

Institutional economics and wealth creation

La economía institucional y su relación en la creación de riqueza

Piero Alejandro Sernaque Montes

Asociación para la Educación Económica en los Andes, Perú

pierosernaque@gmail.com

<https://orcid.org/0009-0002-1847-6384>

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Abstract

The present study, titled "Institutional Economy and Its Impact on Wealth Creation in the Pispita Population Center, Echarate District, La Convención Province, Cusco Region, Year 2022," aimed to analyze the relationship between institutional economy and wealth generation. Adopting a quantitative approach and a non-experimental design, a cross-sectional study with a correlational scope was implemented. The target population consisted of 89 households in the population center, and a representative sample of 69 heads of households who participated in the survey was selected. Two questionnaires were employed, validated through the Cronbach's alpha coefficient, with reliability levels of 0.9 and 0.7 for the instruments associated with the institutional economy and wealth creation variables, respectively. The results revealed a moderate positive correlation (correlation coefficient = 0.441) between institutional economy and wealth creation, with a significant p-value of 0.00, supporting the importance of this correlation in the studied context.

Keywords: Institutional Economics, Wealth Creation, Property Rights.

JEL: B25

Resumen

El presente estudio, titulado "La Economía Institucional y su relación en la Creación de Riqueza en el Centro Poblado de Pispita, Distrito de Echarate, Provincia de La Convención, Región del Cusco, Año 2022", tuvo como propósito fundamental analizar la relación entre la economía institucional y la creación de riqueza. Adoptando un enfoque cuantitativo y un diseño no experimental, se implementó un estudio de corte transversal con un alcance correlacional. La población objetivo consistió en 89 viviendas del centro poblado, y se seleccionó una muestra representativa de 69 jefes de hogar que participaron en la encuesta. Se emplearon dos cuestionarios validados mediante el coeficiente alfa de Cronbach, con niveles de fiabilidad de 0.9 y 0.7 para los instrumentos asociados a las variables economía institucional y creación de riqueza, respectivamente. Los resultados revelaron una correlación positiva moderada (coeficiente de correlación = 0.441) entre la economía institucional y la creación de riqueza, con un p-valor significativo de 0.00, respaldando la importancia de dicha correlación.

Palabras claves: Economía Institucional, Creación de Riqueza, Derechos de Propiedad.

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Introduction

Economic institutions, such as legal, political and social institutions, play a fundamental role in generating incentives and opportunities for development. These institutions must be inclusive, guaranteeing property rights and an impartial legal system. This explains the difference between South Korea's prosperity and North Korea's poverty, which lies in the institutions of each country (Acemoglu & Robinson, 2012). While South Korea has an economy based on private property, North Korea prohibits private property and markets. Therefore, the lack of security in property rights does not encourage investment, since individuals need to be certain that their property will not be stolen or expropriated. Various economists, such as Douglas North, Coase, Becker and Romer, have emphasized the importance of institutions and their relationship with socioeconomic factors in the generation of wealth (Becker, 1964). Institutions, understood as the formal and informal rules that structure social interaction, are key to reducing transaction costs and providing security and trust. Different institutional environments can expand or reduce the capabilities of individuals, promoting or hindering human development (Leblang, 2015).

Property represents a basis for economic development and growth, which is reflected in international indexes (Doing Business of the World Bank, The International Property Rights Index). These show that the absence of well-established property rights limits the competitiveness of countries. In the case of Peru, institutional weakness, specifically the lack of clearly defined property rights, is considered to be a factor that prevents the country from being fully competitive (Castro, 2019). This is because an inadequate institutional environment does not generate the necessary incentives to undertake, invest and/or innovate.

The situation in the Echarate district, to which the Pispita population centre belongs, reflects these challenges. Despite efforts to foster competitiveness in the local economy, significant obstacles are faced, such as a shortage of qualified labour, a lack of incentives to undertake and the absence of well-established property rights. These limitations are manifested in the lack of solid economic policies, the lack of mechanisms to boost economic dynamism and the inadequacy of basic infrastructure and essential services.

In this context, the general objective of the research is to determine the relationship that exists between the institutional economy and wealth creation

in Pispita-Echarate during the year 2022. Likewise, the specific objectives are to examine the relationship between property rights, socioeconomic factors and wealth creation in the population centre. The general hypothesis is to know if there is a significant relationship between the institutional economy and wealth creation, and therefore the specific hypotheses, to know if there is a significant relationship between property rights, socioeconomic factors and wealth creation.

