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Mariusz E. SOKOŁOWICZ, Ph. D.

University of Łódź, Poland

Department of Regional Economy and Environment

sokol@uni.lodz.pl

INSTITUTIONAL ECONOMICS – A POTENTIAL TOOL OF THE RESEARCH ON SOCIO-ECONOMIC DEVELOPMENT OF REGIONS¹

1. Regions-territories-institutions. An introduction

Despite not questioning the important role of the processes of globalization in shaping the conditions for national economies, there is still a discussion on the role of regions (considered as the components of states) in economic development. What is important, the thesis about “the end of geography” as a consequence of globalization² has been abandoned quite early. In fact, territories (regions, cities) are increasingly seen not only as objects of study, but also an important variables (active “actors”) in economic analyzes. Territorial specificity is increasingly being exposed as an important, if not the primary factor in building sustainable competitive advantage.

As far as the notion of “region” is concerned, there is a vast literature on its definition in economic terms.³ They tend to define „region” as functionally coherent spatial unit, distinguished from the surrounding areas in terms of selected criteria, being a part of a country but not necessarily coinciding with its formal administrative division (or even crossing its borders). However, recently the concept of both local and regional development concerns not so much the size and spatial extent of the area, but rather a “philosophy” of

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² R. O’Brien, *Global Financial Integration: The End of Geography*, Pinter, London 1992.

³ E. M. Hoover, *Location Theory and the Shoe and Leather Industries*. Harvard University Press. Cambridge, Mass. 1937; R. E. Dickenson. *City, Region and Regionalism* Routledge and Kegan Paul, London 1947 ; J. Friedman, W. Alonso (eds.). *Regional Development and Planning: A Reader*, The MIT Press, Cambridge, Mass 1967; M. E. Edwards, *Regional and Urban Economics and Economic Development. Theory and Methods*, Auerbach Publications, Taylor and Francis Group, New York 2007, p. 13.

perceiving a space and its dwellers as a coherent economic entity, with its own vision of future. In other words, the “territoriality” of development is always associated with a specific geographical, economic and social space.⁴ Thus, region can be perceived as a separate administrative unit, but much more often it can be treated as informal spatial arrangement treated as a whole, from the point of view of certain criteria.

Starting from the above considerations one can assume, that in contemporary regional science and regional studies, the adjective “regional” or “local” are enriched by the adjective “territorial”, the essence of which is exemplified in the merger of geographical, cognitive, but also social and institutional dimensions of space. Territory is therefore no longer identified with physical space only (analyzed by the traditional location theories in terms of the cost of land, capital, labor and transport), but is perceived more and more often as a form of organization that reduces uncertainty and risk, and which is the source of information, accumulation and transfer of knowledge, as well as the source of innovation.⁵ It represents the meeting place of market relationships and social regulation forms, which determine different forms of organization of production and different innovative capacities (regarding both products and processes) leading to a diversification of products presented to the market not simply on the basis of relative cost of factors.⁶

With such a broad concept of territory, studies on regional development can draw from the intellectual heritage of institutionalism which assumes, among other things, that the historical trajectories of development, as well as internal social relations, determine the ways in which economic entities reach their goals. In a broader context, an institutional environment (especially these shaped in the conditions of spatial proximity), is not only a framework, but it can also be a source of new ideas and contribute to sustainable growth and competitiveness.

In social science, a first attempt to define institutions was made by Herbert Spencer, who explained them as strongly rooted and established elements of social order and universally accepted norms of behavior. In this broad sense, what can be called institution, these are such social groups and social contexts as, i. a. family, peer groups, schools, media,

⁴ A. Jewtuchowicz, *Terytorium i współczesne dylematy jego rozwoju*, University of Łódź Press, Łódź 2005, p. 6.

⁵ I. Pietrzyk, *Polityka regionalna Unii Europejskiej i regiony w państwach członkowskich*, PWN, Warsaw 2001, p. 20.

⁶ G. Garofoli, *Modelli locali di sviluppo*, Franco Angeli, Milan 1991; [cited in:] G. Garofoli, *Economic development. Organisation of production and territory*, „Revue d'Economie Industrielle” 1993, vol. 64 no. 64, p. 24.

workplaces⁷, but also sets of values, norms and rules characterizing a given field of human activity.⁸

Referring to this heritage of sociology, also the representatives of various strands of economics started to define institutions in a similar manner. Geoffrey Hodgson assumes that among institutions there are traditions, rules and norms (both informal customs and formal rights), which at the same time shape and limit human action. These elements form patterns, according to which acts every being belonging to a given institution (culture).⁹

Whereas Olivier Williamson, referring to the divagations of John R. Commons, defined institutions as social framework of controlling, stimulating and canalizing individual behavior.¹⁰ From the economic point of view, this framework constitute so called institutional environment, treated as a set of fundamental political and social rights as well as legal rules, being a base for the processes of production, exchange and distribution of goods.¹¹

Finally, Douglas C. North perceived institutions as every forms of limits invented by humans in order to shape human behavior, having both formal (legal sets of rules, norms, and sanctions) and informal (customary) character.¹² In other words, D. C. North postulates to treat institutions as “rules of the game” in the economy.¹³

The aim of this paper is to present institutional economics and its main strands as a broad and developing field of economic science. By putting institutions as one of main of factors shaping economic behavior, institutional economics can effectively contribute to regional studies, especially when the angle of analysis is a “territorial” character of contemporary socio-economic development. In fact, institutionalism can support research of local and regional development both by shaping theoretical framework of analysis and offering many empirical tools (both of qualitative and quantitative character). However, an identification of many methodological traps and constraints can be also identified here.

The following parts try to deepen the questions depicted above. Next section presents main strands of institutional economics with some possibilities of using their conceptual

⁷ A. Giddens, *Socjologia*, PWN, Warszawa 2007, p. 722

⁸ N. Goldman, *Wstęp do socjologii*, Zysk i S-ka, Poznań 1997, p. 55.

⁹ G. M. Hodgson, *What are Institutions?*, „Journal of Economics Issues”, vol. 40 (1), 2006, p. 2-5.

