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## Institutions in the context of sustainable development

Dominika Bochańczyk-Kupka and Renata Pęciak

*University of Economics, Faculty of Economics, Katowice, Poland*

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### Abstract

*The issues connected with widely understood institutions are nowadays one of the most discussed problems in the social sciences. Especially the role of institutions in creation of economic performance and economic development in the context of sustainable development is crucial. The paper aims to explain shortly the importance of institutions in modern economies, the nature of sustainability problems and relationship between institutions and sustainable development. The paper also analyses the role of institution in sustainable development in different economic dimensions: local, regional, national, international and global. The main thesis claims that due to high level of complexity and long time horizons, sustainability requires synchronous policies and governance across multiple dimensions of decision-making. The paper also presents a short overview of modern views on the role of institutions in the implementation of sustainable development principles.*

Keywords: Institution, Sustainable development, Sustainability, Governance, Multilevel governance

## 1. INTRODUCTION

The concept of sustainable development was born in 70's along with the Stockholm Declaration and program documents and strategies referred to the sustainable development proposed between first global environmental summit in Rio de Janeiro in 1992 and the consecutive initiatives connected with global interests of many communities (scientific, political, business) and individuals. The concept of sustainable development is a complex issue but based on three fundamental aspects of sustainability: economic, social and environmental.

In the most general terms it can be assumed, as defined in the report *Our Common Future* by World Commission on Environment and Development, that sustainable development can be understood as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” [WCED 1987, Harris 2000]. Such formulation of sustainable development definition implies its global dimension. The idea of sustainable development assumes that there is interdependence between economic development of societies and the environmental quality. It also states that exists a significant correlation between future economic growth and preserving the environment in the best possible condition for next generations. The issues connected with sustainable development spread quickly among new areas of social and economic development.

Among the major milestones of sustainability it is worth to mention: the Stockholm Declaration (1972), the Rio de Janeiro Declaration (1992), the Kyoto Protocol (1997), the United Nations Millennium Declaration (2000), the Johannesburg Plan of Implementation (2002), the OECD Green Growth Strategy (2011), Rio +20 Conference (2012) and in the case of European Union - Europe 2020 strategy. Along with the development of this concept, the awareness of international community has increased. Nowadays the interest is huge, just as the need to implement the concept of sustainable development.

Sustainable development basically concerns all areas of socio-economic life (political, economic, social and environmental). All these areas are closely connected and problem which occurs in one area generates problems in another one. These interactions introduce many potential complications and limits.

From this perspective main thesis of this article are:

1. The nature of sustainability problems is complex and requires the implementation of widely understood institutions.
2. Because of high complexity and long time horizons, sustainability needs policies and governance which are conducted on different levels: local, subnational, national and also by institution connected with processes of integration (regional level), by supranational institutions and under the initiatives undertaking within global governance.

The first section considers briefly institutions from the perspective of sustainability. The second section describes some problems and challenges which the idea of sustainable development faces nowadays.

Next section focuses on the institutions set up for achieving sustainable development.

The last part the paper shows that the current system of sustainable development management isn't sufficient and requires the implementation of multidimensional cooperation between different institutions on different levels.

## **2. WHY THE INSTITUTIONS MATTER FOR SUSTAINABLE DEVELOPMENT?**

The constitutive element of sustainable development is a long-term socio-economic development, conducive to the development of all societies and each individual who takes account of environmental protection. There isn't a consensus among economists in the case of one, common definition of development. However arbitrary it is accepted that development relates to the increasing real GDP per capita, improvement in health and nutrition, positive changes in quality of education systems and social security, more equal distribution of income and access to economic resources [Amelung 1992, p. 32].

The integration of three dimensions: environmental, economic and social are commonly referred to the concept of sustainable development. But more and more often the fourth institutional dimension is considered [Valentin, Spangenberg 2000].