Therefore, the present research is justified by its social, practical, economic, theoretical and methodological relevance. From a comprehensive perspective, the study will provide valuable information that can be used by authorities to improve the institutional, legal and socioeconomic factors that impact wealth creation in Pispita-Echarate. The findings will have practical implications both at an academic level and for the formulation of effective public policies. In addition, the research will contribute to reducing transaction costs related to property rights, a key aspect in the institutional context. At a theoretical level, the study will enrich knowledge about institutional economics and its link to local economic development, which is relevant given the scarcity of analysis of this type in Peru. Finally, the methodological justification lies in the use of statistical tools that will allow generating solid empirical information on this dynamic in the population center analyzed.

International background shows a trend towards the recognition of the importance of institutions in economic development. Chapa and Aruquipa (2022) determined that variables such as human capital and institutions, specifically education and property rights, have a positive long-term effect on Mexico's economic growth. Acemoglu and Robinson (2012), in their well-known work, argued that inclusive political and economic institutions are the key to a nation's economic success or failure and are essential for sustained growth. Chand (2003) concluded that property rights, as an institutional factor, are important for the economic performance of many developing countries.

At the national level, the background also supports the relevance of institutions. Dávila (2016) found that institutions that promote property rights lead to better economic development for agents and the country. Rodríguez (2004) advocated for Douglas North's institutional approach and the importance of strengthening institutions for sustained economic growth in Peru. Monrroy (2017) concluded that the formalization of property significantly influences the economic and social development of families.

At the local level, Castro (2019) determined that strengthening the institutional framework and reducing risk factors can improve local governance in the Municipalidad Provincial del Cusco.

Theoretical Bases

North defines institutions as the "rules of the game" of a society, which structure human interaction in political, social and economic spheres by establishing restrictions (North, 1990). One of them, the institution of property, is made up of social norms that regulate the use and transfer of resources, both material and immaterial. The private property system, fundamental to contemporary economic efficiency, is based on the exclusive right of the owner to obtain benefits and assume the associated responsibilities (Leblang, 2015). The theory of property rights emerges as a valuable tool to understand the challenges to economic development, demonstrating that countries that respect private property tend to have better economic performance (Barzel, 1989).

Property rights are the rights of individuals to the use, income and transferability of resources (Alessi, 1983). These play a crucial role in economic growth and development. The institutional or property rights structure of a country has been and continues to be a limiting factor in economic development (D., 1991).

In terms of a nation's wealth, several forms of capital are identified, including physical or produced capital (infrastructure, buildings, machinery), human capital (education and knowledge embodied in the population), natural capital (underground assets, soil, fish stocks), intellectual property (contracts, patents, software), social/institutional capital (institutions, rule of law, equity capital), and net financial assets (net holdings of financial assets across national borders), where financial assets and liabilities cancel each other out within national borders (Becker, 1964).

Due new institutional economics is basically a study of contracting, both political and economic, it provides a bridge between theory and observations (North, 1986). Within this institutional framework, individuals form organizations to capture the gains that arise from specialization and division of labor. Individuals may enter into contracts with each other, either voluntarily or through coercion, that specify the terms of exchange. When a series of contracts fall under a general global contract, they make up an organization. (A. Alchian & H. Demsetz, 1972). Therefore, for there to be specialization of labor and division of labor, individuals must acquire a certain level of knowledge

in order to develop themselves and the market. It is the reason that human capital and the factors that derive from it, such as the economic activity to which they will be dedicated.

We must understand that entrepreneurial activity can only occur in a market economy that is based on property rights and free competition. In an institutional framework, the entrepreneur becomes the driving force of the economy due to the innovations, discoveries and productivity increases that he introduces in his attempt to maximize his profits (Landoni, 2020). Consequently, places where institutional stability is established allow business activity to develop.

Material and methods

The research had a quantitative approach (Hernández Sampieri, Fernández Collado, & Baptista Lucio, 2014), in order to establish the relationship between institutional economics and wealth creation. The research design was non-experimental-cross-sectional, meaning that the variables were observed and analyzed as they are in reality, without altering any of the variables (Hernández Sampieri, Fernández Collado, & Baptista Lucio, 2014). In turn, the research had a cross-section because the data collected was from a single particular moment. The research, in turn, was descriptive-correlational, because it will identify the characteristics and qualities of the variables, and the phenomenon of study, as well as the relationship between two or more concepts in a sample will be studied (Hernández Sampieri, Fernández Collado, & Baptista Lucio, 2014). In this sense, the study presents a correlational scope, since it sought the relationship between the variables, institutional economy and wealth creation in the Pispita-Echarate population center, for the year 2022.