¹⁰ O. E. Williamson, *Transaction Cost Economics and Organization Theory* [in:] Williamson, O. (ed.), *Organization Theory: From Chester Barnard To the Present and Beyond*, Oxford University Press, Oxford 1995, p. 209.

¹¹ O. E. Williamson, *Comparative Economic Organization: The Analysis of Discrete Structural Alternatives*, „Administrative Science Quarterly”, vol. 36 (2), 1991, p. 287.

¹² D. C. North, *The New Institutional Economics*, „Journal of Institutional and Theoretical Economics” no. 142, 1986, p. 234.

¹³ D. C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge 1997, p. 5.

apparatus in practice. It is followed by the review of the potential directions of research of the processes of local and regional development, also in the context of the possible analyses of the phenomenon of local production systems. Last part concludes.

2. The achievements of institutional economics in the context of the development of economic theory

Although institutional economics consists of various sub-disciplines and is internally diversified, all its domains share a common conviction of an important meaning of the mutual interdependencies of economic, social and institutional phenomena.¹⁴ It is a complex conglomerate of various approaches and research methods. I also continuously develops, allowing for more and more precise explanation of such occurrences, as the impact of historical, cultural or spatial conditions on economic processes, the ways of cooperation among economic actors both on markets and within organizational structures, or the impact of social relations on the economic effectiveness. Thus, institutional economics takes into account the social context of economic processes, underlining at the same time their evolutionary character. Ipso facto, it very often distances itself from the methodological oversimplifications (typical for neoclassical economics¹⁵) on one hand, but also Marxian determinism and reductionism on the other hand.¹⁶ The differences identified between different strands of institutionalism (of which some represent the views close to liberal thought while the other criticize some free market ideas), determine the variety of its conceptual assumptions and research methods.¹⁷

¹⁴ Not surprisingly, one of the key representatives of the Austrian school of economics (treated as one of institutional economic sub-disciplines) – Frederick August von Hayek, together with Swedish economist Gunnar Myrdal, were awarded in 1974 by the Nobel Memorial Prize in Economic Science, for “the research on the interrelations between economic, social and political processes”.

¹⁵ However, institutional economics cannot be simply opposed to classical or neoclassical economics. Especially the contributions of Olivier Williamson – the main representative of New Institutional Economics – emphasizes that institutional analysis is not a contradictory but complementary to the mainstream economics analyses (O. E. Williamson, *The New Institutional Economics: Taking Stock, Looking Ahead*, “Journal of Economic Literature” vol. XXXVIII, September 2000, p. 597).

¹⁶ A. Cumbers, D. MacKinnon, R. McMaster, *Institutions, Power and Space. Assessing the Limits to Institutionalism in Economic Geography*, “European Urban and Regional Studies” 10, 2003, p. 325.

¹⁷ One of the most identifiable internal differences of institutionalism can be seen between so called New Institutionalism (or neoinstitutionalism) and New Institutional Economics (NIE) (F. Moulaert, *Institutional Economics and Planning Theory: a Partnership Between Ostriches?*, “Planning Theory” 4: 21, 2005, p. 21). First of them interpret institutions as a consequence of building-up social relations and do not fetish the value of individualism in economy (A. Cumbers., D. MacKinnon, R. McMaster, *Institutions...*, op. cit., p. 327). It rejects the *homo oeconomicus* model and treats habits and routines (perceived as informal institutions), like the factors that limit free choices, but thanks to that they help to establish stable and sustainable social systems. At the same

Analyzing the key strands of institutional economics, one can attempt to identify the possibilities of applying its methodological and conceptual apparatus on the field of the territory-oriented analyses. Among the most important one should mention the classical (so called “old”) institutional economics and neoinstitutional concepts, being close to the former. Among the other we can indicate concepts of New Institutional Economics (property rights economics, transaction cost economics, agency theory and public choice theory). Finally, among concepts that are close to institutional economics and are being applied in regional studies, the *embedddness* concept and *economics of proximity*, can be mentioned.¹⁸ Undeniable connections with the institutional analysis can be also indicated in case of evolutionary economics, management concepts based on the specificity of assets and key competences, as well as two probably most influential French economic thoughts – Regulation School and economics of conventions (see table 1).

So called old institutionalism (and neoinstitutionalism, continuing tradition of the former), grow from the criticism of fundamental assumptions of mainstream economics, sometimes even contradicting institutions to the free market mechanisms. In this kind of interpretation, institutions are treated as a “heritage of the past” and are characterized by a some level of inertia that gives a warranty of the stability for functioning of societies. Here, institutional conditions are not servant to the market as a coordination mechanism, but are a condition of its efficacy as a relatively strong grid of economic environment. The process of historic path of shaping institutions act for their benefit, since what decides about the competitiveness of economies, it is the ability of building the effective institutional structures. In other words, these economics systems which assure the highest levels of institutional effectiveness, proved the biggest chances for surviving.¹⁹ These kind of systems, however,

time, New Institutional Economics refer strongly to the fundamental assumptions of neoclassical economics and perceives institutions as a factor that limits the free choices of single entities. Also the latter are driven in their systems of motivations mainly by the rule of maximizing their utility. In consequence, such NIE representatives as Douglas C. North, Olivier Williamson and Kenneth J. Arrow underline the value of the independency of individual choices and assume that institutions as rules of the game, are strongly limiting individual tendencies of *homo oeconomicae*.

¹⁸ M. E. Sokołowicz, *Instytucje a przestrzeń. Przegląd nurtów ekonomii instytucjonalnej w kontekście ich przydatności dla badań procesów rozwoju lokalnego i regionalnego*; [in:] *Problemy rozwoju regionalnego*, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2013, in edition.

¹⁹ In this context it is justified to follow D. C. North proposal of making a difference between so called *allocative* and *adaptive* efficiency. While the former concerns the issue of optimal allocation of resources as a condition for reaching equilibrium, and is rather a static concept (it ignores the variability of economic decisions and processes in time), the latter refers to the dynamic aspects of economy. “Adaptive efficiency is concerned with the kind of rules that shape the way an economy evolves through time. It is concerned with the willingness of a society to acquire knowledge and learning, to induce innovation, to undertake risk and creative activity of all sorts, as well as to resolve problems and bottlenecks of the society through time” (D. C. North, *Institutions...*, op. cit., p. 80).

cannot be created spontaneously – they have to be consciously created and be an effect of social agreement.