The conditions of long-term socio-economic growth and development are widely discussed on the basis of social sciences. In the search for sources of economic growth, the reasons of disproportion and divergence between countries in terms of their level of growth and income are considered. The researches look for answer, to the question, both in theory and empirics why do

some countries get richer while the others do not. The most discussed issue is the role of institutions and institutional quality in the economic performance, in poverty limitation and in the socio-economic development.

The scientific debate on institutions provides various understandings of the term, derives from different sciences, such as historical and legal institutionalism, economics, sociology and political sciences [Van den Brande et al. 2008, p. 20].

Many authors examined the connection between institutions and economic growth and introduce institutional measures into cross-country growth. They indicate that along with technological progress institutions are the key determinant of long-term economic growth and development of economies [North 1990; Hall, Jones 1999; Acemoglu, Johnson, Robinson 2001; Acemoglu, Johnson, Robinson 2004; Rodrik, Subramanian, Trebbi 2002].

The growth of economy depends on how it is organized. It strictly refers to economic institutions. Institutions, mainly political, which are the fundamental source of long-run growth, determine economic institutions. In consequence the differences in economic institutions, which based on politics, structure of political power and the nature of political institutions, are the fundamental cause of differences in economic development [Acemoglu, Johnson, Robinson 2004].

The institutions are rules of a game that regularize behaviour and social relation and lead to uncertainty reduction and to improve the coordination of efforts and economic relations. Douglass C. North provides a clear institutional framework within which are both formal and informal constraints [North 1990]. North also introduces the distinctions between institutions and organizations: “It is the interaction between institutions and organizations that shapes the institutional evolution of an economy. If institutions are the rules of the game, organizations and their entrepreneurs are the players” [North 1997, p. 116]. In this context organizations are understood as: political bodies (parties, central banks, regulatory agencies), economic bodies (firms), educational bodies (schools) and social bodies (associations). Institutions are the rules of the game determining the functioning of organizations and the way they function in the societies. This distinction between institutions and organizations underlines the significance of governance quality, not only organizational structures [Ugur 2010].

The other approach to institutions is associated with Oliver Williamson, who understands institutions as “governance structures” [1975, 1985], in opposition to North's rules of the game.

Ronald Coase assumed that it was impossible to explain the economy's functioning without the reference to institutions and their influence on economic behaviour [Coase 1937, 1960]. This approach was widely studied by Williamson, who claimed that institutions caused the reduction of transaction costs between different actors. The high costs hampered ability to cooperate and taking up economic activities [Williamson 1985]. By reducing transaction costs and barriers to entry and because of efficient functioning of the market mechanism institutions supports economic activities, innovations and increase of production. The lack of appropriate institutional environment causes the decline of economic activity and optimal resource allocation.

The definitions of institution are different in the literature but conclusions are concurrent: institutions explain significant differences in level of incomes among countries.

Although there is still far from a universal consensus on a clear verification of existing dependencies, on the basis of modern economics it is assumed that the institutions are important.

As it is noted by Dani Rodrik question faced by nowadays political decision-makers is no longer "do institutions matter?" but "which institutions matter and how does one acquire them?" [Rodrik 2000, p. 2].

The fundamental aim of the recent research conducted on the field of institutional economics is the identification of the most important institutions, which contribute to economic growth rates among nations, and also to create the channels through which institutions may affect economic performance. These same solutions may influence implementation and effective realization of sustainable development strategy.

Results from empirical analyses suggest that the existence of good quality institutions influences the socio-economic development and can contribute to poverty reduction and reduction in income stratification [Persson, Tabellini 1994]. North asserts that "the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World (...)" [1990, p. 54].

Many institutions are effective in solving societal problems, maintaining order, reducing conflicts, and creating the foundations for economic growth but do not promote the sustainable development from global perspective. Some societies face various difficulties in achieving conditions of sustainability. Some actions are possible only from the national point of view, but others need global perspective and cooperation, which allow the society of global village to implement sustainable development principles through global partnership. From the sustainable development point of view both institutions (understood as rules of the game and organizations) matter. It is necessary to create simultaneously the rules of the game and institutions, in the sense of organizations, which are established in order to implement sustainable development at all levels of governance, especially at the global level.

