

14th European Association for Comparative Economic Studies Conference

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The Institutional Systems and the Quality of Life*

Keynote speech

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Content of the Presentation:

- I. Four Tasks of Institutional Economics
- II. The Institutional Variables – the Dimensions of Institutional Systems
- III. Types of Institutional Systems
- IV. The Dimensions of the Quality of Life
- V. Institutional Systems and the Quality of Life: the Analytical Scheme
- VI. Institutional Systems and Economic Growth
- VII. Institutional Systems and Employment, Non-employment, Unemployment
- VIII. Institutional Systems and Health
- IX. Institutional Systems and Inequality
- X. Institutional Systems and Self-realization
- XI. Institutional Systems and Fear
- XII. Concluding Comments

1. Standardization of the definitions of the Main Variables. Measurement of these variables
2. Which institutional subsystems in various fields of social life can lastingly coexist with each other and which can't (Laws of Systemic Cohesion)
3. The Institutional Systems and the Quality of Life (Performance)
4. The Dynamics of Institutional Systems
 - a) Economics of Institutional Change
 - b) Political Economy of Institutional Change (Reforms)

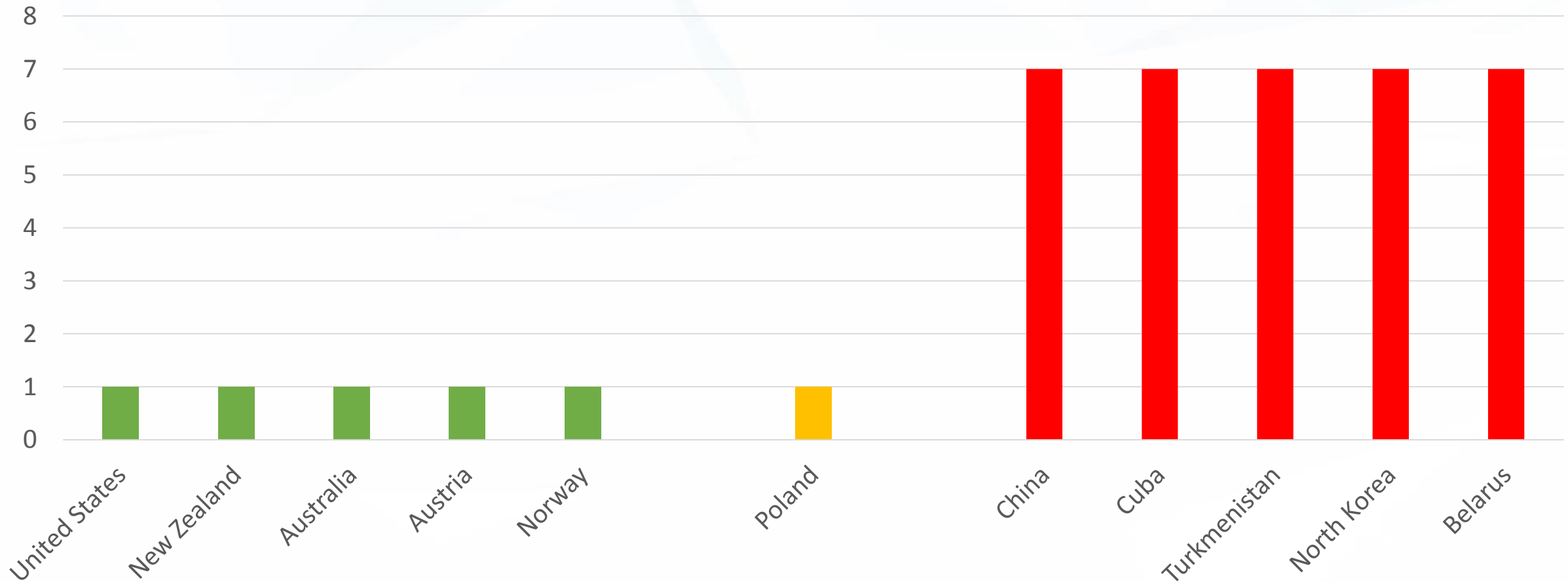
II. The Institutional Variables = the Dimensions of the Institutional Systems

1. The Main Variables:
 - Democracy (D) vs non-Democracy (non-D)
 - The Rule of Law
 - The Civil Liberties
 - The Economic Freedom
 - The Fiscal Stance
2. The Institutional System: a potentially lasting combination of the forms (values) of the Institutional variables – at various levels: supranational (EU), national, regional
3. Institutional Systems vs the Policies: various institutional systems are associated with various sets of possible policies e.g. the most destructive economic policies, sometimes associated with mass murder are possible under the despotic systems (e.g. Hitler, Stalin, Mao). The worse crises occur under the non-market economies because of the excessive concentration of political power which allows terrible policies.