As being close to institutionalism or even being directly considered as a part of it, one should mention conceptions of the representatives of the Austrian school of economics and German *ordoliberalism*. What is interesting, these strands, contrary to many other parts of “old” institutionalism, do not criticize the idea of free market, but even treat markets as the most perfect form of regulating economic processes.²⁰ However, next to the market, there are institutions which are responsible for the social and economic order. In case of the Austrian school²¹, state is not able to replace market as the mechanism of the allocation of resources, because it has not a sufficient amount of information available. The latter are dispersed among too large number of economic entities. In this case, only markets are sufficient enough and flexible enough to deal with information and to support the decision processes. But even in this case, this is still an organized institutional order that is able to assure appropriate framework and conditions for the efficient functioning of free markets and competition.²²

Parallel with the development of the Austrian school of economics, also the German liberal economic thought was popularized (in the thirties of 20th century). It was built on the postulate of respecting the subjectivity²³ of human being and developed on the thesis, that the lack of proper institutional conditions (mainly the rules of the law), makes the efficient functioning of the market economy impossible. This strand was called *ordoliberalism*, taking its name from the „Ordo” magazine, established in 1948 by Franz Böhm and Walter Eucken. Ordoliberals claimed that free market can function only when there is strong and effective

²⁰ This is a kind of conformation that we should be far from too far-reaching simplifications in the review and classification of institutional concepts. Besides, we should remember that it is known today that grouping and categorization are among the most primitive psychological processes (Ch. Alexander, *A city is not a tree*, “Design”, No. 206, Council of Industrial Design, London 1966, pp. 46-55).

²¹ As a creator of the Austrian school of economics one can mention Carl Menger, who contributed to economic thought mainly by the development of the concept of marginal utility and the praxeology as a method of proficient acting (C. Menger, *Grundsätze der Volkswirtschaftslehre*, Wilhelm Braumüller, Wien 1871). However, it is Frederick August von Hayek, who is highest recognizable representative of Austrians (an Author of, among others, *Law, Legislation and Liberty*, University of Chicago Press, Chicago 1978).

²² G. B. Spychalski, *Zarys historii myśli ekonomicznej*, PWN, Warsaw-Łódź 2002, p. 337.

²³ This kind of economic outlook contributed to the popularization of so called *first person perspective* (M. Addleson, *Equilibrium versus Understanding: Towards the Restoration of Economics as Social Theory*, Routledge, London 1995), which today is also a subject of philosophical studies (see e. g. Th. Metzinger, *Being No One. The Self-Model Theory of Subjectivity*, MIT Press, Cambridge MA, 2011). These approach postulates the subjectivism in economic analysis. It assumes that evaluation of every situation as well as the costs and benefits of every decision, are constituted by everyday human interactions. What is more, people also learn from the previous mistakes and they differ from each other in this issue (some deal with this better, while others are doing worse). As a result, the diversity of human qualities and human experiences influences different ways of making economic decisions, as well as contribute to the ongoing transformation of the existing, and creation of new institutions ([Fu-Lai Tony Yu, *Subjectivism, understanding, and transaction costs*; [in:] Klein P. G. Sykuta

state functioning, guarantying the protection of ownership and the rules of economic competition.

Contrary to the “old” institutional economics, New Institutional Economics (NIE) is perceived as this branch which does not neglect fundamental assumptions and methodology of the mainstream economics. NIE attempts to analyze behavior of human entities treated as *homo oeconomicus*, tending to maximize their individual utility, in the conditions of institutional limits of their acting. Because it is based on many simplifying assumptions, it managed to develop a rich methodological apparatus, followed by hundreds of empirical test made by many Authors in many geographical areas. This feature of NIE is undoubtedly one of the biggest advantages of it.

First of the elements of NIE worth mentioning here is based on a thesis that one of most important pillars of the effectives economy, is a clearly defined structure of ownership rights. In this structure, the individual private ownership should, according to property rights economics, prevail. However, the scope of private ownership and its relation to public one should be constituted by the “social contracts”, which means that it should be socially accepted and institutionally sustained. An institutional system should thus assure the common respect of property rights, which means that its primary role is to minimize transaction costs of excluding third parties form consumption of various goods. However, property rights economics devotes much attention also to the issues of public goods or semi-public goods. In this context in can be useful in the analyses on the field of regional and urban economics.

Among one of the widest developed sections of NIE one should mention transaction cost economics (TCE), aimed mainly at searching for the optimal economic structures from the point of view of minimization of cost that accompany market transactions.²⁴ What can minimize these costs, it is the choice of proper organizational form of economic activity (e. g. decide whether to pursue a particular economic activity within the hierarchical structure or carry it on the market), but also existence of the system of formal and informal institutions, ensuring transparency of transactions and reducing the risk of failure.

Also, an agency theory is related to TCE direction of analysis. It is built on a claim that “transactions” take place not only on the market but also within organizations, whose

M. E., *The Elgar Companion to Transaction Cost Economics*, Edward Elgar Publishing, Cheltenham-Northampton 2010, pp. 275-276.