### 3. THE NATURE OF SUSTAINABILITY PROBLEMS

The progression of globalization processes strengthened by the information technology revolution and the technological revolution intensifies problems on a global scale. Increasing global political, economic and environmental problems cause barriers for implementation of sustainable development rules [Becla, Czaja 2011; Harris 2000; Intriligator 2003].

Political problems result from political conflicts, terrorism or changes in the political and economic system on the international stage. On the one hand, the growing importance of emerging market countries can be seen, on the other, weakening the US position is noticed.

In the economic dimension problems cause from economic instability, financial globalization and internationalization of markets, result in the rapid spread of crises – it's a *contamination effect*. The effect of intensifying processes of globalization is also connected with the unfair distribution of the gains from globalization among all economic agents: individuals, organizations, nations and regions [Intriligator 2003, Stillitz 2013]. Deepening poverty along with income stratification, income and life quality polarization in the mezo-economic, macroeconomic and global dimensions are still widespread phenomena despite many initiatives which are undertaken at various levels. Increasingly burdensome issue is also the problem of debt. On the one hand the monstrous fiscal policy generates the increase in debt at the macro level, on the other hand the households debts associated with increasing consumerism disturb

economic stability. The weakness of public authorities, deficit of public budget and public debts result in more expensive state versus richer, more powerful and more influential transnational corporations.

Along with socio-economic development and globalization increases the anthropogenic impact on the environment. In the environmental dimension the most urgent problems are connected with environmental pollution, climate changes, environmental degradation and expansive exploitation of natural resources. Environmental hazards do not know administrative borders of countries and they are felt in the remotest corners of the globe. Therefore the implemented actions and regulations must take into account the concept of environmental integrity (interdependent and *indivisible environment* without political divisions).

In the social dimension growing globalization pressure is shown in strong migratory movements, illegal migrations, food security, demographic changes and, above all, ageing societies. Also high costs incurred by the state in terms of social security or rising unemployment are important. Widespread changes in social attitudes and cultural value system are associated with the adoption of a new lifestyle based on consumerism assisted by a rapidly growing transnational corporations, effectively widening the consumer behaviour and consumer values. Well-developed societies are tempted by vision of good life which is impossible to obtain on the global level without consequences for natural environment [Wilkinson, Pickett 2011]. High consumption level threatens the unlimited usage of global resources, and in consequence much larger worldwide problems [Rifkin 2009; Simms, Woodward, Kjøl 2004; Ransome 2005]. Patterns based on high consumption penetrate into other cultures influencing the changes in attitudes and cultural values. In less developed countries, mainly from African region and from the Middle East some changes in the socio-political attitudes as well as ideological can be seen. They may be an impulse to implement sustainable development strategies, but at the same time can be a powerful brake.

These and many other phenomena in the modern world can negatively influence the implementation of the strategy, which seems to be necessary for the common and global well-being.

Many problems of contemporary world: overpopulation, migrations, poverty accompanied by social disparities, as well as consumer social attitudes, usually affect some or all areas of social and economic life. That's why these problems must be treated from comprehensive and global perspective. Nowadays globalization process strongly links the economies with each other on a global scale. Therefore the actions towards sustainable development have to be synchronized and common. It is important to emphasize that the development of all areas is parallel on all levels. Some actions can be efficiently realized on lower levels of decision-making.

Therefore there are some areas that deserve attention in global perspective and global cooperation. These areas allow the society of global village to implement sustainable development principles through global partnership.

#### 4. WHICH INSTITUTIONS FOR SUSTAINABLE DEVELOPMENT?

The idea of sustainable development creates a confrontation between market objectives, typically short term, and the requirements of sustainable development, as a rule long-term. From this perspective it seems to be necessary to indicate which institutions are needed to support sustainable development in the long term and which institutional reforms can accelerate the implementation of sustainable development.

