

# Economics and Business Review

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According to contemporary economics space is not an irrelevant resource for economic growth. It is assumed rather that the social, economic and ecological value of space may decide regional and local development.

For many years a territory has been the focus of interest for a research team dealing with spatial economics at the University of Lodz. The monograph *Territorial Development and Institutional Economics* by M. Sokołowicz is associated with the research conducted by that team.

For a long time the value of space, territory and the significance of the connection to economic growth have not been included in the mainstream of economic sciences. A starting point for M. Sokołowicz's considerations is an explanation of the role of space in economic analyses and the evolution of the theory of spatial economics. The author identifies the forces which shape the spatial structure of an economy, referring (amongst others) to the concept of convergence and regional polarization. He points out the advantages and disadvantages of polarization. The advantages of polarization include lower transportation costs per unit, the cost of introducing innovations and the growth of wages in the region. *New Economic Geography* by P. Krugman explains the reasons why agglomerations are formed assuming that:

1) transportation costs are convergent with the “iceberg model” and 2) economic processes are determined by history. Later the author discusses the position of institutionalism in economic science and characterizes the differences between “the old” and “the new” institutional economics. He rightly points out that in spite of differences significant common features in various trends of institutionalism exist including: 1) an assumption that the sphere of economics depends upon the sphere of institutions; 2) focus on the processes of change not on the questions of equilibrium – institutions guarantee a certain level of stability in a volatile environment; 3) institutions change along with the variability of the environment; 4) emergence of the new institutional order; 5) taking into account the social context of economic processes.

M. Sokołowicz characterizes the main theses and directions in the analyses of ten streams of institutional economics. For territorial development the most significant seem to be: *the theory of public choice*, *French economics of convention*, *the concept of rooting and economics of proximity*, *evolutionary economics and the resource-based school*. According to the concept of rooting and the economics of proximity economic relations are rooted in the conditions shaped by institutions and, at the same time, they are a result of the permea-

tion of various types of proximity (physical, organizational, institutional, social and cognitive) which involves economic and cultural interdependencies, leading to the building of relationships based on trust. In evolutionary economics, organizational structures should guarantee predictability of activities under a volatile socio-economic environment. At the same time economic decisions are conditioned by past experience (*path dependency* mechanism and creative destruction). It becomes necessary to include the mechanism of variety, inheritance and selection in the analyses and explanations. On the other hand the resource-based view (*RBV*) assumes that: 1) organizational structures (such as enterprises) are created in order to protect valuable resources; 2) building a competitive advantage is based upon specific resources (strategically valuable, rare, difficult to imitate and irreplaceable); 3) competitive advantage is based on the specificity of resources varies in time. Those three theoretical concepts are most useful in understanding the contemporary conditions and stimulate the development in space.

In the process of territorial development M. Sokołowicz identifies – in accordance with the classical approach – formal and informal institutions. In the group of formal institutions he distinguishes the legal environment (international and national regulations, local law) and organizations (national, regional and local, e.g. government agencies, local government agencies, enterprises). In this group of institutions attention should be paid to an increasing significance of non-governmental organizations in territorial development. They are obviously linked with informal institutions but in a civic society the formal frameworks of their function depend upon the solutions approved at each level. In the group of informal institutions the author distinguishes:

1) cultural norms and traditions, 2) trust and 3) rules, conventions and customs, correctly associating them with territorial capital. This capital may promote or obstruct development. Knowing the value of territorial capital in Poland's regions is of crucial importance for the stimulation of local and regional development. The problem, however, lies in the possibility of measurement. It seems necessary to combine quantitative research with qualitative studies which will facilitate identification of such values as: the level of trust, propensity to collaborate, propensity to comply with legal regulations and keep contracts, propensity for associating and participating. So far the explanation of why Poland's territorial capital is differentiated – which has been studied at the universities in Łódź, Gdańsk, and Poznań – has not been sufficiently profound. It should be remembered that the methods of analyzing social capital at the level of regions or big cities (e.g. *Programme UNDP, Project Office in Poland 2012*) cannot be identical with the methods used to study the territorial capital of smaller territorial units. Synthetic measures of the quality of life pointed out by Czapiński and Panek [2013] are exceptionally detailed (27 indicators in 8 groups) and make it possible to analyze the differentiation of voivodeships/regions. So far the results of analyses at the local level have been limited but a comparison of territorial capital throughout towns and gminas would be desirable for the implementation of regional and urban policies.