²⁴ Among transaction costs we can mention the costs of: searching contractors, negotiating agreements, administrative contract fees, potential securitization of contracts as well monitoring contractors in order to avoid their unreliability (see e. g. P. G. Klein, *Transaction cost economics and the New Institutional Economics*; [in:] Klein P. G. Sykuta M. E. (eds), *The Elgar Companion to Transaction Cost Economics*, Edward Elgar Publishing, Cheltenham-Northampton 2010, pp. 27-35.

various members can have different or even contradictory goals. In its original form, agency theory deals with the studies of the relationships between the owner(s) of the organization (the principal) and its manager (called agent), acting on behalf of the former. The aim of these studies is to minimize operating costs of organization, from the point of view of these relationships.²⁵

Last of elements of NIE mentioned here is developed by the public choice of theory, which point of interest oscillates around the studies on making collective choices, using the apparatus of classical economics (methodological individualism, the assumption of perfect rationality of behavior). It is used for the research on the mechanisms of collective choice, electoral preferences, strategies of political parties, bureaucrats behavior, the interrelations between the legislative, executive and judicial, as well as the phenomenon of *rent seeking* behavior.²⁶

One should mention that next to undeniable advantages of New Institutional Economics, some Authors point out also some criticism. Among them, in the foreground there is a rather static perspective of NIE. It does not sufficiently take into account the variability of technology which, in fact, cause a shift in time of a breaking point, to which market transaction cost are high enough to choose hierarchy as more effective form of economic governance. In consequence, in most cases, NIE (and especially transaction costs economics), does not include the effects of learning, innovation and change.²⁷ Besides, this strand of economic theory is based on assumption that every man is an “economic man”. It claims that “companies are different, but not a single person”, so it ignores the differences between people, subjection of their decisions to the specific context or the fact that people learn and change in time.²⁸ These elements are a subject of much deeper attention of other sections of institutionalism.

Also, all strands of New Institutional Economics (especially TCE), concentrate around the issue of the level of transaction costs as the main factor influencing economic effectiveness. It rather ignores the fact that companies function not only in order to minimize

²⁵ For more about agency theory see, for example: S. A. Ross, *The Economic Theory of Agency: The Principal's Problem*, “American Economic Review”, 63, 1977, pp. 134-139), K. Arrow (K. Arrow, *Agency and the Market*, [in:] Arrow, K., Intrilligator, M. D. (eds.), *Handbook of Mathematical Economics*, Elsevier, Amsterdam, vol. 3, 1986, pp. 1183-1195), K. Eisenhardt, (K., Eisenhardt, *Agency Theory: An Assessment and Review*, “Academy of Management Review”, vol. 14 (1), 1989, pp. 67-74).

²⁶ See e.g.: C. K. Rowley, F. Schneider, *The Encyclopedia of Public Choice*, Kluwer Academic Publishers, Dordrecht 2004; J. M. Buchanan, R. D. Tollison (eds.), *The Theory of Public Choice – II*, Ann Arbor-The University of Michigan Press, 2009

²⁷ G. M. Hodgson, *Limits of Transaction Costs Analysis*; [in:] Klein P. G. Sykuta M. E., *The Elgar Companion to Transaction Cost Economics*, Edward Elgar Publishing, Cheltenham-Northampton 2010, p. 300.

²⁸ Op. cit.

transaction costs, but also in order to “capture” the value of specific assets they have. It also does not pay lot of attention to the fact, that markets can be a source of not only transactions but also of cooperation and common initiatives.²⁹ It thus omits these aspects which have built such concepts as key competences of the firm, knowledge-based economy, or evolutionary economics.

For this reason, among the concepts being related to institutional economics, it is worth mentioning the concept of embeddedness of social relations, economics of proximity, but also: evolutionary economics, French economics of conventions³⁰ and from among theories of organizations – resource-based view concept and key competences of the firm concept. This various currents assume that every kind of economic relations is not an effect of fully rational decisions, because human rationality is always bounded by human characteristics and institutional conditions. Every economic activity undertaken “between” market and hierarchy, is integrated into the social networks of relations.³¹ What is more, these interactions are conditioned by a given level of geographical proximity, which seems to be a key factor determining the level of transaction and communication costs, thanks to contributing to the development of common codes and common language³² (so institutions).

Such approaches as economics of proximity, embeddedness, and to a highest extent economics of conventions, seem to be an attempt to join together the point of view represented by the New Institutional Economics and neoinstitutionalism. However, this “marriage” has a cost of blurring the concepts presented above. These theories are characterized by a high level of heterodoxy, both in terms of cognitive aspects and methodology. They expose the connection between the economics and sociology. Because of the internal diversity and the origin of these strands (mainly connections with spatial economy

²⁹ G. M. Hodgson, *Limits of...*, op. cit., p. 300.

³⁰ Economics of conventions (fr. *économie des conventions*) is perceived today as one of the most influential French economic thoughts (next to French theory of regulation). This trend was developed in the eighties of 20th century, thanks to the contributions of J-P. Dupuy, O. Favereau, R. Salais or L. Thévenot (*L'économie des conventions*, „Revue Economique” – special issue, vol. 40 (2), 1989). Because these economists refer in their works to the methodological individualism and because they accept transactions (calling them « conventions »), as one of the most important unit of analysis, one can identify interferences with New Institutional Economics. However, because on the other hand they refer to the need of heterodoxy in economics and they underline the difficulties of precise operationalization of the notion of “institutions”, they have much common with the traditional institutionalism too (more deep considerations on *économie des conventions*: R. Diaz-Bone, L. Thévenot, *La sociologie des conventions. La théorie des conventions, élément central des nouvelles sciences sociales françaises*, “Trivium”, no. 5, 2010, on-line : <http://trivium.revues.org/3626>, z dn. 03.01.2012 ; P.-Y. Gomez, *Information et conventions. Le cadre du modèle général*, “Revue Française de Gestion”, nr 160, 2006).

³¹ M. Granovetter, *Economic Action and Social Structure. The Problem of Embeddedness*, “American Journal of Sociology”, Vol. 91 (1), 1985, pp. 481-510.

³² More broadly: A. Rallet, A. Torre, *Proximity and Localization*, “Regional Studies”, Vol. 39.1, 2005, pp. 47-59.

and economic geography³³), they are strongly interrelated with the issues of local and regional development.