II. The Institutional Variables

Political Rights 2016 (Freedom House).

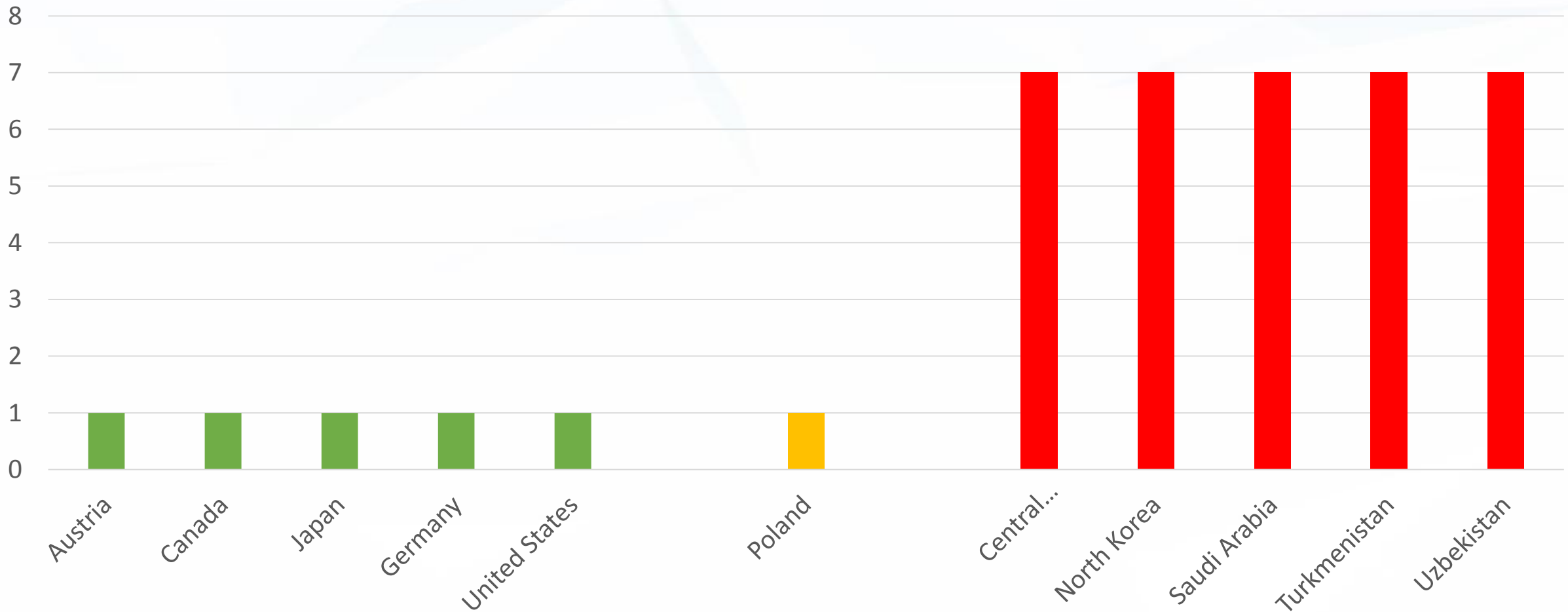
A country or territory is assigned a rating (7 to 1) based on its total scores for the political rights questions regarding electoral process, political pluralism etc.



II. The Institutional Variables

Civil Liberties 2016 (Freedom House).

