efficiency and equity in the allocation of resources and studies that evaluate the influence of political and economic powers in economic decision-making.

The studies in this school have analysed the impact of institutions on development, evaluating indicators of economic efficiency, political stability and wel-

fare. They consider how formal and informal rules, social norms and traditions influence economic and social patterns over time. Retrospective analyses have studied how organisations evolve, adapt and persist. Examining the norms, values and impact of individual and collective decisions, they have observed how their institutional structures and practices change in terms of governance, decision-making and regulations, and how transformations affect economic and social development.

A complementary perspective stems from evolutionary economics (Hodgson, 1993; Nelson, 1995). It deals with how business sectors, understood as the fundamental elements of economic structures, and institutions co-evolve and change over time, using similarities with the evolution of biological organisms. The distinctive element is the role of knowledge and innovation in the performance of companies and their ability to survive in complex economic systems. They examine how institutions shape the absorptive capacity, the interaction between economic agents and other organisations in the environment. The aspects observed include formal and informal rules; shared norms and values, together with the history and roots of institutions; governance structures; decision-making processes and their influence on organisational changes; and the capacity of companies to learn and adapt (Aghion, 2019).

Finally, it is worth highlighting some more recent variations that specialise in some aspects of the institutions. For example, the so-called feminist institutionalism uses a gender perspective and considers the power relations between men and women (Folbre, 1994; Nelson, 2015). Legal institutionalism focuses on the study of legality and its impact on the economy (Posner, 1973; Ellickson, 1998; Williamson, 2005), while political institutionalism examines how political actors regulate economic activity and affect institutional design, policy implementation and power relations with economic actors (Lindblom, 1965; Ostrom, 2005; North, 2005; Schmidt, 2008).

The contributions described do not exhaust the variety of institutionalism in the economy, although they do represent valuable ideas for understanding how institutions influence the economic behaviour and development of societies. It can be argued that institutional capital already constitutes a value in the measures that are prescribed to regulate factor and product markets, in the way in which certain regulatory mechanisms intervene in economic life, and in how the rules for the application of property rights and the allocation of resources are defined.

This way of thinking assumes that institutions have the power to project a flow of norms to regulate the behaviour of economic actors under a utilitarian principle of social interest. They configure a system of incentives and penalties that condition the interaction between the different economic and social actors. They function as a mediating “external agent” with the ability to reduce uncertainty in interactions by dictating formal rules. By means of these formal written rules and informal social norms they have the power to limit or release consumers, companies and legislators from obligations, and induce positive effects on the stability of the economic

system, while also having the ability to establish informal conventions, such as the patterns of behaviour used by institutions to impose specific behaviours (Acemoglu and Robinson, 2012).

In short, the institutionalist approach, through its various schools of thought, has enriched the understanding of economic behaviour. Institutions are recognised as having the capacity to shape the conditions in which interactions occur, and even the nature of these. However, there are also challenges, such as the need to conceptualise and analytically order the different elements that make up institutions, accurately measure the impact of institutions and establish the direction of the causal relationships between institutional quality and economic and social outcomes. In addition, studies should also refine models to predict solutions to the problems arising from the evolutionary changes of institutions, namely, their capacity for innovation, the convergence of political interests, the distribution of power or technological changes.

### 3. From institutions to “institutional quality”

This heterogeneous group of contributions constitutes the theoretical and empirical basis of studies on institutional quality. The concept of quality has gained a certain degree of popularity among economists as it is useful for evaluating the effectiveness and adequacy of some institutions, the fulfilment of their objectives and the functions for which they were created. This section presents some fundamental issues of these studies, taking into account two aspects: first, the explanatory mechanisms that underlie them; and second, the methodological features and findings of some of the most emblematic empirical works.