An important contribution to the development of institutionalism is also visible among the economic thoughts of evolutionary economics³⁴, as well as those concepts of organizational science, which expose the strategic value of so called *core competences* or *distinctive competences*³⁵ and resource-based view of the firm.³⁶ What connect these approaches, it is a thesis that a critical success factor of the firm resides in a long-run and is caused by the possession of such resources and skills which are: rare, strategically valuable, imperfectly imitable and non-substitutable.³⁷ Most of these resources are of immaterial character, based on specific organizational culture and social capital. In addition, these approaches stress the dynamic nature of the of economic processes and show the importance of economic change, to highlight opposition to the economic static analysis focused on the issues of equilibrium.³⁸

As far as evolutionary economics is concerned, an important contribution to this theory brought the work of R. R. Nelson and S. G Winter, in which the Authors used the elements of the theory of evolution to explain the technological and economic changes taking place in the global economy.³⁹ These Authors also underline the necessity of analyzing economic processes in the long-run, claiming that “regularities observable in present reality are interpreted not as a solution to a static problem, but as the result that understandable

³³ Ph. Cooke, B. Asheim, R. Boschma, R. Martin, D. Schwartz and F. Todtling (red.) *The Handbook of Regional Innovation and Growth*, Edward Elgar, Cheltenham 2011; A. J. Scott, *Regions and the World Economy: The Coming Shape of Global Production, Competition, and Political Order*, Oxford University Press, Oxford 1998; A. J. Scott, *Economic Geography: The Great Half Century*, [in:] G. L. Clark, M. P. Feldman, M. S. Gertler, *Oxford Handbook of Economic Geography*, Oxford University Press, 2000, pp. 18-44; A. J., Scott, M. Storper, *The Wealth of Regions*, “Futures”, Vol. 27, 1995, pp. 505-526.

³⁴ R. R. Nelson, S. G. Winter, *An Evolutionary Theory of Economic Change*, Harvard University Press, 1982; C. A. Montgomery (ed.), *Resource-based and Evolutionary Theories of the Firm: Towards a Synthesis*, Kluwer, Boston 1995;

³⁵ See: E. T. Penrose, *The Theory of the Growth of the Firm*, Basil Blackwell, Oxford 1959; R. P. Rumelt, *Towards a strategic Theory of the Firm*; [in:] R. B. Lamb (ed.), *Competitive Strategic Management*, Prentice-Hall, Englewood Cliffs 1984, pp. 560-570; G. Hamel, C. K. Prahalad, *The Core Competences of the Corporation*, “Harvard Business Review”, May/ July 1990; N. J. Foss, *Theories of the Firm: Contractual and Competence Perspectives*, “Journal of Evolutionary Economics”, 3 (2) 1993, pp. 127-144; N. J. Foss, Ch. Knutsen (ed.), *Towards a Competence Theory of the Firm*, Routledge, London-New York 1996; B. Noteboom, *Governance and Competence: How Can They Be Combined?*, “Cambridge Journal of Economics”, 28 (4), 2004, pp. 505-525.

³⁶ B. Wernerfelt, *A Resource-Based View of the Firm*, “Strategic Management Journal”, vol. 5, 1984; J. B. Barney, *Firm Resources and Sustained Competitive Advantage*, “Journal of Management”, vol. 17, no.2, 1991, ss. 99-120; S. D. Hunt, *Resource-advantage Theory: an Evolutionary Theory of Competitive Firm Behavior?*, “Journal of Economic Issues”, Vol. 31 No.1, 1997.

³⁷ J. B. Barney, *Firm Resources...*, op. cit., pp. 106-112.

³⁸ W. Kwaśnicki, *Ekonomia ewolucyjna – alternatywne spojrzenie na proces rozwoju gospodarczego*, part I, „Gospodarka Narodowa” No. 10, 1996, p. 3.

³⁹ R. R. Nelson, S. G. Winter, *An Evolutionary Theory...*, op. cit.

dynamic processes have produced from known or plausibly conjectured conditions in the past – and also as futures of the stage from which a quite different future will emerge by those same dynamic processes.⁴⁰

In those approaches one can notice, at least implicitly, an important significance of geographical proximity. The latter plays an important role in interactive processes of learning, where the greater the role of tacit knowledge, the greater is the importance of the proximity of partners within the system. In this context, the meaning of regional *specific* or *distinctive* resources is not limited to capital or labor force, but includes also a knowledge that is inherent in the industrial structure of regions as well as their institutional features.⁴¹

3. Possible directions of regional research in the spirit of institutionalism

Institutional economics, with its variety of research approaches seems to be a rich and undoubtedly useful branch of economic science, also from the point of view of the studies on regional development. Moreover, it provides a wide range of application possibilities, so it has also a normative character, usable in the actual decision-making processes (regional policy issues). What is important, in many cases research on territorial development are already reaping the achievements of institutionalism, whereas in other cases more widespread use of it has to be discovered.

In case of classical („old”) institutional economics, what is mostly helpful for regional research, it is an observation that the context of the institutions is conditioned not only historically but also geographically (territorially). As a consequence, spatial differences and variations of the conditions of societies’ and/or business’s functioning will be strongly correlated with the spatial disparities of economic development. In addition, on the basis of neoinstitutionalism, the concept of *homo economicus* is enriched by the concept of *homo politicus* – a man-citizen, prone to cooperate and to renegotiate the rules of social games, concerned with the cultivation of collective networks.⁴² Thus, a geographical proximity can strengthen the meaning of informal institutions, by providing a conditions for building trust and “common business language” of economic actors.

⁴⁰ R. R. Nelson, S. G. Winter, *An Evolutionary Theory...*, op. cit., s. 10.

⁴¹ R. Domański, *Ewolucyjna gospodarka przestrzenna*, Economic University of Poznań Press, Poznań 2012, p. 113.

⁴² M. Bergman, *Tanio, skutecznie, bezpiecznie? Nowa analiza instytucjonalna i jej wizja instytucji społecznej. Dialogi Polityczne*, „Varia” 2005, nr 5-6, październik, www.dialogiurnk.pl/iano-skutecznie-bezpiecznie.html (accessed: 07.03.2003).