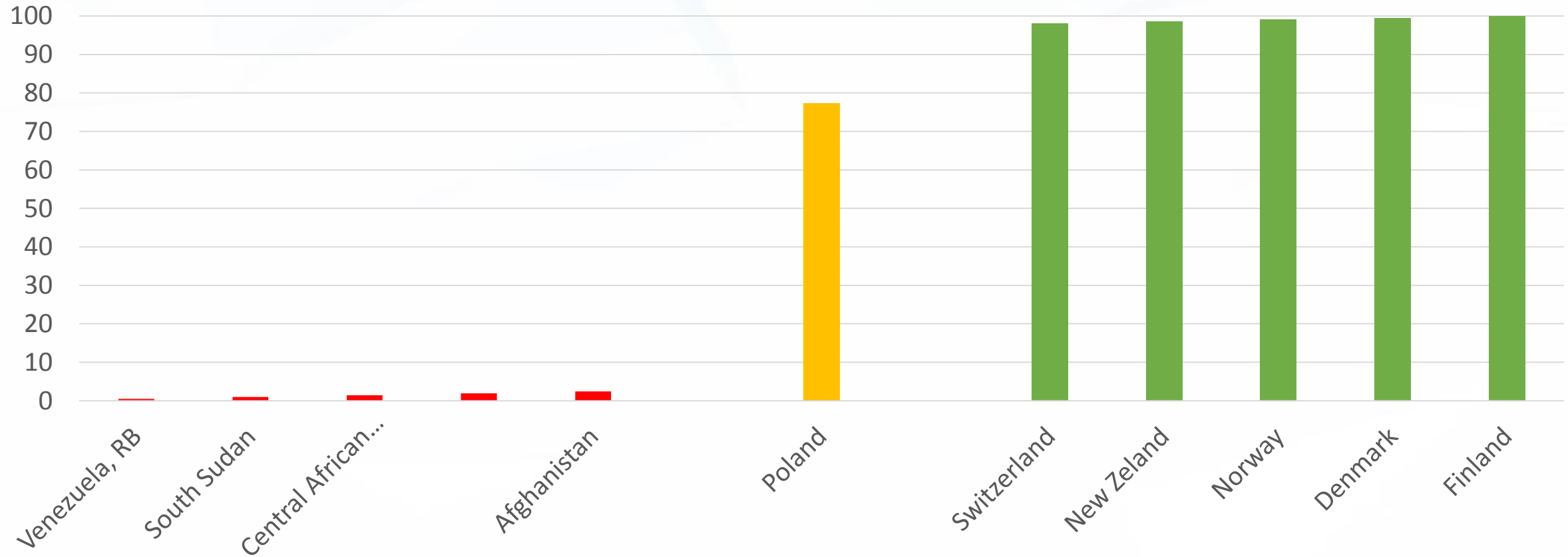
Each country is assigned a numerical rating—from 1 to 7—for civil liberties, with 1 representing the most free and 7 the least free.



II. The Institutional Variables

Rule of Law 2014 (World Bank)

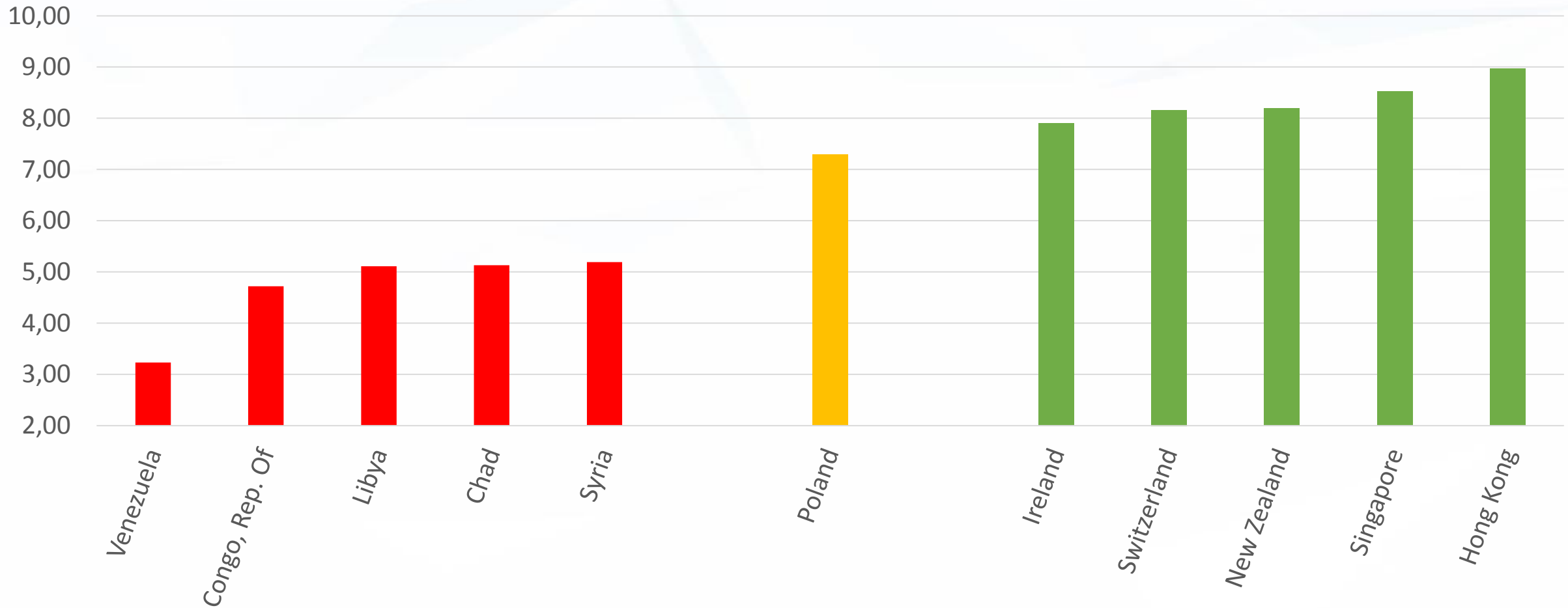
Captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.