The actions for maintaining sustainable development are necessary and the world has to overcome problems connected with not efficient institutions. These institutions are understood not only as organizations or governments but much more widely as the rule of law, protection of the rights and compliance with the obligations. Some empirical investigations understand institutions very broadly as organizations, institutional mechanisms and institutional orientations [Spangenberg, Pfahl, Deller 2002; Valentin, Spangenberg 2000; Van den Brande et al. 2008].

Institutions are organizations which structure the choice of actions of many objects, both on global, supranational (regional), national and local level. There are many institutions (organizations) on subnational and local levels, but they seem not to be very influential. These organizations influence all actors or groups of actors in a society if they directly or through these actors have a significant impact on society as a whole. Among such institutions we can find constituted political actors such as governments, nongovernmental organizations, unions or associations.

It seems that effectiveness of actions within the scope of sustainable development could be increased by establishing and strengthening international institutions on different levels of government and on global level to foster consensus building, engagement and partnership, fair processes and transparency. The role of such institutions can't be overestimated.

Institutions which are understood as institutional mechanism are defined as formal systems of rules and indicate what they should facilitate. Institutions in this sense are: constitutional rules, organizational rules and standing orders of different governmental bodies, associations, unions, written agreements, etc. Such institutions "offer constitutive and regulative rules that contribute to the very constitution of actors, prescribe institutional roles, open or close access to political decisions, constrain activities and shape expectations" [Spangenberg Pfahl, Deller 2002, p. 72]. Institutional mechanism can be described as explicit systems of rules.

Institutions in the meaning of institutional orientations can be defined as informal or implicit system of rules. Influence on orientations is mainly indirect, through education, information, role models or leadership. Such organizations have got special influence on national, subnational and local levels. Their influence is not equal and does not have to be followed by all members of society. These rules themselves or through actors have to be important for society as a whole.

Such understanding of institutions facilitates process of decision making, allows implementation of various sustainability goals, and also supports the implementation of political decisions necessary for global sustainable development.

Governance of sustainable development applies to a few levels: global, regional (supranational, above the nation-state, i.e. European Union), national, subnational (below the nation-state) and local. On the each level different institutions appear which can be understood both as organizations, institutional mechanisms and institutional orientations. The answer to the

question which are the most appropriate for each level of governance in the context of sustainable development is not clear and indisputable!

Table 1. Institutions, elements and the levels of governance

Institutions	Elements	Level of governance	
			Example
<b>Organizations</b>	Global organizations Intergovernmental organizations Political actors: governments, nongovernmental organizations, unions, associations	Global	UN, OECD
		regional (supranational)	European Sustainable Development Network, European Environmental and Sustainable Development Advisory Council
		National	Poland's Ministry of Regional Development, Poland's Ministry of Administration and Digitization
<b>Institutional mechanisms</b>	Formal system of rules: constitutional rules, organizational rules, standing orders of different governmental bodies, associations, unions, written agreements, etc.	global	Agenda 21, Stockholm Declaration, Millennium Declaration
		regional (supranational)	Amsterdam Treaty, European Strategy for Sustainable Development
		National	Poland's Strategy of Sustainable Development 2025, Poland's National Development Strategy 2020
<b>Institutional orientations</b>	Informal system of rules: culture, religion, customs, values	regional (supranational), national, local	education information leaders norms beliefs family

The scope of challenges and problems related to sustainability (in social, economic and environmental context) reveals a global dimension of proposed solutions. That's why the global policy is frequently perceived as the only strategy needed for realization of sustainable development strategy. According to many scholars, it is one of the most appropriate ways of implementation of sustainable development rules. Nowadays among global institutions which

shape sustainable global governance should be mentioned: The United Nations Economic and Social Council (ECOSOC), The United Nations Commission on Sustainable Development (CSD), The United Nations Development Programme (UNDP), The United Nations Environment Programme (UNEP), World Bank (WB), World Trade Organization (WTO), Environment Management Group (EMG) and the United Nation System, Chief Executives Board for Coordination (CEB). Simultaneously the necessity of reforming the institutional framework in the context of implementation of sustainable development is increasingly emphasized. Especially the process of reforming of environmental institutions on global level (like in a case of CSD or ECOSOC) and giving then the mandate to legitimate their actions should allow to create the strong platform for reforming the process of sustainability [Ivanova 2013].