Table 1. Strands of institutional economics from the perspective of local and regional studies

No.	Currents of institutional economics	Main theses and directions of analysis	Research perspective for the studies on territorial development
The original (“old”) strands of institutional economics and neoinstitutionalism			
1.	Old institutionalism / American (evolutionary, Veblenian) institutionalism / neoinstitutionalism / New Institutionalism	<ul style="list-style-type: none"> – focus on the collective and social dimension of institution-building and institutional change; – institutions are the legacy of the past; – institutions integrate the communities and societies; – economic processes are embedded in the institutions; – institutions are characterized by inertia; 	<ul style="list-style-type: none"> – context of the institutions is conditioned not only historically, but also geographically (territorially); – studies of the regional disparities of entrepreneurship, the level of trust, respect to public goods or the level of civic engagement; – investigating whether local and regional self-government encourages the development of civil society and entrepreneurship;
2.	Austrian school of economics, ordoliberalism	<ul style="list-style-type: none"> – distance to the concept of perfect rationality as well as the primacy of methodological formalism; – primacy of spontaneous order over formal institutions; – institutions are the legacy of the past; – main aim of the institutions is to ensure the smooth free market functioning; 	
New Institutional Economics (NIE)			
3.	Property rights economics	<ul style="list-style-type: none"> – dissemination of private property rights stimulates their holders to make effective use of resources; – system for the protection of property rights should be strongly rooted in the “social contract”; 	<ul style="list-style-type: none"> – the situation when one cannot identify to whom belongs the plot of land and who is responsible for it, is undesirable for the spatial structures; – search for the optimal ownership structure of space; – the role of public space in spatial planning; – the possible range of public sector in delivering such goods as water supply, waste management, heating, lighting, mass transit, etc. (e.g. <i>provide vs. produce dilemma</i> in the public sector);
4.	Transaction costs economics (TCE)	<ul style="list-style-type: none"> – every market exchange (transaction) entails costs; – in time, the continuous growth of so called transaction sector is observed; 	<ul style="list-style-type: none"> – geographical proximity may promote minimization of transaction costs; – the examination of the impact of the functioning of the local production systems on the competitiveness of its actors; – the examination of the phenomenon of the metropolization (world cities’ growth), as an effect of dynamic development of the transaction sector (typically located exactly in the largest metropolitan areas);
5.	Agency theory	<ul style="list-style-type: none"> – organizational structures are characterized by complexity and even contradictory aims of the members; – study of the relationship between the owner (principal) and the manager (agent), acting on his / her behalf; 	<ul style="list-style-type: none"> – studies of the efficiency of the functioning of the public agencies and offices; – studies of the inferiority, primacy and control relationships between the various levels of public authority (decentralization of power);
6.	Public choice theory	<ul style="list-style-type: none"> – studies of the mechanisms of collective choices and behavior of bureaucrats, as well as the relations between politicians, policy-makers, officials and their stakeholders; 	<ul style="list-style-type: none"> – analysis of collective choices in the self-governments; – search for the optimal forms of management of the complex metropolitan areas; – search for the optimal allocation of competences between the different levels of public administration (decentralization of power);
Concepts related or resulting from institutional economics			
7.	Embeddedness concept / economics of	<ul style="list-style-type: none"> – economic relations are embedded in institutions; 	<ul style="list-style-type: none"> – territorial proximity substantially contributes to the strengthening of the friendly

No.	Currents of institutional economics	Main theses and directions of analysis	Research perspective for the studies on territorial development
	proximity		institutional environment for business;
8.	French economics of conventions	<ul style="list-style-type: none"> – without effective institutions, interactions between individual actors are not able to lead to the achievement of many collective goals; – the economy is based on conventions whose character and compliance depend on previous experience (the concept of limited rationality); – methodological heterodoxy – basing studies on the mix of economics and sociology (economic treated primarily as social science); 	<ul style="list-style-type: none"> – studies of the impact of geographical proximity on minimization of transaction costs, with less methodological rigor than in case of TCE (concentration on primary and comparative research); – studies of the phenomenon of territorialization (embeddedness) of enterprises; – comparative studies on the dynamics of local production systems;
9.	Evolutionary economics	<ul style="list-style-type: none"> – economic analyses should have first and foremost a dynamic dimension; – present economic decisions are contingent upon the existing experience of decision-makers; – economic processes can be studied with the usage of the key assumptions of the evolution theory (explanatory role of the mechanisms of inheritance, diversity and selection can be applied also in social science); 	<ul style="list-style-type: none"> – the research. of the trajectory of development of the regions; – <i>foresight</i> studies; – benchmarking of territorial units; – identification of regional <i>smart specialization</i> areas as strategic resources of the regions; – analyses of marketing strategies of cities and regions, from the point of view of the accuracy of identification of local and regional specificity.
10.	Resource-based view of the firm / key competences concepts	<ul style="list-style-type: none"> – in the long term, competitiveness depends on resources that are: <ul style="list-style-type: none"> ○ strategically valuable, ○ rare, ○ difficult to imitation and copying, ○ non-substitutable. 	

Source: Own composition.

From more formal point of view, “old” institutional economics devotes its attention to the territorial self-governments (whose development is a *signum temporis* of contemporary societies), as a kind of institution that strengthen the civil society and the ethos of a common goods. Here, acting in the spirit of competition and co-operation at the same time, influenced the development of new forms of governance in territorial units.⁴³

In case of the Austrian school or German ordoliberalism, it is hard to identify direct contribution to regional science. However, these strands seem to be useful for the methodological approach. Both currents distance themselves from the formalism in economic science, claiming that it leads to oversimplification of the reality. In consequence, the ambition of many economist to create and believe in purely mathematical models and forecasts are a manifestation of attitude, which F. A. von Hayek as a leading representative of

⁴³ S. Barczyk, *Przedsiębiorczy samorząd lokalny i jego instytucje*, Wydawnictwo Akademii Ekonomicznej im. Karola Adamieckiego, Katowice 2010, pp. 118-119.

the Austrian School of Economics, defined pejoratively as social engineering.⁴⁴ Research on economic processes should be rather of heterodox character, as well as should derive from the achievements of other sciences (economic history, sociology, political science). Research on local and regional development in the spirit of these strands of institutional economy can be devoted to such aspects, as territorial disparities in the level of entrepreneurship, the level of trust among businessmen, the level of civil society development or investigating relations between the functioning of self-government and the social inclusion in the decision processes (see table 1).