#### 3.1. Predominant explanatory mechanisms related to institutional quality

Much of economic neo-institutionalism has focused on the study of regulatory and coercive aspects of institutions, since they consider them a mixture of both. Above all, they observe the effect of the rules of the game as catalysts for economic development. They focus on formal rules regarding laws and regulations and, to a lesser extent, informal rules. The latter are more difficult to incorporate into the models and study empirically, as it will be seen later.

They also consider institutions in the form of public bureaucracies and other organisations central to the economy, with the intention of observing the extent to which they meet their objectives. They consider these institutions from their role as efficient structures. Consequently, they understand them as organisations with the authority to establish the rules of the game and capable of reducing transaction costs, fostering the confidence of agents, guiding the process of exchanging goods and services and reducing uncertainty.



Research on institutional quality has typically focused on studying aspects of the politics and organisation of states that affect the economy. For example, some studies have observed the influence of institutions on the structure of property rights and legal certainty (Hall and Jones, 1999; Acemoglu, Johnson and Robinson, 2001). Others have preferred to study the impact of institutions on economic growth, arguing that the qualities of institutions are more important than territorial or commercial elements (Rodrik, Subramanian and Trebbi, 2004) and that their effects on the economy last in the long term (Ogilvie and Carus, 2014). They have also shown that the administrative decentralisation of the state and economic growth are correlated with the quality of governance (Muringani, Dahl Fitjar and Rodríguez-Pose, 2019).

Some international organisations are also interested in these issues. For example, the World Trade Organization has studied the influence on the dynamism of international trade (Wilkinson, 2013). The World Bank has conducted research on governance, public management and the rule of law (World Bank Group, 2016). The Inter-American Development Bank has dealt with governance, transparency and the fight against corruption<sup>2</sup>. The Organisation for Economic Co-operation and Development has examined aspects such as transparency, accountability and citizen participation (OECD, 2016) and has carried out periodic studies and indicators, which have been used by national bodies to prepare their position papers, such as the Bank of Spain (Mora-Sanguinetti, 2010).

Finally, the most recent works look into the coercive and regulatory mechanisms that affect markets, companies and transactions (Rothstein and Stolle, 2008; Risse and Draude, 2018). They point out that companies have to deal with the new institutional reality, for example, with environmental regulations. At the micro level, the mechanisms designed to impose mandatory behaviours for the actors of the system are indicated. Of particular importance are those that try to solve problems of coordination or conflict in economic transactions—market regulation, concurrence of interests, etc. (Marinescu, 2013). At the macro level, focus is placed on transactions between countries and global areas and to situations of balance (Hayat, 2019).

### 3.2. Characteristics of empirical studies on institutional quality

Studies on institutional quality have overcome the limitations of the neoclassical approach by adopting a more pragmatic, comparative and less orthodox view, moving away from the explanation focused exclusively on individual behaviour. These approaches incorporate a different tradition, based at the macro level on comparative political economy and international political economy, and at the meso level on the analysis of sectors of institutions and organisations as the object of study, instead of focusing exclusively on countries.

The analysis is broadened through the comparison of different institutional systems and enables an understanding of how they influence the interaction of economic, political and social actors within the framework of a globalised and complex economy. By studying institutional quality from this broader perspective, a more complete and contextualised vision is obtained, which provides a solid basis for designing more effective public policies and development strategies appropriate to the particularities of each context.

From this perspective, the specific characteristics of institutions are usually observed through variables that reflect economic and social dimensions. Quantitative and qualitative approaches seek to measure and evaluate institutional quality in different countries, regions and economic sectors in order to provide information for designing effective public policies, promoting institutional reforms and fostering an appropriate socio-economic environment for sustainable development and equity.

As regards units of analysis, it is common to consider countries and regions (Acemoglu, Johnson and Robinson, 2001; Rodrik, Subramanian and Trebbi, 2004; Goel, Saunoris and Zhang, 2016). Other times, sectors or industries are used to investigate how institutional quality affects performance and results (Hall and Gingerich, 2009; Claessens and Laeven, 2003; Houston et al., 2014; OECD, 2012; Faccio and Zingales, 2022). In some cases, specific organisations are also studied to examine their capabilities or performance.