II. The Institutional Variables

Economic Freedom of the World 2013 (Fraser Institute).

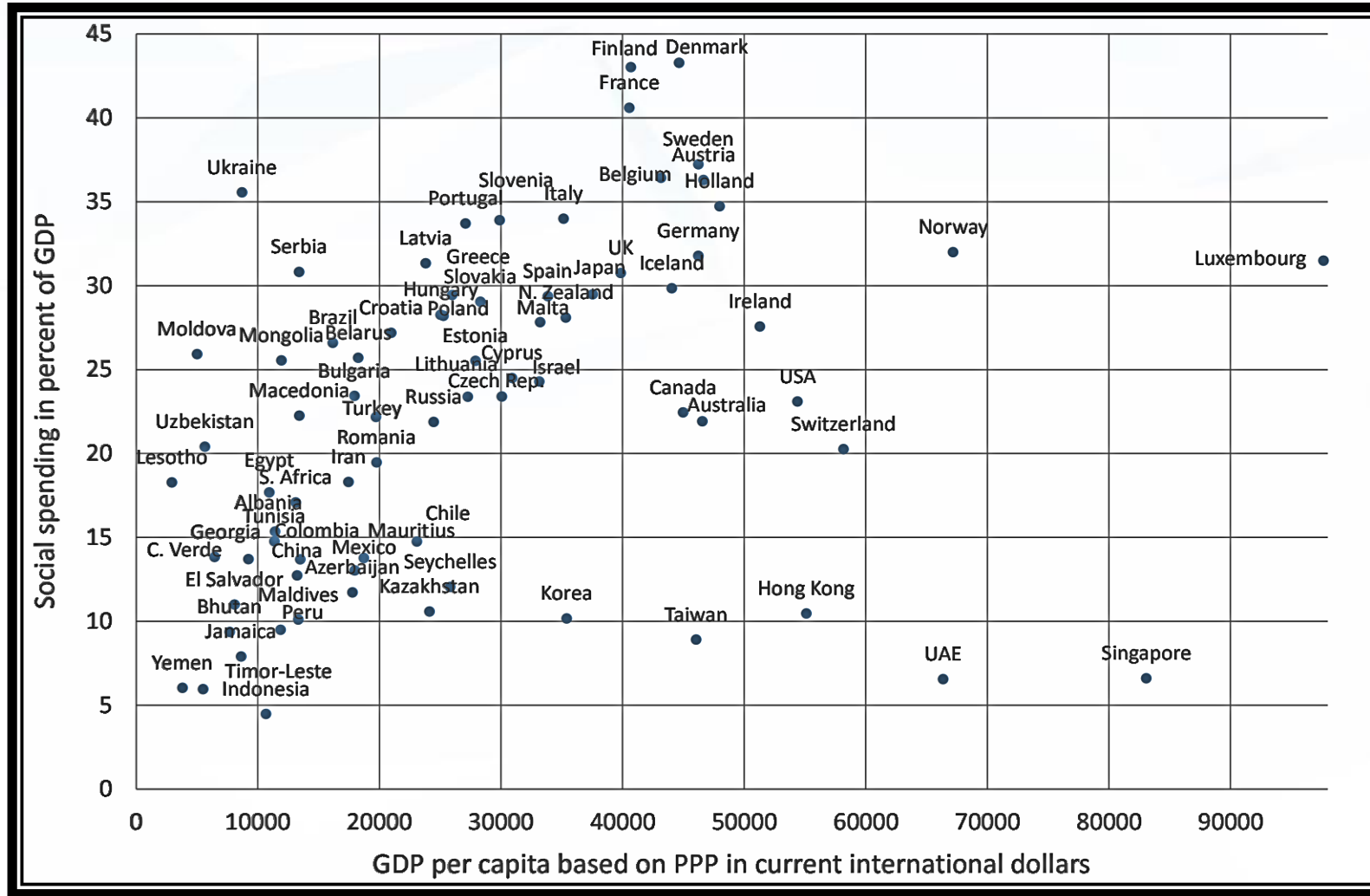
Measures the degree to which the policies and institutions of countries are supportive of economic freedom.