Other studies underline, that global policies are necessary but not sufficient, therefore actions on all levels are requisite. Elinor Ostrom, who focuses mainly on issues connected with climate changes, inextricably linked with ecological dimension of sustainability, observes that “global solutions, negotiated at a global level - if not backed up by a variety of efforts at national, regional, and local levels - are not guaranteed to work effectively” [Ostrom 2012]. Ostrom assumes that the emergence of a polycentric system and sub-global actions (e.g. via the US Conference of Mayors’ Climate Protection Agreement) can accelerate the process of reducing greenhouse gas emissions. Creation of strong polycentric systems where enterprises at multiple levels may complement each other, and (if it is possible) that large-scale governments are better to cope with collective actions, can influence better management in the context of climate changes.

Some scholars stress the role of sub-national governments in decision-making connected with sustainable development, mainly because of proximity to citizens and other stakeholders, but also because of the significant share of sub-national governments in formation and implementation of national policy in the area of sustainable development [Berger, Pohoryles 2004; Niestroy 2013; Van den Brande et al. 2008]. In this context the subnational level plays a key role in the implementation of sustainable development policies. Assuming that none of global system, understood as the set of institutions or organizations, does not replace actions on lower levels implementation of national legislation, subnational monitoring and active participation of nongovernmental groups at the local level seems to be necessary. From this point of view the particular role plays the idea of social participation [Harris 2003].

Many scholars emphasizing the complex and multidimensional nature of sustainable development see the necessity in creation of multilevel governance which is treated as a model for framing decision-making in the context of sustainable development [Van den Brande et al. 2008]. Actions which are made on one level - local, subnational, national, supranational or global - are not sufficient for implementation of the idea of sustainable development. Therefore the synchronization and coordination of actions is required. The effective implementation of sustainable development principles requires actions at all levels of decision-making: multidimensional level is necessary.

*Conditio sine qua non* of sustainability are: the appropriate institutional and legal system, as well as efficient institutions. Sustainable development requires the integration of economic, social and environmental objectives in decision-making policy and accurate policy tools which implements them. Such process implies both a horizontal and vertical integration of different initiatives. It means that multinational organizations, governments and business should make their economic, social and environmental policies more coherent. Different governmental bodies



should collaborate effectively to achieve common objectives. Multinational organizations should set goals acceptable by members states and possible to achieve and supervise their implementation in particular economies. Business should search for solutions concerning implementation of sustainable developments foundations. Therefore the role of institutions in fostering sustainable development seems to be especially important.

Unfortunately nowadays many economists and policy makers claim that horizontal integration of sustainable development in public dimension is still insufficient [Institutional Framework 2012, p.10].

The problem concerns particularly the less developed countries, populations with high rate of poverty, low level of gross enrolment ratio and high illiteracy rate. In such conditions it is impossible to accomplish such strategy. The degree of policy integration differs from country to country, changes over time and it is not effectively integrated into other policy fields. Also vertical integration among different levels of government has failed to be fully effective and it is rarely integrated with mainstream government actions. Governments are more likely to focus on solving national short-term economic problems which bring quick and electoral success then long-run worldwide problems which are not directly perceptible by national societies.

It is worth mentioned that even nowadays there are still questions about the implementation possibility of sustainable development strategy. The current initiatives in the field of sustainable development intend to create comprehensive solutions for all levels. Idea of sustainability requires horizontal integration of sectoral policies, more compact and tight co-operation between different actors on all levels but especially vertical integration, intergovernmental cooperation and participation are necessary.

