THE ROLE OF INSTITUTIONS IN THE ECONOMIC GROWTH OF OECD COUNTRIES

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ABSTRACT
This paper analyses the role of institutional quality in determining the economic growth in the OECD countries from 1995 to 2021 concerning the institutional economics framework developed by North (1990) and further advanced by Rodrik (2000) and Acemoglu et al. (2005). Institutions are viewed as the formal and informal structures that regulate economic, political, and social activities and are considered the key to influencing economic performance through the minimisation of transaction costs, encouragement of innovation, and human capital development. The theoretical framework assumes that inclusive institutions foster sustained economic growth while extractive institutions stifle development by consolidating power and assets. This paper hypothesises that institutional quality positively influences economic growth in OECD countries. Using panel regression models and Employing the Fraser Institute's Economic Freedom Index and the Heritage Foundation's Index of Economic Freedom as measures of institutional quality, it examines how government size, property rights, regulation, and trade freedom affect growth. The findings reveal that institutional quality has a positive but varying impact on economic growth. In particular, small government, low taxes, and good monetary policy are positively related to higher growth rates. However, factors such as property rights and trade freedom have either weak or negative coefficients of correlation with growth. The results suggest that fiscal prudency and sound money supply policies are conducive to growth, but other institutional factors are not as straightforward in their influence on growth. This study is useful for policymakers who wish to improve economic growth through institutional change.

Keywords: *Economic growth, Institutions, OECD countries.*

JEL classification: *O43, O47, P48.*

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