II. The Institutional Variables

Fiscal Stance (the State of the Public Finance)

GDP per capita and social spending (years 2013-2014*)



* or the closest available. Sources: IMF Government Finance Statistics, OECD.SOCX, World Bank, Eurostat, IMF World Economic Outlook


III. Types of Institutional Systems

	Democracy	Civil Rights	Rule of Law	Economic freedom	Fiscal stance	Examples of countries
1. Socialism (communism)	Non-D.	Banned	V. low	None; Command Economy		North Korea, Cuba
2. Quasi-socialism	Non-D.	Banned	V. low	Dominance of SOE's. A little private sector		Belarus, Central Asia, Venezuela
3. Free Market Capitalism	Usually D.	Extensive	High	Wide		Hongkong, Switzerland, Ireland
4. Crony capitalism	Usually non-D.	Limited	Low	Limited due to uneven protection of property rights		Russia, Ukraine
5. Overregulated and/or fiscaly unstable capitalism	D. or non-D.	Rather high	Limited - due to arbitrary regulations	Limited due to overregulation and/or fiscal instability		Italy, France
Examples of available measures	Political Rights (Freedom House)	Civill Liberties	Rule of law (World Bank)	Economic Freedom Index (Fraser Institute),	Spending/ GDP ratio	X
Range	1 - 7	1 - 7	0 - 100	0 - 100	0 - 100	X

1. Main Dimensions

- Economic growth, especially in poorer countries, best measured by the rate of growth of consumption
- Employment, non-employment, unemployment
- Health
- Inequalities
- Self-realization (possibilities, to realize individuals', realistic professional plans
- Fear

2. Some of these variables are correlated, e.g.:

- economic growth ↔ health
- 
- ```
graph TD; EG[economic growth] <--> H[health]; IO[inequalities of opportunities] --> E[employment]; E --> H; IO --> EG;
```

# V. Institutional Systems and the Quality of Life: the Analytical Scheme

## Scheme

### Institutional variables

- D or non-D
- Civil rights
- Rule of law
- Economic freedom
  - property rights
  - regulations
  - protection of rights
  - taxes

### Quality of life

- Consumption growth
- Employment
- Health
- Inequalities
- Self-realization
- Fear