In turn, the achievements developed on the field of property rights economics is primarily associated with the search for the optimal allocation of property rights in the space of one, and the analysis of forms of public services, on the other hand. Thus, the studies in the framework of this current can concern the analysis of the structure of property ownership in the territorial units (and the consequences of this structure for the efficiency of land use), as well as the research of the place and role of public space in the spatial economy. Another important issues refer to investigating relations between the level of privatization of public services offered by local self-government (e. g. transit, water supply and sewage management), and their effectiveness. It invokes to the well known *provide-or-produce* dilemma in the public sector economics (to what extent local and regional authorities should only organize or directly engage in delivering public services).⁴⁵

In the territorial context, spatial proximity, being a source of institutions (understood both as formal public ones and informal ones), contributes to a large extent to the minimization of transaction cost. That is why also transaction costs economics can deliver conceptual and methodological apparatus for regional science. In addition, since such transaction sectors (sectors of the economy that operate in order to reduce transaction costs, as finances, real estate, insurance, business consulting, etc.⁴⁶), tend to agglomerate in an urban environment friendly for them.⁴⁷ Transaction costs economics can also contribute to the research on the processes of metropolization of the economy (emergence of the world cities),

⁴⁴ J. Godłów-Legiędź, *Spory metodologiczne w ekonomii z perspektywy kryzysu finansowego*; [in:] S. Rudolf (ed.), *Nowa Ekonomia Instytucjonalna wobec kryzysu gospodarczego*, Wyższa Szkoła Ekonomii i Administracji im. prof. Edwarda Lipińskiego w Kielcach, Kielce 2012, p. 52.

⁴⁵ E. Wojciechowski, *Samorząd terytorialny w warunkach gospodarki rynkowej*, PWN, Warsaw 1997; E. Wojciechowski, *Gospodarka samorządu terytorialnego*, Difin, Warsaw 2012

⁴⁶ For the proposal of identification and measurement of the transaction sector in the economy, see: J. J. Wallis, D. C. North, *Measuring the Transaction Sector in the American Economy, 1870-1970* [in:] S. L. Engerman, R. E. Gallman (eds.), *Long-Term Factors in American Economic Growth*, University of Chicago Press, Chicago 1986, pp. 95-162

⁴⁷ S. Sassen, *Cities in a World Economy*, Columbia University Press, New York 2003.

which is also an important subject of analysis for regionalists. Finally, the analytical engine of TCE can be used for the studies on the emergence and development of various forms of territorial organization of production (such as local production systems or clusters), as well as the processes of territorialization of companies.

On the local and regional level, one can also indicate the usefulness of another section of New Institutional Economics – an agency theory. Besides the use of its analytical apparatus to improve management processes in public organizations operating in the given region, it may be also used to study the supremacy, inferiority and control relations between the various levels of the territorial power (e.g. the relations between central power [principal] and local power [agent] or between politician class [principal] and the class of bureaucrats [agents]). Agency theory can also support the studies on the effectiveness of the public sector organizations on the various levels of geographical administrative divisions, the degree of their bureaucratization, as well as for the valuation of local and regional development strategies, from the point of view of their efficiency and effectiveness.

In turn, public choice theory can contribute to the studies of local and regional development by the analysis of collective choices in territorial self-government, identifying the optimal structures for management of such complex spatial forms as urban agglomeration and metropolitan areas⁴⁸, or finally finding the optimal allocation of competences between the different levels of public administration (the level of decentralization of power). The research on the possible ways of limiting the “transaction costs” of monitoring the activity of local authority representatives by their stakeholders, also remains a challenging field of analysis here.

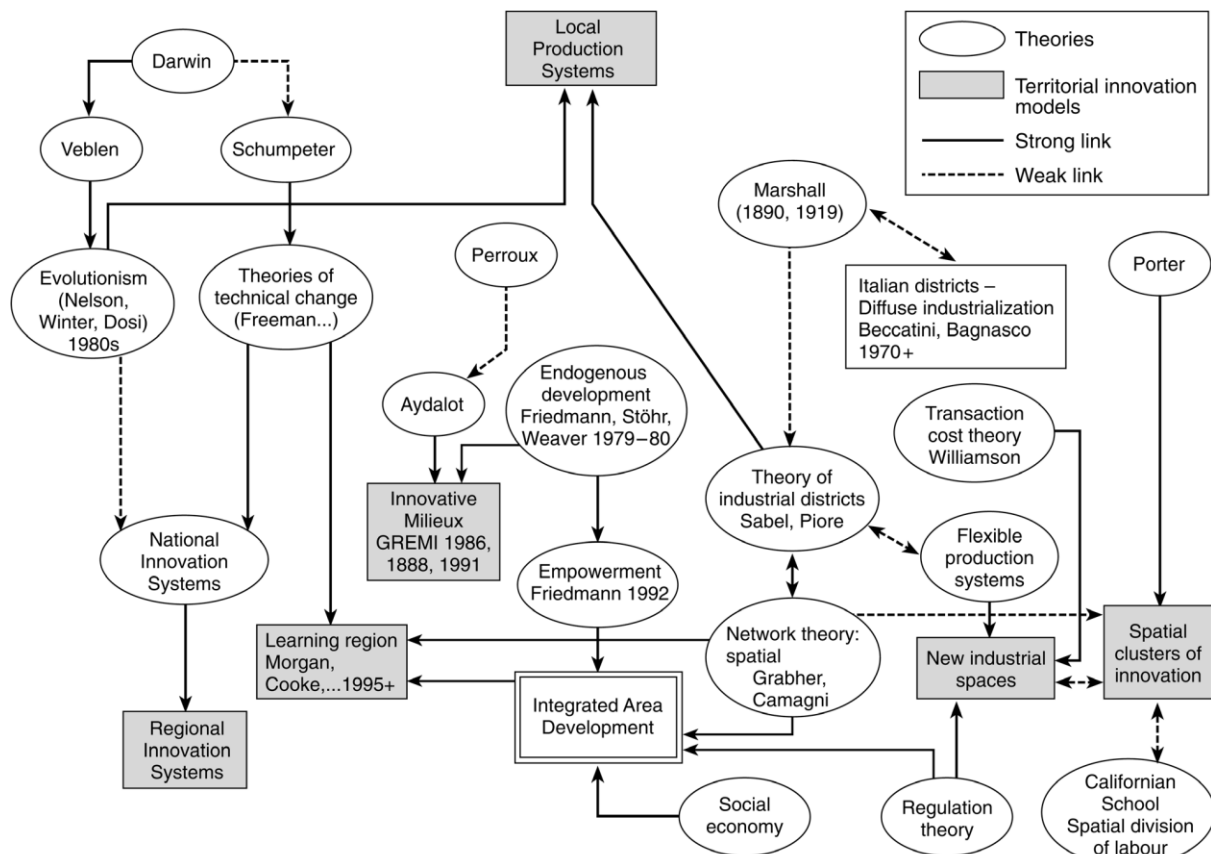
What really delivers a wide range of possibilities for studies on regional development, there are concepts related or resulting from institutional economics. There is no doubt that such concepts as economics of proximity or embeddedness of Mark Granovetter, are almost designed for the need of territorial analyses. What is more, these strands, compared for example to transaction costs economics, can be characterized by smaller methodological rigor and put greater emphasis on methodological triangulation⁴⁹ in research, as well as primary data research in place of secondary data analysis. Such concepts are also used for the studies

