

## Foreword

---

Institutions are crucial in shaping society and economy. Nevertheless, standard economics has tended to neglect both how institutions evolve and in what way they affect behaviour. In contrast, political economists have made important progress in analysing them in recent years.

This book is in the tradition of a broadly understood political economy, but contains contributions from various viewpoints. This is essential because institutions are varied and complex, and therefore it would not be just to use only one approach. The authors come from many different countries and represent many disciplines as well as ideologies. Their contributions are summarized and brought into perspective by a useful introductory chapter by the three editors. A wide range of issues is treated and new aspects are introduced. Thus, for example, when studying the interaction between institutions and economic development, not only the traditional indicator of national product is used, but also a step is made towards measuring welfare via self-reported individual satisfaction, or happiness. The same commendable openness is visible when the effects of institutions on global business and transition issues are studied.

Numerous insights emerge. A particularly important one relates to competing institutional forms. In most cases, they are not imposed from above, but rather emerge as the result of an open discourse and revealed efficiency. The book also throws light on the relationship between various institutions, in particular between the market and the state. It is strongly argued that the establishment of law and order, and an effective guarantee of property rights, must precede the introduction of the price system; if done in reverse order, failure and injustice result. Without a doubt, readers, whatever their own particular standpoint, will be able to derive considerable benefit from this collection.

Bruno S. Frey  
April 2002

