

# The Investigation of the Role of Institutions in the Process of Growth and Development of Economy

Seyed Mohammad Reza Hosseini

**Abstract**—The new institutional Economics helps generalization and expansion of new classic by adding the institution theories to Economic. It is clear that the appropriate institution is among the factors that lead to success in Economic programs.

If the institutional are appropriate, the society will save the source and when we make use of time to apply the program, there will be welfare and average revenue product will also increase. In Economy, one should not expect the real manifestation of Economic programs only with a model for estimating and predicting rather institutions of the same purpose and along with production are needed to form the process of growth and development costs.

In this research, the institution role in transaction costs, financial markets, distribution of revenue and capital and its influence on the process of growth and development are investigated so that handicaps and problems of Iran Economic Institutions can be recognized. In other words, incapability, non productivity and ambiguity of the institution in Iran Economic are some of the factors that handicap Economic growth and development. For example, Iran government as an important institution while having 20 ministries, 83 organizations and 60 years of programming could not go along the growth and development but why?

**Keywords**—Institution, New institutional economics, Transaction costs.

## I. INTRODUCTION

A general look at the experience of the development of Iran in the last decades shows that the perspectives dominating the development programs theoretically have always been in accordance with the universal interpretation of problems and economic solutions. But unfortunately, in spite of so much financial and human expenses, the achievements are not noticeable. In the past 50 years through the process of development in Iran. You can scarcely find a theory of development that has not been used or tried in the planning process of the country. But these trials & errors were not successful in practice and undevelopment is still a problem in the country.

The idea of institutionalism, in Economy dates back to Adam Smith, the founder of liberalism, who elaborated on the role of institutions and regulation in his research titled “the National capital”.

Seyed Mohammad Reza Hosseini is with the Islamic Azad University, Aliabad Katool Branch, Iran.

John Start Mill noted Economist of classicism considers the noncoordination between the result of the theories in Economics with life facts as the distractors (formal and informal institutions) and suggested his own comments for economic and social reforms of England Economic system in the 19<sup>th</sup> century.

Maltus and Ricardo also elaborated on the significance of institutions in Economy using the theory of population of distribution of capital respectively.

Ronald Coase, the famous economist, in his speech for Nobel Prize pointed out that “the value of considering party factors in the literature of the dominant economy can manifest itself in the recent events of eastern Europe. These countries were suggested to follow market economy and their leaders were eager to follow, but market can not appear without the formation of appropriate parties. Therefore, if we “European economists” knew the nature of our economic institutes better, we would be in a better position to advise them.”

## II. NEW INSTITUTION ECONOMIC IN IRAN

In Iran, the notion of institutionalization was not considered by the economists that can be discussed in brief as follows Dr. Ebrahim Razzaghi believed in the necessity of thought autonomy and the adaptation of Economic theories to the country conditions. He also believes that too little power of industry men and the lack of job unions are the major reasons for underdevelopment and states that not paying attention to union problems, makes the economic movements stop in the long run.

Discussing the issue of internalization, Dr. Hosein Azimi states that political and cultural institutions should receive attention as much as economic ones. He also considers the government institution as the most important institution that prevents improvement. In his opinion, the powerful and efficient government is a small government.

Dr. Mehdi Behkish states that economic development requires reforms in institutions such as legislation, judgment, office and culture. He goes on saying that an alteration in economic perspective at national and international levels is necessary for economic development making seniors change their economic perspectives is of more importance, in addition, we should change our perspectives too.

Dr. Mohsen Ranani in his book titled "market or non market" declares that Iran economy is not an efficient market and efficiency in allocation is impossible because of the very large expansion of institutions. Discussing the duality between supply and demand, he believes that the government not paying attention to its classic duties is responsible for the absence of competitive market conditions.

### III. INSTITUTIONS IN THE ECONOMY OF IRAN

Iran economy in practice after "Mashrofiat" has been a mixture of capitalization, governmental economy and historical handicaps. In other words, it has been an inappropriate combination of market, program and tradition. The basic capital institutions, private ownership, money bank, stock exchange and interest on one hand and the basic institutes of government economy and public ownership and program on the other hand have been in line with each other widely and not appropriately. To control and eliminate the social – economic conflicts due to the interfering performance of these institutes, the government has had new opposite legislations and institutes and process is still continuing so that the oil income can not compensate for the high expenses of the inefficiency of the institutes and history of Iran economy.

In spite of general beliefs that consider economic growth prerequisite to governmentalization of economy or to marketization of the economy, the most recent branch of economy science, i.e. "the new institutionalized economy," reckons that the economy must be a suitable combination of market institutes or in classic terms, a combination of market, government and agency. But these institutes must combine in a way that minimize the transaction costs but also improve other indexes of economy performance such as security, justice, humanity, freedom and so on.

### IV. TRANSACTION COST IN IRAN ECONOMY

The unpredictable expenses that are imposed on the economy that spoil the economic processes such as transaction costs, complaint expenses, attorney and other expenses that are due to lack of protection of ownership rights are unprogrammed expenses that spoil the economic clarity. These costs that are called transaction costs must be taken into account to be prevented in the economy. In fact, the lack of attention to these costs has led to the escape of capital, parallel work, lack of time management and so on.

After 60 years, Iran does not yet know whether like Brazil is going to follow replacement strategy of industrial goods import or to follow industrial independence strategy like India or to follow the programmed development of industrial export like South Korea or strategy of free economy or freedom in economic function.

Using only one ministry and an organization and a program, South Korea enriched itself. But Iran using 20 ministries, 83 operational offices with 60 years of economic programming has not yet been able to give a program only to

government and control it. In Dr. Sattari far's words "An operational office works in Iran while 16 supervising offices controlling it". 28 offices are active in the country to fight against poverty while they themselves and their employees are in great need. Such kind of programming increases just the economic expenses of the country and does not lead to any economic growth and development.

The existence of high expenses of the country can be better understood in the Justice Office "In the last 20 years, the rate of capital escape in Iran exceeds the income of oil sale in the same period". The escape of Capital means that the right of economic and social ownership in Iran is not defined nor guaranteed completely. It means that the transaction cost is very high and it has spoiled all the property of the country.

The inappropriate placement of market and non-market institutes in Iran economy is a way that on one hand leads to a modern government without acting the duties before welfare and on the other hand leads to expansion of goods markets and national markets while the prerequisites for proper function are clear. So, all governments should carry their basic duties well before expanding their duties. Iran governments did give scant attention to ownership rights that imposed very high expenses on Iran economy such as capital recession, insecurities, increase in transaction cost, and finally inefficiency in production and inequality in expansion of distribution.

The numerous economic and social problems due to imbalance in institutes of Iran economy has caused the ongoing change in political economic orientation of country.

### V. RESULTS

The government should clarify its role in the comprehensive definition, guarantee of ownership right that has close relationship with transaction cost.

Transaction process in contract should consider all articles and processes accurately and consider the behavior and taste of the parts in the best way.

Implementation guarantee and unbiased judgment are of vital importance to prevent one-part damage.

If the construction of ownership right is comprehensive in definition and guarantee the mechanism of market will function properly, therefore to do so, there should be a democratic interaction between the government and the people. In other words, the mechanism of market will come to practice only if ownership right decrease transaction cost democratically so that it paves the way for clarity and improvement of the all welfare.

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