A review, classification and an orderly arrangement of the achievements of institutional economics from the viewpoint of their applicability to the studies on territorial development made it possible to clarify the significance of institutions for socio-economic development in space. As M. Sokołowicz rightly points out a plethora and variety of streams in

institutional economics give rise to the question whether they can be reconciled with one another. The Author proposes a thesis that „institutional” concepts may be interpreted not as mutually contradictory but as complementary approaches to research. The variety of institutionalism is a significant benefit in the studies on the processes of territorial development but it is also the source of many difficulties.

The complexity of territorial processes necessitates moving within a triad of dependencies: space-proximity-institutions. The understanding and explanation of territorial development processes requires the analysis of: 1) the impact of physical proximity on the minimization of transaction costs in accordance with the mechanism of agglomeration advantages; 2) the effectiveness of various forms of the provision of public goods ; 3) the benefits and costs of a decentralization of authority, the role of local governments in building the civic society and territorial differentiation in the level of public trust; 4) the benefits and costs of collaboration between the units of territorial government; 5) the influence of historical, cultural and institutional factors upon regional competitiveness and 6) the functioning of local production systems, the phenomenon of territorialization and the rooting of enterprises.

The monograph demonstrates the extensive possibilities for using institutional economics to explain the phenomena of development in space. Nevertheless it seems necessary to expand the methodology of research and, above all, to ensure access to specific information at the territorial level. The accessibility of these data in Poland has been insufficient up to now which is a serious obstacle to the analysis of public costs of transaction in conducting economic activities or the level of public trust and confidence in public organizations as examples.

The monograph enables an indication of the directions for further research and analyses. However it would be desirable to find a more insightful explanation of the mutual relationships between formal and informal institutions influencing the regional development and an answer to the question as to which of the formal institutions in Poland have been a barrier to building the territorial capital so far. Moreover the methods of measuring territorial capital should be more precisely indicated in order to facilitate comparative analyses at the macro-regional level. Besides that the strength of P. Krugman's assumptions is debatable. It seems that the limitation of spatial resistance in interregional and interpersonal contacts significantly influences the possibility of change in the development of metropolis. The disadvantages of the polarization of development in space and a determination of the advantages of convergence are still being discussed.

The monograph by M. Sokołowicz *Territorial Development and Institutional Economics* fills a gap in the knowledge of various streams of institutional economics and their usefulness in spatial research. It is valuable and a work to be recommended combining existing knowledge and contributing the author's own significant generalizations. The applicability of institutional economics in the research on territorial development (subject of research, prevailing nature of research and research methods) is properly identified and quite thoroughly discussed. However the fact that the examples of using institutions for stimulating territorial development of the regions in Poland are not presented in more detail might lead the reader to consider a certain deficiency in the work.

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## Aims and Scope

Economics and Business Review is the successor to the Poznań University of Economics Review which was published by the Poznań University of Economics and Business Press in 2001–2014. The Economics and Business Review is a quarterly journal focusing on theoretical and applied research work in the fields of economics, management and finance. The Review welcomes the submission of articles for publication dealing with micro, mezzo and macro issues. All texts are double-blind assessed by independent reviewers prior to acceptance.

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Simon, H.A., 1976, *From Substantive to Procedural Rationality*, in: Latsis, S.J. (ed.), *Method and Appraisal in Economics*, Cambridge University Press, Cambridge: 15–30.
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