As for the dimensions of analysis, those macrosocial aspects with economic implications are considered. A number of investigations establish causal relationships to examine the connections between institutional quality and GDP, economic and population growth, the education level of the population, the average of exports or other economic, geographical and demographic variables. Social dimensions related to political stability, absence of violence, control of corruption, transparency in accountability, effectiveness in governance, regulatory burden, trust in the rule of law and quality of the judicial system are also used.

In relation to the logic of analysis, it is most common to consider the traits of institutions as the main explanatory or independent variable (Acemoglu, Johnson and Robinson, 2002; Kaufmann, Kraay and Mastruzzi, 2007). In recent years, studies have emerged that consider how certain economic processes or outcomes—for example, the appearance of new products, services or production processes—can influence institutions or cause new ones to emerge to regulate new situations. Thus, in some instances, institutional quality constructs have been found to function as a dependent variable (Hall and Jones, 1999; Acemoglu, Johnson and Robinson, 2001; Kaufmann, Kraay and Mastruzzi, 2009) and in others, as a moderating variable (Rodrik, Subramanian and Trebbi, 2004; Fisman and Svensson, 2007; Schneider, Buehn and Montenegro, 2010).

In terms of specific studies that relate institutional quality and economic variables, the reports by the International Country Risk Guide stand out<sup>3</sup>. They assess the political, financial and economic risk of countries, measuring institutional commitment to contract compliance, the risk of expropriation, the quality of bureaucracy, corruption and the rule of law (Burki and Perry, 1998; Islam and Montenegro, 2002). Other studies incorporate governance considerations of institutions in economic development and the decrease of the gap between countries (Stiglitz, 2019).

For its part, the annual *Doing Business* report (World Bank Group, 2016), prepared by the World Bank, assesses the ease with which institutions make it possible to do business in different countries, considering indicators such as the creation of companies, obtaining of licences and enforcement of contracts. Other studies by international organisations associate institutional quality with other socio-economic variables. The Worldwide Governance Indicators project (Kraay, Kaufmann and Mastruzzi, 2010) collects information on governance indicators in six dimensions, such as regulatory quality, control of corruption, political stability, government effectiveness, accountability to citizens and the government's ability to create policies and regulations beneficial to the private sector. The World Economic Forum's *Global Competitiveness Report* also assesses the institutional quality and competitiveness of countries, including Spain in its analyses.

It is also worth mentioning the studies promoted by other bodies that encompass a variety of political dimensions, with similar methodologies. *Regional Governance Matters*, promoted by the Quality of Government Institute and the Directorate-General for Regional Policy of the European Commission, uses the "European Quality of Government Index" to investigate the influence of institutions in areas such as the economic and social development of regions, innovation networks, environmental sustainability and political and administrative systems (Charron, Lapuente and Dijkstra, 2012). The "Effectiveness Index" prepared by the Institute of Management Development (2022) evaluates quantitative and qualitative data on a range of indicators related to the economic situation and efficiency of government, infrastructure, education and health. The "Corruption Perceptions Index", published by the non-governmental organisation Transparency International (2022), is used to measure the transparency and accountability of governments in areas such as regulation, access to information, the fight against corruption and transparency in the management of public resources (the exercises carried out with "good governance" are included in the article in this section by [Author1 and Author5], 2023).

A wealth of specialist literature has emerged from these data sources. For example, Lucio and Mora-Sanguinetti (2021) use the quantity and linguistic ambiguity of norms to relate them to productivity growth and work efficiency. Petersen (2013) and Buccirosi et al. (2013) relate GDP per capita to indicators of democratic improvement (civic education, inclusive democracy, socio-economic justice, dialogue between civil society and the government, civil society

networking or the democratic culture dimension). Houston et al. (2014) focus on the relationship between politics and the financial sector. The report published by the OECD (2012) and the work of Faccio and Zingales (2022) address the impact of policy and the regulatory framework on the telecommunications sector.

