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## **THE RELATIONSHIP BETWEEN INFORMAL INSTITUTIONS AND A SUSTAINABLE DEVELOPMENT - EVIDENCE FROM A PANEL DATA SET**

### **Abstract:**

Institutions play a critical role in the economic development of a country. The correlation between these two variables has been acknowledged in economic literature. However, the causal relationship is still under debate although there is a tendency towards the notion that institutions influence the economic development and not the reverse. Another important topic of current research is the identification of institutions that are particularly beneficial. Until now, other facets of the development of a country have not been featured heavily in the literature. This holds especially true for measures of sustainability. One of the few papers dealing with this topic is STOEVER (2012). She uses Adjusted Net Savings (ANS) Rates as an approximation for sustainability and the Kaufmann-Index as an approach to operationalize institutions. ANS represents the weak form of sustainability. Using OLS- and Two-Stage-Least-Square-Regression, she finds a positive and statistically significant relationship. The result is robust for sensitivity analyses. This paper contributes to this field of research by using more specific measures for both the dependent and the independent variable. Based on data from 30 international surveys conducted between 1996 and 2012, a panel data set is built to estimate the informal institutions of 73 countries. Within these estimates, 13 different forms of informal institutions can be identified. According to NORTH (1990), the informal institutions seem to be more important for the development of a country than the formal ones. On an aggregated level, the panel data set can be used to reproduce the results of STOEVER (2012). However, the way in which the measures are constructed allows the analysis of the relationship on a more disaggregated level, e.g. the social facet of sustainability. In contrast to the study of STOEVER (2012), the analysis on this level is more accurate because it does represent the strong form of sustainability unlike the ANS. Therefore, bad results in one facet of sustainability cannot be settled by good results in another one. Using Random Effects Models and Fixed Effects Models, a positive and statistically significant relationship can be found between informal institutions and sustainability. The results also provide evidence for a causal relationship directed from informal institutions to sustainability.

### **Keywords:**

Informal Institutions, Economic and Sustainable Development, Panel Data Analysis

**JEL Classification:** O17, O43, P48