## **5. PROSPECTS FOR THE IMPLEMENTATION OF THE SUSTAINABLE DEVELOPMENT**

The fundamental problems connected with sustainable development concern the identification of all elements which constitute this concept and right diagnosis of the challenges facing by modern societies in different dimensions.

In the implementation dimension it is necessary to eliminate these threats existing in contemporary world which slow down or dash the sustainable development principles [Becla, Czaja 2011]. The appropriate programs and actions on all decision-making levels seem to be necessary. But the sustainable development can't be realized only from the local or national perspective but also from supranational or global point of view, but along with close cooperation with lower level actors.

The contemporary economics and business practice face the choice: dynamic growth and development or sustainable development. Does the economics today find the answers and solutions for sustainable development strategy?

It seems that dominant mainstream economics, which focuses on the ideas of methodological individualism, market mechanism and economic liberalism does not provide prescription for the sustainable development challenges. Contemporary societies and their liberal economic policies have created the system which primary objective is the limitless economic growth, which consequences have got disastrous influence on the longer-term sustainability of human societies and for their well-being.

There is still dominant belief, both from the macroeconomics perspective and from the point of view of policy which treats economic growth as its fundamental goal [Harris, Goodwin 2003; Harris 2010, 2013]. But the environmental reality shows the existence of conflict between economic demand and ecosystem capacities. Jonathan Harris suggests the profound reorientation of macroeconomic theory based on the ideas of stable-population, low-carbon and resource-conserving global economy [Harris 2010]. This new one should allow to create prosperity without material growth and it can reconcile the new reality of environmental constraints with human economic activities.

Perhaps the economics of sustainable development can dominate modern or future economics doctrine and practice of business. Such as in the 80s and 90s of the twentieth century orthodox economics became dominant on the wave of a strong market fundamentalism codified in the recommendations of the Washington Consensus [Williamson 1990] and influenced theory of economics and economic policy of many countries. History shows that in the case of the Washington consensus institutional measures defined as the initiatives undertaken by the institutions-organizations (i.e. IMF or World Bank), but also by institutions understood as institutional mechanism or institutional orientation, prove to be effective. The point is not in the evaluation of these results, but the way the objectives are achieved through institutional decisions at the supranational level, which proved to be effective<sup>1</sup>. The solution might be the promotion of sustainable development economics which could be able to replace the modern paradigm of mainstream economics.

## 6. CONCLUSIONS

The idea of sustainable development assumes that the social and economic arguments shouldn't be treated as more important than ecological. Among the key challenges for implementation of sustainable development there are following problems: the anthropogenic impact on the environment and societies over the planet's ecological capacity, the consumption model of society that ensures the well-being of the well-developed countries and increases divergence between the rich and the poor and finally the issue of climate and environmental changes which are beyond human control.

The implementation of sustainable development strategy is the requirement of present times and it is caused by the growing awareness of societies concerning their responsibility in the context of future generations.

However in the face of many problems in the global dimension the sustainable development strategy seems to be difficult to implement. Broad theoretical and empirical literature has proved that in spite of intensification of undertaken actions, signed agreements, contracts, protocols and strategies which main objective is the implementation of sustainable growth and development,

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<sup>1</sup> Contrary to expectation, the consequence of the neoliberal recommendations of Consensus weren't the stabilization and dynamic growth but the process of destabilization of many economies. The attack on neoliberal assumptions of Washington Consensus caused creation of post-Washington Consensus. The main modifications were connected with the implementation of reforms which mainly concerned institutions understood as rules of games or institutions which facilitated the reduction of transaction costs and economic efficiency.

any spectacular changes can be seen in the life quality, poverty reduction, improvement of environmental conditions or in achieving goals which have been set up in various initiatives.

On the contrary, the global growth is unsustainable. Despite the fact that many new legal multilateral instruments are implemented along with creating new organisations and institutional mechanisms and expanding new knowledge, the international community and national economies still are not able to find the way how to successfully implement the idea of sustainable development.

Therefore the reforming the institutional framework and closer cooperation on all levels of governance become crucial. These actions allow and facilitate the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

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