Role of Institutions in Sustainable and Socially Equitable Development*

INTRODUCTION

The objective of this brief communication is to start a conversation about critical role that institutions play for sustainable development and how each of us as can assist with the development and nurturing of institutions. Our goal is to nurture equitable and sustainable economic and social development. There is so much to be done, especially when change triggers violence and tension among those who feel threatened by progress. Cyrus Institute of Knowledge (CIK) offers positive and constructive alternatives to such horrific and counterproductive responses. CIK is an educational and scientific secular and nonpartisan institute, dedicated to peace, cooperation, harmony, and nonviolence. CIK’s mission and values are shown in the banners put up in this conference. While here I touch upon a few issues, there are interesting papers in the conference which will analyze many issues in-depth.

*Presented at CIK Conference, Harvard University, April 24-26, 2015.

WHAT ARE INSTITUTIONS?

Social institutions contribute to the problems faced as well as their solutions. This is true because institutions provide the rules and guidelines that people live by. As we know, different beliefs, traditions, and ways of life often conflict with each other in ways that lead to tension, misunderstanding, and even violence. In the United States during the 1960s, for example, the rival institutions of racial segregation and integration opposed each other. The conflict between rival institutions, however, emerged as the catalyst for positive change.

Strategies of response are also powerful institutions. Nonviolent methods for advancing social, economic, and legal equity (as developed by leaders such as Henry David Thoreau, Gandhi, Martin Luther King, and Nelson Mandela) are embraced by millions of people. Unfortunately, an opposite institution based upon violence, intimidation, and social tension also exists. In many parts of the world (including the Middle East, North Africa, and Central Asia) these two institutions compete for the loyalty of the people.

Lin and Neugent (1995) defined institutions as “A set of humanly devised behavioral rules that govern and shape the interaction of human beings, in part by helping them to form expectations of what other people will do.” The emphasis is on “humanly devised behavioral rules” and “form expectations of what other people will do.” Thus institutions are the rules of the game that shape human interaction. An expanded view recognizes that institutions “are systems of established and
prevailing social rules that structure social interactions [including] Language, money, law, systems of weights and measures, table manners, and firms…” (Hodgson, 2006). Although some scholars offer more complex views of social institutions, (Aoki 2001; Crawford and Ostrom 1995), focusing upon rules will suffice for this short discussion.

Overt and/or covert rules often exert multiple impacts and become controversial as a result. The United Nations Millennium Development Goals, for example, encourages social institutions that are designed to eliminate crushing poverty worldwide. Although doing so is not controversial, certain tactics can trigger hostile responses. Advocating educational opportunities for girls, for example, can be threatening to those who adhere to a strict division of the sexes and tightly defined vocational options that are based upon gender. The resulting tension has resulted in violence, including the attempt by the Taliban to murder Malala Yousafzai because she was a strong advocate for women’s rights. The kidnapping of school girls in order to turn them into concubines and wives for traditional men is another horrific example of proponents of one institution (a hyper traditional culture) violently opposing its rival (social change).

Dani Rodrik (2008) in One Economics, Many Recipes: Globalization, Institutions, and Economic Growth affirms that institutions provide the rules that coordinate people, communities, and organizations. Institutions can also create regulations and/or checks and balances that encourage fairness. In this way, institutions can foster stability and sustainability.

Rodrik stated that markets need institutions because they are not self-correcting, self-regulating, self-stabilizing, or self-legitimizing. Therefore, institutions are needed to set some rules. And the market institutions are embedded in a set of nonmarket institutions; he asked questions such as “do institutions matter? If yes, which institutions matter? Here are some of them that he has highlighted:

1. Provide “rules of the game” of economic life such as property rights which is underpinning of a market economy.
2. Improve coordination within and across citizens, communities, organizations; having clearer expectations of what other people will do.
3. Restrict coercive, fraudulent and anti-competitive behavior; by creating regulations; through checks and balances within a democratic process.
4. Provide access to opportunities for the broad population.
5. Constrain the power of elites and managing conflict.
6. Provide social insurance such as health benefits and unemployment benefits.
7. Provide predictable macroeconomic stability such as implementing monetary and fiscal policy that at its core aims sustainable economic growth.

All democratic societies have addressed most aspects of the above fundamental institutions to different degrees. The challenge is for developing countries to develop and gets buy in from stakeholders in implementing these institutions. By merging these institutional factors into the concept of development, we shall evolve with fundamental aspects of sustainable development and civil society. The big problem, as we saw above, however, is the fact that different institutions often compete. How can positive cooperation exist in such an arena? The point is that as long as people are creative and cooperative, modern business methods can be adjusted to mesh with a wide variety of social, ethical, and beliefs institutions.

