

Institutional economic approach and regional development

Institutional economy

Main features

It tries to answer the question “how?” instead of “why?” = *Veblen*

- *How and why do the cultural and economic changes occur?*
 - e.g. changes in the organization of work, banking, technologies, etc.
- *Institutions* = norms, habits, traditions, routines
- Inspired by biology and psychology => economic system = evolutionary system consisting of *individuals formed by certain institutions*.
- Man can change the institutions BUT institutions may socialize the individual = *system of mutual bonds* resulting in certain behavioural patterns.
 - e.g. Veblen's effect = the price fall (*depreciation*) of a product is interpreted as the quality decrease of these goods hence the demand diminishes

Basic assumptions and results

- Institutions change among societies and between historical periods as well.
- Individuals change the “*economic face*” of a society by *acquiring new practices*, creating technological innovations, forming cultural changes.
- *No universal behavioural patterns can be valid* (as by the neoclassicals) ⇔ diversity of evolutionary process in societies does not result in the same behaviour of individuals in different *time and spatial conditions* (circumstances).
- *People just maximize their profits* ⇔ consequence of certain *institutional configuration* => political and social processes should be studied in the light of history
 - e.g. political decisions, co-operation between SME and politicians, scientists, etc.

Geographic implications

- 1 of the principles explaining the dynamics of the economic development (evolution).
- Description of institutional configuration *enhancing the economies*.
- Analysis of behavioural motives of economic subjects, individual learning process, relation between the law (legal framework) and economy, role of political power in a society, etc.

Regional policy influenced by the Institutional economy

1990s: economic sociology and social geography => how to enhance the interaction among firms in order to increase their *flexibility* => *public sector intervention* or *public-private partnership*. Public sector (state) = *facilitator* but the *initiative* should come from the private firms.

Instruments:

- large investments into education and research
- strengthening the role of universities = links to highly qualified labour
- supporting the science parks
- providing the consultancy (law advisory, design, patents)
- environmental sustainability (social, cultural and ecological) thus investments into conservation => residential preferences of skilled labour force in a region
- social inclusion of marginal population (retired, handicapped, low-skilled)

Keywords

cultural and economic changes, institutions, evolutionary system, mutual bonds, depreciation, practices, behavioural patterns, institutional configuration, to enhance the economies, flexibility, PPP, facilitator, initiative, science parks,

consultancy, law advisory, environmental sustainability, residential preferences, investments into conservation, social inclusion, marginal population