⁴⁸ See e. g.: G. Ross Stephens, N. Wikstrom, *Metropolitan Government and Governance. Theoretical Perspectives, Empirical Analysis, and the Future*, Oxford University Press, New York – Oxford 2000; W. Salet, A. Thornley, A. Kreukels, *Metropolitan Governance and Spatial Planning. Comparative Case Studies of European City-Regions*, Spon Press, London-New York 2003

⁴⁹ In 1970, N. K. Denzin distinguished four forms of cross examination in the research process, defining it as *triangulation*: data triangulation, investigator triangulation, theoretical triangulation as well as methodological

of the phenomenon of territorialization (embeddedness) of enterprises as well as for the comparative studies on the dynamics of local production systems, since it is based on less rigorous ways of obtaining information (open questions, focused interviews, observation, etc.).

Figure 1. The complexity of theoretical building blocks for the concepts of territorial forms of organization of production – proposal by F. Moulaert and F. Sekia



Source: F. Moulaert, F. Sekia, *Territorial Innovation Models: A Critical Survey*, “Regional Studies”, Vol. 37.3, 2003, p. 295.

This kind of research is suitable for the analyses conducted on local or regional level also because it is based on no-probability sampling and smaller samples (typical for local or regional scale of analysis). However, this approach requires a higher level of engagement and expertise from the researcher who, especially in case of regional science, should remain sensitive to territorial (institutional) context. Besides, this approach requires more broad knowledge about existing concepts, among which one can identify very strong interdependencies and interference (see figure 1.).

triangulation (see: N. K. Denzin, *The Research Act: A Theoretical Introduction to Sociological Methods*, Aldine Transaction, Chicago 2009, p. 301).

Last but not least, the concepts developed on the basis of evolutionary economics and the resource-based approaches, expose substantially the dynamic nature of economic processes, as well as the essential role of learning. In this context, they provide a theoretical framework for the studies of development trajectory of regions, using both advanced computational techniques (e. g. neural networks) and heuristic methods, from which regional foresight is in the foreground.⁵⁰ Finally, among the resource-based and the key competences concepts, an interesting research challenge for regional studies is to identify the so-called regional smart specializations⁵¹ as well as the analysis of the appropriateness of marketing strategies of territorial units, from the point of view of their relevance to their specificity.

4. Summary

Divagations about the role of cities and regions in the global economy refer more and more often to the various strands of institutional economics, since every economic behavior depends on institutions. The latter can be interpreted both as formal (law, written rules, etc.) and informal ones (norms, beliefs, social trust, etc.).

Since there are many strands of institutional approaches (classic institutionalism, New Institutional Economics and other), there are many possibilities of their application in studies on local and regional development. Old institutionalism offers a set of thoughts helpful for eclectic (mainly holistic and qualitative) studies on territorial differences of development paths, as well as on the role of public authorities in development's stimulation. New

⁵⁰ *Foresight* can be defined as systematic, participatory, future intelligence gathering and medium-to-long term vision building process, aimed at present-day decisions and mobilizing joint actions, while *regional foresight* is the implementation of anticipation, participation, networking, vision & action at a reduced territorial scale, where proximity factors become determinant (*Practical Guide to Regional Foresight, FOREN Network (Foresight for Regional Development)*, European Commission Research Directorate General, STRATA Programme, December 2001, p. 3). From the technical point of view, *regional foresight* combines the numerical and statistical methods of identification of future development trend (forecast), with the methods based on the knowledge and experience of regional actors (entrepreneurs, large companies, public authorities, local leaders), assessing the probability of development scenarios and building networks for the mutual dissemination of knowledge and information in the region, in order to identify sectors and technologies which are based on regionally-embedded competences and may have strong development potential.

⁵¹ The concept of regional smart specialization emerged in the first decade of the twenty-first century as a response to the ineffectiveness of the existing instruments of regional policy and industrial policy. It combines a sectoral approach (based on identifying and supporting key sectors of the economy and technological domains with strong growth potential) and a territorial perspective (based on the search for distinctive and specific competitive advantages of the regions). Thus, it puts emphasis on the adaptation of development and innovation policies to real possibilities of territorial units, as well as stresses the need of continuous monitoring of the relevance of undertaken decisions and constant search for new regional specialization domains (see: D. Foray, P. A. David, B. Hall, *Smart Specialization: the Concept*, "Knowledge Economists Policy Brief", no. 9, June 2009, http://ec.europa.eu/invest-in-research/pdf/download_en/kfg_policy_brief_no9.pdf, accessed 07.01.2012). In essence, this concept also refers to the model of flexible specialization developed earlier by M. Piore and C. Sabel (M. Piore, C. Sabel, *The Second Industrial Divide*, Basic Books, New York 1984).

Institutional Economics can contribute to regional studies by more strict methodologies of economic research, borrowed from classical economy. Finally, institutional concepts open a way for searching the added value of studies which are on the verge of such disciplines as economics and sociology (the *embeddedness* concept, economics of proximity, evolutionary economics, etc.).

In the empirical field, one can observe that territorial dimension of institutional analysis is still in the early stage of development, but research tools offered by institutional economy have much to offer to regional scientists.

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