The study unit of the research was the Pispita population center, located in the Echarate district, The Convención province, in the department of Cusco. Accordingly, the study population was the heads of households in the Echarate population center, which according to RED reports (2022), has 69 heads of households. Having a small population, a census sampling was applied, which involves collecting data from all elements of a population instead of selecting a representative sample. In this sense, the sample was 69 heads of households from the Pispita population center.

The technique and instrument used to collect information was the survey and the questionnaire with a Likert scale for each study variable. For the Wealth Creation variable, an adapted questionnaire made

by (Pérez, 2017) was used, where its reliability was based on the criteria of two specialist judges and a methodologist. For the Institutional economy variable, an adapted questionnaire made by (Zárate and Leyva, 2021) was used, where its instrument was validated by three experts on the subject (doctors) and has a statistical reliability of Cronbach's Alpha 0.817. In addition to this, a reliability analysis was carried out in the SPSS program for both instruments, regarding the 24 items used in the Institutional Economy variable, 0.936 was obtained and for the Wealth Creation variable, with 10 items, a reliability level of 0.755 was obtained in the Cronbach's Alpha reliability statistic.

Results

The population of the Pispita Population Centre has diverse demographic characteristics, highlighting a balance in the distribution by gender and age. The community is made up of 100 people, with a predominance of population in the age ranges of 15 to 49 years, which represent 47% of the total. This reflects a predominantly young and active population structure.

In terms of education, the population of Pispita shows a varied academic level. 39% have reached secondary school level, 45% have higher technical training, and 16% have completed university studies. However, there are no people with postgraduate studies. Regarding years of education, 45% of the inhabitants have completed between 11 and 14 years of study, while 16% reached between 15 and 19 years. In addition, 65% of the population participates in extracurricular educational courses at least once a year, which demonstrates a significant interest in complementary training.

From an economic perspective, agriculture and public employment stand out as the main economic activities, representing 32% and 41%, respectively. Construction also occupies an important place, with a 19% share. Regarding the labor sector, 68% of the inhabitants are employed in the formal sector, while 32% work in informal activities. Regarding income, the majority of the population (64%) receives between S/501 and S/1000 per month, while 36% earns between S/1001 and S/2000, with no records of income higher than this last figure.

In the area of health, 52% of the population has some type of insurance, with SIS being the most common, while 48% lacks coverage. An important aspect is that 25% of the inhabitants have some disability, which highlights the need for inclusive and accessible services.

The Pispita Population Center is characterized by being a rural community with a young population, diversified in terms of education and employment. Although there is a predominance of the formal sector and an interest in complementary education, challenges persist related to health coverage, limited income, and care for people with disabilities. These areas represent key opportunities to improve the well-being and quality of life of its inhabitants

Statistical analysis

The correlation analysis between "Institutional Economy" and "Wealth Creation" reveals a significant coefficient of 0.441, indicating a moderate positive correlation at a significance level of 0.01 (bilateral). Demonstrating that there is a moderate positive relationship between the institutional economy and wealth creation in the context examined.

Table 1
Spearman's Rho correlation

	Correlation coefficient	Institutional Economics	Wealth Creation
Institutional Economics	Sig. (bilateral)	1,000	,441 **
Spearman's Rho	N	69	,000
Wealth Creation	Correlation coefficient	,441 **	1,000
	Sig. (bilateral)	,000	.
	N	69	69

Similarly, when analyzing the relationship between property rights and wealth creation in the town of Pispita-Echarate, for the year 2022, the results revealed a significant correlation at the 0.01 level (bilateral) with a correlation coefficient of 0.417. This positive association suggests that there is a statistically significant relationship between "Property Rights" and the variable "Wealth Creation".

