Dealing with Damaging Institutional Inertia

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Institutions matter, especially in a period of economic, political, and social fluidity, when they shield countries from frequent volatility and reduce the risk of costly shocks. The longer it takes to restore confidence in them, the greater the impediments to our wellbeing and that of our children.

LONDON – Deeply rooted, credible, accountable, and effective institutions have long been deemed crucial for a society's lasting wellbeing and prosperity. They shield countries from frequent and unsettling volatility, be it economic, political, or social, and they reduce the risk of costly shocks. But, nowadays, key political and economic institutions are being pressured by unusual fluidity in their operating environments and the effects of a cumulative loss of trust on the part of their constituencies.

The implications vary, with a much higher probability of adaptation, including through a relatively orderly process of creative destruction and re-creation, for private entities compared to public ones. The latter require an intensification of reform efforts, lest they constitute another obstacle to the global economy's ability to deliver high and inclusive growth on a lasting basis.

Like a well-designed, well-functioning road network, strong institutions empower economies by ensuring a stable operating environment, smoother transmission mechanisms, less costly and less risky economic interactions, a credible set of property rights, and respect for the rule of law. They act not only as enablers of a wide range of win-win relationships, but also as trusted gatekeepers. Accordingly, for decades such institutions were widely viewed as the main feature differentiating advanced economies from developing countries that are still subject to a much larger array of damaging cyclical and structural shocks.

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