The latter group of studies has connections with the exercises for measuring the quality of institutions in the field of policy that are detailed in the specific article of this monograph section ([Author1 and Author5], 2023). In fact, there are overlaps between economic and political science approaches in the methodology used for measuring aspects of institutions and in analysis strategies, which has to do with fundamental coincidences in the assumptions for interpreting the functioning of some sectors. A common feature is that their units of analysis are typically country-based and focus on how institutional traits and economic development reinforce each other in the long run, and seek to find “virtuous circles” that underpin policy and regulatory reforms.

#### 4. The implications of institutional quality for the Spanish context

The international comparative studies that include Spain in their analyses provide a descriptive basis for evaluating the country's position and, above all, provide a source of data for more in-depth studies by Spanish authors interested in this subject. This section includes a brief summary of empirical research based on international reference sources.

Spain occupies an intermediate relative position both in the European Union and in international ratings, mainly due to governance-related institutional weaknesses. Some dimensions stand out from the political instability, violence and corruption, and others of an economic nature, such as obtaining credit and building permits, according to data from the *Worldwide Governance Indicators* and *Doing Business*. The time series of these long-term studies indicate some significant setbacks, partially softened in recent years, but which continue to affect productivity and economic convergence with the most advanced countries (Arias, 2021).

If we are to look at the specific studies on Spain based on these sources, they reveal that the problems of low structural productivity are usually related to indicators of transparency and corruption, conditions of legal certainty, efficiency of the judicial system, quality of regulation, presence of political client networks or corporate governance from the private sector.

Of particular note is the work of Borrell, García and Jiménez (2021) who, using data from the Institute for Management Development (2022) and the World Economic Forum (2020), quantify the impact of institutional reforms on the advocacy of competition, as well as economic efficiency based on the study of the institutional design of the Spanish autonomous state, the power structure and transparency. Another good example is the work by Martínez-Vázquez, Tránchez-Martín and Sanz-Arce-

ga (2019). Drawing on the theory of fiscal federalism, they analyse dimensions such as the distribution of competences, the distribution of fiscal power, the relations of cooperation between levels of government and conflict resolution mechanisms to identify institutional weaknesses and propose reforms in the design of the autonomous state.

Nonell and Medina (2021) investigate the constraints arising from the legal framework of the labour market. In particular, they analyse the ideological component as a determinant for reforming contracting systems and participation in collective bargaining. Other recent studies of interest include the work by Parrado (2021), which focused on the study of institutions in the field of equity, efficiency and autonomy in education and health, and by Caballero and Lago (2021), who have examined transaction costs in political action, electoral rules and political institutions and their effects on the economy.

In summary, these studies highlight that the situation in Spain, according to the conceptualisation of institutions and the methodology for measuring their quality features, is fundamentally due to certain groups of key factors of governance: citizens' trust in institutions, the quality of the judicial system, the fight against corruption and efficiency in the functioning of public institutions. As main implications, they suggest the need for legal reforms in order to have transparent and efficient institutions that stimulate trust in the public sphere. It is argued that institutions must establish rules that have positive effects on the confidence, productivity and competitive capacity of the Spanish economy. The convergence of the rules of the different political, economic and judicial systems must contribute to an "infrastructure of institutions" that promotes security and efficiency, without over-regulation, through a coordinated governance between the different government structures that enables accountability.

## 5. Conclusions

In the literature on economic institutionalism, the idea prevails that the role of institutions needs to be addressed by examining the rules, organisations and behaviours of the various actors involved in the economic system. Constructs such as institutions and transaction costs have become common concepts to explain problems of an economic, political and social nature already identified by the neoclassical paradigm. Much of the economic research on institutions has sought to identify empirical solutions to respond to market failures or to the behaviour of economic and social actors.