- Initial conditions
- Climate
- Geog. location
- Natural resources
- Demography

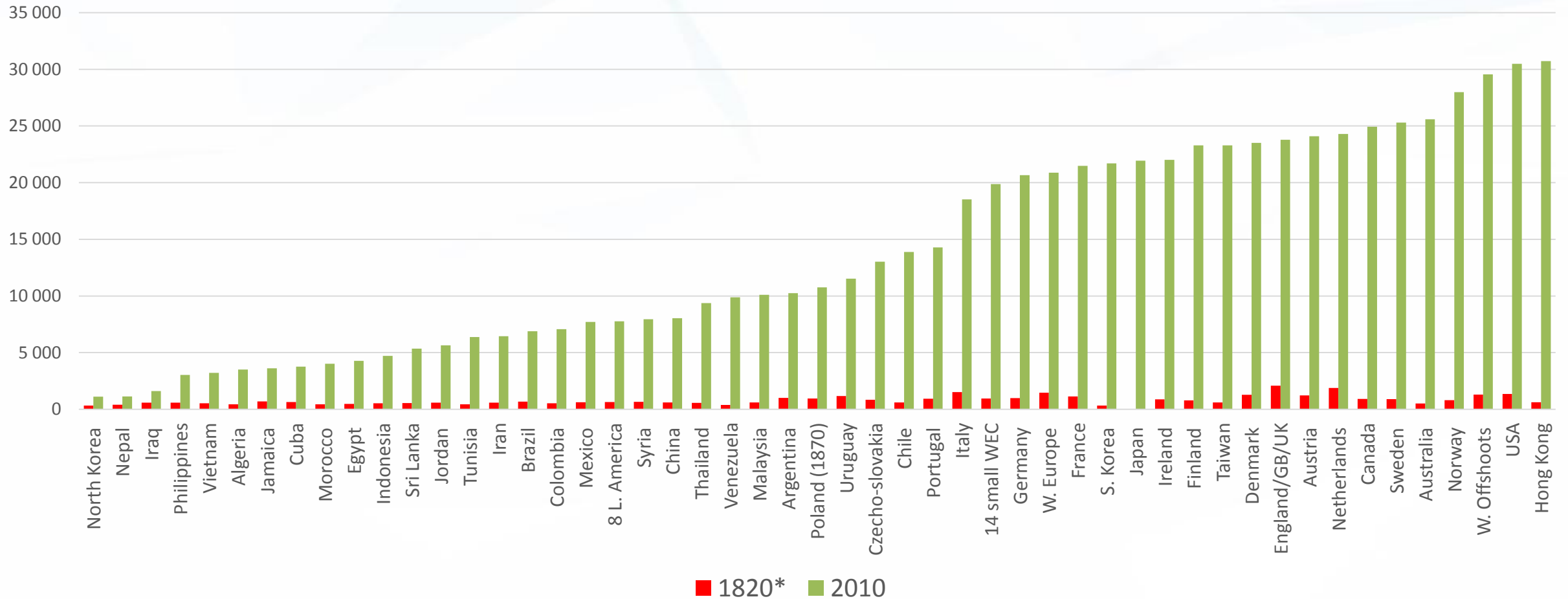


## 1. The main institutional determinants:

- Economic Freedom
- The Intensity of Market Competition
- Rule of Law

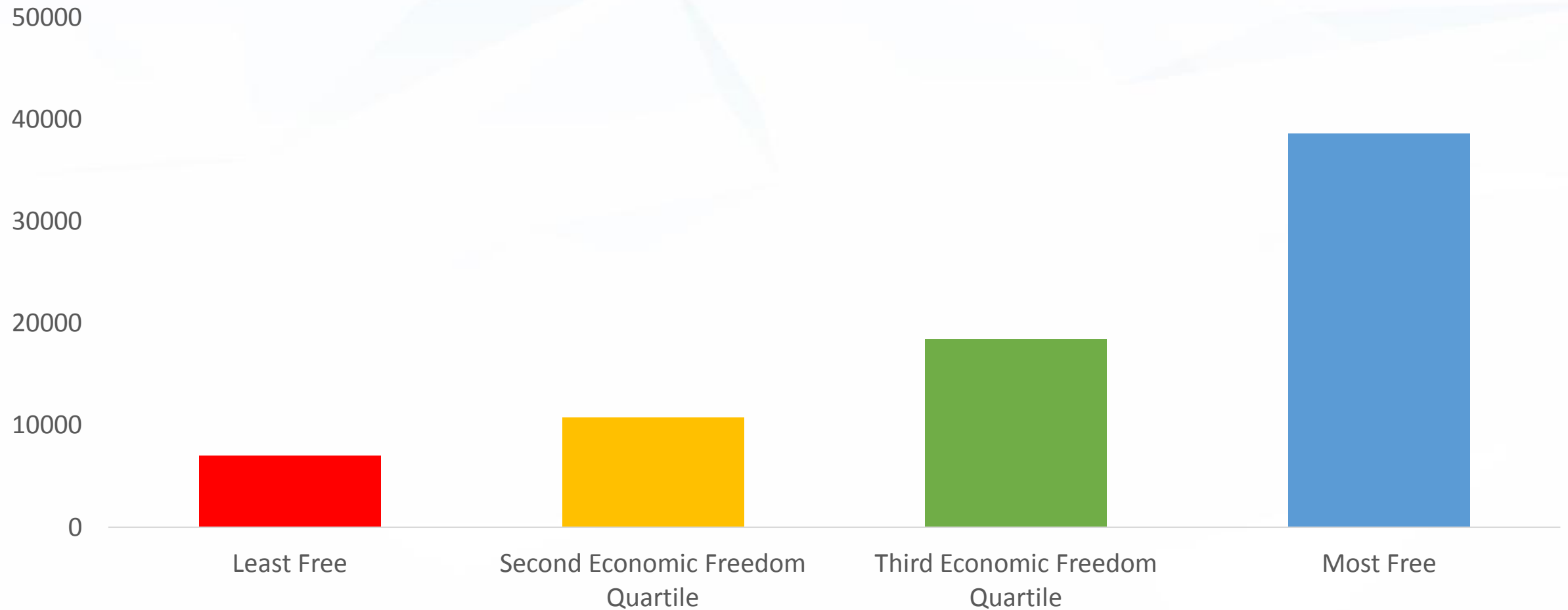
Until recently everyone in the world was poor except for the elites. By 2015 GDP per capita of some countries was even multiple times higher.

GDP per capita (in 1990 international dollars) in 1820\* and 2015.



\* or the closest available. Sources: Maddison Project Database

The most important determinant of growth: economic freedom ( -> competition) + rule of law  
GDP per capita and economic freedom index (Fraser Institute, PPP constant 2011 US dollars)



Improvement in social indicators in Poland after 1989 have reached even higher level than that of economic growth.

