**Institutional Trajectories and their relationship with economic performance:**

Institutions play a very important role in the economic performance and development process of countries around the world. Protection of property rights, effective law enforcement, and efficient bureaucracies, together with a broad range of norms and civic mores, have a very strong correlation with better economic performance. The role of institutions in economic performance is vividly explained below:

To take advantage of opportunities for trade with different groups and increase the size of economic transactions, institutions have a very important role to play. There is need for more information about trading partners, and for institutions which ensure agreements on the details of exchange of goods and services and compliance to the agreed conditions. These take the form of contracts, codes of conduct, disclosure agreements, and enforcement through courts and policing. Where transaction costs are small, the private enforcement of contracts may still be preferred. But as economic relations develop and become increasingly impersonal, the role of a third party to enforce compliance to rules is increasingly necessary. Such institutions increase the security that the risk of incurring in an economic transaction. This includes the presence of individual private property rights. If property is protected individuals are more willing to invest. This increases output and thus is conducive to economic development. The protection of property rights requires an expanded role for state authority. Individuals and groups sacrifice a degree of freedom in order to ensure state protection in the form of taxes to cover policing expenses. However, there is a risk that states which have the power to enforce property rights may use that power to expropriate property too. This instead of reducing risk of economic transactions, on the contrary increases it. Thus property rights are by no means sufficient for economic growth, and this must be balanced by institutions which limit the extractive capacity of state power. Unequal institutions strongly limit development by reducing the capacity of individuals to access resources, expand production and increase their incomes.12

Institutions which are conducive to development ensure greater self-expression, allow the free flow of information and encourage the formation of associations and clubs. These form prosperous social relationships, which are conducive to greater economic interaction by increasing levels of trust and wider availability of information. They allow greater sharing of resources through democratic institutions and the use of the state to reduce the risk attached to economic activity. The welfare state is an example of an institution which pools resources to limit the negative effects of business cycles on incomes and unemployment. Institutions conducive to development pool resources to provide sufficient the investments in education, health and infrastructure which lie at the basis of economic interaction and are necessary and complementary to private investment. Informal institutions lie at the basis of an economy. They include public agencies, trade unions, community structures and professional associations. They make up the fabric which determines the response to laws and government decisions. Most often they shape these outcomes themselves.12

There is wide-ranging evidence that institutions matter a great deal in determining the level of economic development of a country. Cross-country analyses use indicators such as degree of protection of property rights, the rule of law, and civic liberties and find that they are strongly correlated to economic performance. Institutions determine the costs of economic transactions: they spur development in the form of contracts, common commercial codes, and increased availability of information, all of which reduce the costs of transactions, risk, and uncertainty. Institutions determine the degree of appropriability of return to investment: protection of property rights and the rule of law generate investment and thus increase incomes. Institutions also determine the scope for oppression and expropriation of resources by elites: unequal institutions which allow the dominance of powerful elites over economic exchange strongly limit development, as can be seen in the case of many ex-colonial countries.13 Lastly, institutions determine the degree to which the environment is conducive to cooperation and increased social capital; inclusive and participatory institutions increase the flow of information and the extent to which resources can be pooled to reduce risk and ensure sustained levels of wealth. High quality institutions today are rooted in greater equality, political competition and cooperative norms in the distant past. Institutions strongly affect the economic development of countries and act in society at all levels by determining the frameworks in which economic exchange occurs. They determine the volume of interactions available, the benefits from economic exchange and the form which they can take.12