The studies that fall under the rubric of institutional quality are one of the best examples for observing the character of the institutions of countries, regions or sectors of activity, and linking them to other fundamental dimensions of the economy, politics or society. These conclusions briefly highlight the contributions of these stud-

ies, their methodological strengths and weaknesses, and offer some keys for their improvement, especially regarding their openness to collaboration with other disciplines.

In terms of strengths, these studies have provided the empirical basis for advancing institutional economics and testing some of its assumptions. They have made it possible to provide more precise knowledge on how aspects of politics, the legal framework, regulatory arrangements, the formation of business corporations and the structure of the productive sectors shape economic performance in its fundamental aspects. Comparison between different institutions or countries has made it easier to identify patterns and significant differences in long-term economic growth, or in specific aspects such as, for example, the causal relationship between institutional quality and the attraction of foreign investors (Ren, Hao and Wu, 2022).

Another advancement of knowledge is the contribution to the understanding of complexity. The suggestion is that the characteristics of institutions are not only an independent variable, but that they co-evolve with other social sectors, and even some aspects of institutions function as a dependent variable that depends on the make-up of the economy, which has led to one of the most promising frontiers in institutional thought.

Regarding the weaknesses, those related to the conception of institutions, methodological problems and data sources are highlighted. First, the concepts employed often focus on formal and structural aspects of institutions, such as rules, formal aspects of organisations and formal governance mechanisms. However, the informal dimensions related to culture and power, including social norms, beliefs, values and influences exerted by some actors, are addressed to a lesser extent, which is crucial for understanding how institutions work.

Other problems are operational in nature when it comes to measuring quality. Designs for country and regional levels of analysis combine official statistical data, qualitative reports, based mostly on expert opinion, and proxy indicators from user surveys and other sources to capture key aspects of institutions. However, the institutional quality is influenced by specific and concrete historical, cultural, political and economic factors of each territory. It is difficult to codify these aspects as indicators, which leaves many relevant institutional elements unexplained. In addition, obtaining macro-level data makes it difficult to find influences stemming from the internal configuration of key sectors or institutions of countries, which may differ significantly from one another and give rise to different combinations of causes depending on the context.

Finally, obtaining reliable and complete data on institutions is always a challenge due to the difficulty of measurement. This has led to the use of proxy indicators on corruption, regulations, administrative efficiency, law enforcement and organisational culture, among others, which are based on user perceptions or on results produced by the institutions to be studied. Thus, analyses that relate these indicators to traditional economic ones, such as GDP per capita, growth rates or other aggregated indicators, can give rise to circular reasoning because they are interrelated. It is not

surprising that in the comparative exercises high levels of economic development and institutional quality systematically coincide and vice versa. Such sources show the bidirectional relationship of factors that influence each other, which makes it difficult to identify causality and can lead to misinterpretations about the institutional reforms that can generate a cause-effect relationship in the economy.

Despite the difficulties observed, studying institutions continues to attract the interest of key economic currents. Contributions in this field have provided explanations to economic problems for which neoclassical approaches offered limited solutions. Currently, the challenges lie in deepening the observation of complex factors: the influence of culture, power relations, citizen participation, accountability mechanisms and technological advances are some aspects that can continue to enrich the understanding of institutional quality and its effects on social and economic development.

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## Notes

- 1 For example, Eastern European countries with centralised economies have transitioned to economic and legal institutions that guarantee property rights, competition and market rules. Southern European countries have advanced to overcome the obstacles in the governance and corruption of the past, taking on the particular challenge of integrating social actors into the institutions to strengthen legitimacy through their greater participation and dialogue.
- 2 The Inter-American Development Bank's documents on institutional quality can be accessed via its official website: <https://publications.iadb.org/>
- 3 The methodology and dimensions used by Political Risk Services to classify the political, financial and economic risk of countries can be consulted at: <https://www.prsgroup.com/explore-our-products/icrg/>

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