UNIVERSAL PERSPECTIVES

According to 1998 Nobel prize winner, Amartya Sen, freedom means the removal of major sources of poverty, discrimination and inequalities and other public or private discrimination. He states that positive social and economic development is accelerated by the promotion of human rights such as freedom of the press, freedom of speech, and the right to assemble because these rights foster honesty in governmental institutions. Malcolm Gladwell, who is the author of bestselling books such as David and Goliath, Tipping Point, Blink, Outliers, and other manuscripts recent argued that “People will obey authority when people feel that authority is acting legitimately,” and when you increase penalties, you undermine the legitimacy of the system.

Ultimately, social institutions are the backbones of democracy and the social equity upon which it is based. The creation of fair,
balanced, and transparent economic opportunities for all citizens, furthermore, encourages the establishment of a balanced and thriving society and institutions ensure its sustainability.

THE REGIONS AND THEIR CHALLENGES.

The Middle East, North Africa, and Central Asian faces a wealth of issues that hold progress back. In a (2013) World Bank report under the title of “Regional Economic Integration in the Middle East and North Africa” Mustapha Rouis and Steven Tabor (2013) reported that:

1. The MENA region has 5.5% of the world’s population, but only has 3.9% of the world’s GDP.
2. People in the region want to work, but institutional barriers prevent it. This has resulted in a crippling regional brain drain.
3. Economic activities are not adequately diversified with oil production dominating.
4. Institutionalized constraints on economic competitiveness is a fundamental problem (World Bank 2013).

The following problems and challenges are recognized and require serious attention:

1. High unemployment rates,
2. Low female labor force participation rates,
3. Low levels of private sector development,
4. Weak public sector and corporate governance,
5. Bloated and inefficient public sectors,
6. Pervasive corruption,
7. Weak and limited infrastructures,
8. Low entrepreneurial activities (O’Sullivan and Galvez 2012)

In this regard, O’Sullivan and Mendez (2012), Jeffry Sachs (2004) and others suggest that strategies to promote inclusive economic growth and employment should be embraced. They propose:

1. Improving governance, transparency, rule of law, accountability, and citizen participation in economic life,
2. Increasing social and economic inclusion,
3. Supporting private sector, particularly SMEs and entrepreneurial activities aiding job creation, and developing human capital.
4. Fostering regional and global integration to reap the benefits of globalization.

These strategies must rely upon strong social and economic institutions that are supported by a strong and educated workforce. These institutions ultimately set the “rules of the games” that lead to sustainable development and is our generation challenge and responsibility.

AN ENVIRONMENT FOR CHANGE

In the Middle East, North Africa, and Central Asia, people are demanding rights, dignity, social equity, and respect. The biggest challenge facing moderate citizens is the lack of fully functioning democracies. The missing link, furthermore, is education and that is where CIK is aiming to advance. Although this region possesses enormous natural resources, most of its countries rank towards the bottom on human development indexes. To make matters worse, their competitiveness is undercut by a chronic brain drain.

Joseph Nye, Harvard University Professor, states that in the Middle East, “you're seeing religious divisions, state divisions, and non- state groups all battling. And essentially, in that kind of a situation, there's going to be a lot of fluidity in terms of what alliances - temporary coalitions are going to happen...[the United States] is not going to be able to run that any more... And it takes two or three decades for these things to work themselves through. So will we be involved with one group and then another group and the enemy of my enemy and so forth? I think yes.” (CNN- Freed Zakaria, GPS, 3/8/15).

Unfortunately, the future of the region is uncertain because members of the younger generations demand a better quality of life, dignity, and a more representative form of
government. Achieving these goals will take time and needs education and institutions building.

Above assessment, what we hear on the news, and what is truly happening in the regions are sad and depressing; it is beyond words to explain it. At least, there are two opposite responses, a) hear the daily depressing news and move on with our personal life, b) articulate and initiated activities that can have a positive impact on the event, as least in the long –run. Our aim at CIK is the latter.

SUMMARY

Social and economic development that is accepted by insiders and outsiders alike must be based on practical principles along with a culturally competent focus. The CIK is poised to provide leadership in both regards. The CIK mission involves nurturing and supporting scholars, visionaries, and practitioners so they can contribute to the regions in positive and constructive ways that benefit all.

CIK seeks “Win-Win” situations, not a “Zero-Sum Game”. By offering equitable and culturally sensitive options, tensions can be more effectively abated and true progress can be given the best chance of success. CIK is in a unique position to accept a leadership role in this regard which summed up as “advancement of human capital”.

Those of us who are here today believe, act, and represent progressive views regarding human rights, personal dignity, and equal opportunities. We are equally respectful of local cultures and traditions as well as the social equity they deserve. This culturally competence, coupled with business, economic, and social expertise, provide CIK with a unique ability to help strengthen regional institutions in equitable and productive ways. I look forward to working with you in this regard. Thank you!