### Human Development Indicator

- 39th place in terms of the UNDP Human Development Index
- 47th place in terms of income per capita
- Index takes into account the results of education and life expectancy

### Education

- Polish students achieved very good results in international OECD PISA competency tests:
  - ✓ 13th place in mathematics
  - ✓ 9 in life sciences
  - ✓ 10 in reading comprehension

### Moderate Inequalities

- Since 1996 the Gini coefficient remained stable at around 33%
- And remains below the average for OECD countries and the EU

### Improving overall satisfaction

- In terms of the OECD Better Life Index Poland ranks 24th among 34 OECD countries
- In terms of income per capita occupies 29th place among OECD countries



## 1. The basic determinants:

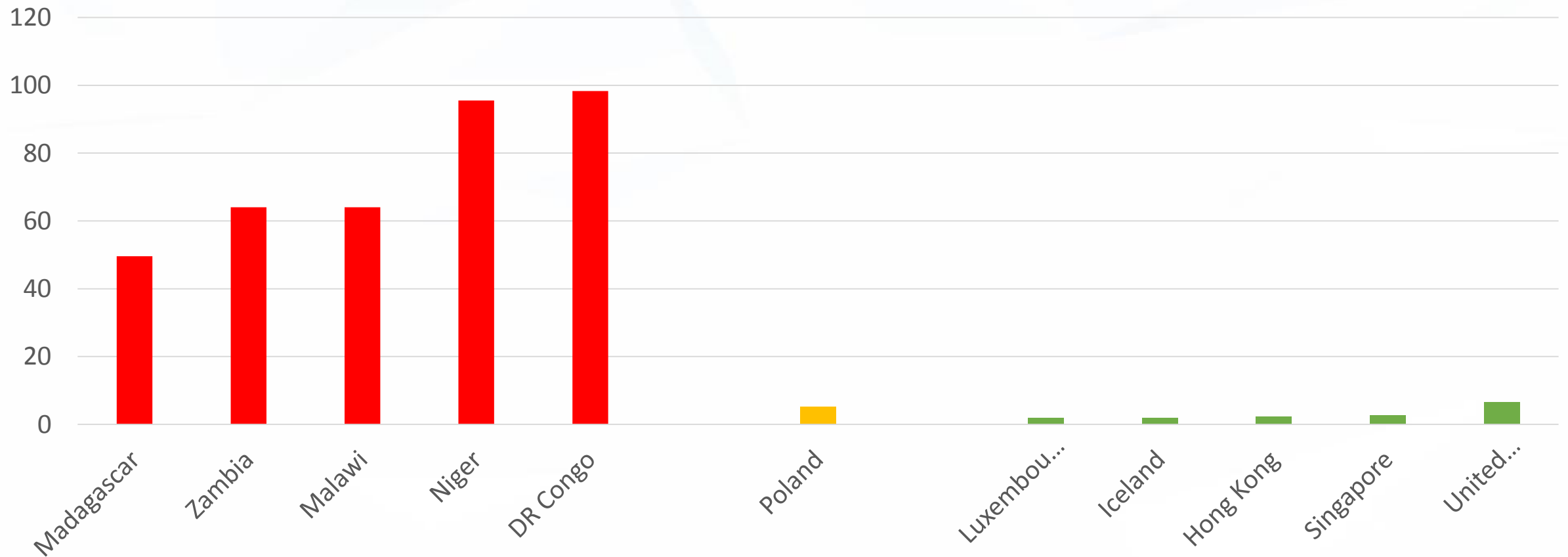
- a) Economic growth (see VI)
- b) The level and structure of education (educational mismatches)
- c) Some tax – welfare payments combinations → social traps
- d) The labor and product market regulation (see e.g. OECD)

1. -> (Economic growth -> life expectancy, child mortality)
2. But: a growing independent role of medicine -> the improvement in health may be faster than that in economic growth

# VIII. Institutional Systems and Health

The mortality rate, under-5 (per 1,000) is multiple times higher in the poorest countries.