Table 1
Spearman's Rho Correlation Property Rights-Wealth Creation

Correlations			
	Correlation coefficient	Property rights	EMPRE
Property Rights	Sig. (bilateral)	1,000	,417 **
Spearman's Rho	N	69	,000
Wealth Creation	Correlation coefficient	,417 **	1,000
	Sig. (bilateral)	,000	.
	N	69	69

** . The correlation is significant at the 0.01 level (bilateral).

Socioeconomic factors and wealth creation in the town of Pispita-Echarate during 2022 was also examined. A very low correlation was found between both elements, that is, between the Socioeconomic Factors and Wealth Creation. However, it is important to note that the correlation is not statistically significant, since the significance value (Sig.) was 0.359, exceeding the commonly used significance level of 0.05. Consequently, there is not enough evidence to affirm that there is a significant relationship between Wealth Creation and Socioeconomic Factors in the sample analyzed.

Table 2
Second Specific Hypothesis

		Correlations		
		Correlation coefficient	Wealth Creation	Socioeconomic factors
Spearman's Rho	Socioeconomic factors	Sig. (bilateral)	1,000	,112
			.	,359
		N	69	69
Wealth Creation		Correlation coefficient	,112	1,000
		Sig. (bilateral)	,359	.
		N	69	69

DISCUSSION

To address the research objective, it is necessary to highlight the importance of institutions. Acemoglu and Robinson (2012) underline the crucial role of political and economic institutions, especially those of an inclusive nature, in achieving sustained economic growth and overall prosperity. Similarly, Chand (2003) points out the importance of analyzing institutions when assessing the economic performance of developing countries, particularly property rights. Dávila (2016) emphasizes that institutions play a fundamental role in economic development, pointing out that those that promote property rights significantly drive economic progress. In addition, Castro's study (2019) underlines that local governance can be improved by strengthening the institutional framework, which reduces risk and increases stability.

In turn, the relationship between property rights and wealth creation in the town of Pispita-Echarate was examined for the year 2022. The results revealed a significant and positive correlation, suggesting that changes in one variable are related to changes in the other. These findings provide relevant information on the interdependence between property rights and wealth creation, aligning with the conclusions of Monrroy (2017), who highlighted the influence of property formalization on social and economic development.

Likewise, the observations of Rodríguez Vladimir (2004) highlighted the importance of property rights and the relationship between institutional weakness and economic development, underlining the need for legal security in an adequate institutional environment.

A modest correlation of 0.112 was also observed between socioeconomic factors and wealth creation, which coincides with the conclusions of Chapa and Aruquipa (2022), who noted that education, as a component of human capital, has a positive impact on economic growth. However, in contrast to this author, the results did not reach statistical significance, as the significance value obtained was 0.359. This finding suggests that the observed relationship between socioeconomic factors and wealth creation could be random and not reflect a significant association in the context of this study.

These studies provide valuable context, evidencing the relevance of institutions for economic development and governance. Addressing the objective of the research, it was found that there is a relationship between institutional economics and wealth creation. This reinforces the idea that institutional economics plays a key role in wealth generation.

CONCLUSIONS

The main objective of this study was to analyze the relationship between the institutional economy and wealth creation, obtaining results that support a moderate positive correlation between these variables. With a coefficient of 0.441 and a significance level of 0.01 (bilateral), it is concluded that the institutional economy plays a relevant role in the generation of wealth in the context of the population center of Pispita-Echarate.

Regarding property rights, the findings indicate a significant and positive association with wealth creation in the same context. The analysis shows a correlation coefficient of 0.417 and a p-value of 0.00, which reinforces the importance of guaranteeing and strengthening property rights as a key mechanism to foster local economic development. On the other hand, the results do not show a significant relationship between socioeconomic factors and wealth creation, as demonstrated by a p-value of 0.359. This finding suggests that, in the specific case of Pispita-Echarate, socioeconomic factors do not constitute a main determinant in wealth generation, which could be influenced by particular characteristics of the local environment or the predominant economic structure.

LIMITATIONS OF THE STUDY

Among the limitations of the study, it is important to mention that the data used are limited to a single year and a specific location, which restricts the generalization of the findings to other regions or periods. In addition, variables such as access to credit or infrastructure, which could influence wealth creation and deserve greater attention in future research, were not included.

It is proposed that future studies expand the time base of the data to explore the long-term dynamics between the variables, as well as the inclusion of other

dimensions that could be relevant, such as the quality of local governance or the impacts of public policies on the formalization of property. Likewise, it would be interesting to explore how education and access to financial resources interact with property rights and institutions in the generation of wealth in other regions with similar characteristics.

In conclusion, this study has contributed to a greater understanding of the importance of property rights and institutions in wealth creation, providing a solid basis for future research and recommendations on public policies aimed at local economic development.

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