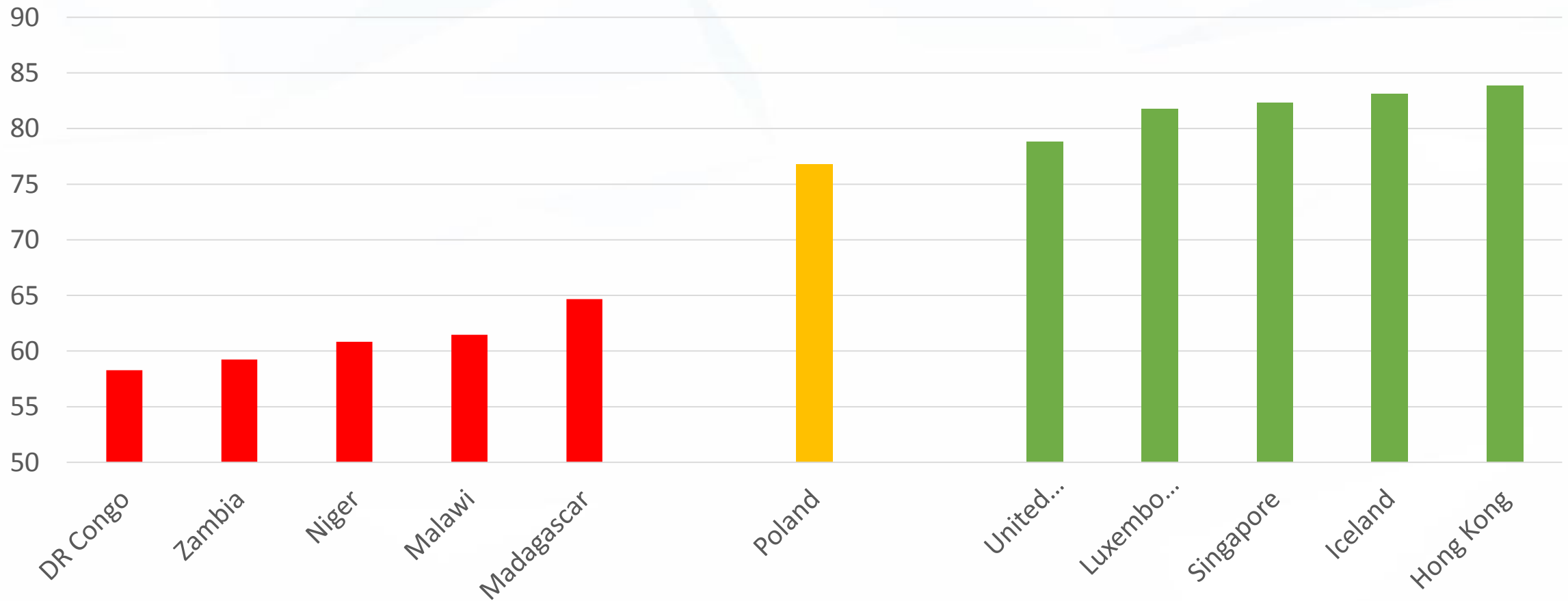
Under-five mortality rate is the probability per 1,000 that a newborn baby will die before reaching age five, if subject to age-specific mortality rates of the specified year.



# VIII. Institutional Systems and Health

Life expectancy at birth is higher in the richest countries than in the poorest countries.

Life expectancy top 5 richest economies and top poorest economies (years, GDP per capita in 1990 international dollars)



1. Elementary Distinctions:
  - a) inequality of situation (income, wealth, power) versus
  - b) the inequality of opportunity (usually proxied by the upward social mobility). The modern ideal for the inequality of opportunity is zero. What is the modern ideal for the inequality of income?
2. Do not confuse the inequality of income with poverty
3. Inequality in political power is often neglected. What about socialist dictatorships, e.g. Cuba, North Korea?

1. Self-realization is strongly correlated with the upward mobility and that with education.
2. However, there is another variable: the availability of certain positions within the respective systems: The socialist and quazi-socialist dictatorships eliminated the very positions of private entrepreneurs, independent journalists, civil leaders, etc. and thus they strongly limited the scope for self-realization for many individuals.

1. The bad cases:
  - a) the „failed” states, i.e. no organized government; the armed functionaries act as private robbers
  - b) The despotic states:
    - A long list of actions declared as crimes against the regime, e.g. socialism
    - The state apparatus can be used as a tool of repression against the opponents, including the police, tax administration, prosecutors, judges, etc.
    - The prominent role of secret police
    - In the socialist system, the state-the main employer can deprive individuals of their jobs
2. In non-despotic states there remains the problem of how to shape the incentive system of the police, prosecutors, judges so that they act in an unbiased, professional and efficient way

- Institutional economics is the most important stream of economics (and more broadly of social sciences) both from the academic and policy point of view. After decades of neglect it is rapidly developing during the last 50 Years under various guide: law and economics, public choice, economics of politics, property rights theory, the design theory etc.
- No serious analysis of socio-economic problems (growth, poverty, employment, inflation, crime, health, etc.) can omit some institutional variables. The institutional analysis has been entering the mainstream economics.
- The progres in the institutional economics has been largely due to the ongoing standarization of the basic definitions and to the spread of the relevant datasets. However, much remains to be done in thee respects.



- In the research on the institutional-based performance the most difficult and very important problems are not those narrowly „economic” but the institutional determinants of the behaviour of the policemen, prosecutors, judges, physicians, politicians. For it is here that the information asymmetry (principal – agent problem) is especially acute.
- Ample possibilities for interesting research exist with respect to the instructional change, including bad transitions which start after free elections (e.g.. in Putin’s Russia, Erdogan’s Turkey, Venezuela under Chavez, Hungary under Orban, Poland under Kaczyński).