

THE ROLE OF THE STATE IN INSTITUTIONAL ECONOMICS THEORY

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Abstract. This article provides a scientific and theoretical analysis of the place and role of the state within the framework of institutional economics theory. The impact of institutions, formal and informal rules on economic development is examined. The functions of the state in shaping legal, economic, and social institutions, as well as its importance in ensuring economic stability and efficiency, are substantiated. In addition, the practical significance of institutional reforms for developing countries is highlighted.

Keywords: institutional economics, role of the state, institutions, economic policy, market mechanism, economic development.

INTRODUCTION

The current stage of global economic development demonstrates the decisive importance of institutional factors in ensuring economic growth and stability. The acceleration of globalization processes, the increasing complexity of economic relations, and the diversification of market mechanisms require economic systems to be analyzed not only through economic resources or market forces, but also through the quality and effectiveness of institutions. In this regard, institutional economics theory has emerged as one of the leading scientific approaches in contemporary economic research.

While traditional neoclassical economic theories interpret the market as a self-regulating mechanism, institutional economics substantiates the active participation of the state in economic processes. Institutions—namely laws, rules, norms, and social traditions—directly influence the decision-making behavior of economic agents. From this perspective, economic outcomes are shaped not only by market signals but also by the institutional environment.

The foundations of institutional economics theory can be found in the works of T. Veblen, J. R. Commons, and W. C. Mitchell, who explained economic behavior in

close connection with social institutions. Later, the theory was further developed by D. North, R. Coase, and O. Williamson, who provided an in-depth analysis of the relationship between institutions and economic efficiency. In particular, D. North's theory of institutional change serves as an important methodological basis for evaluating the role of the state in economic development.

Under modern conditions, the state acts not only as a regulator but also as an institutional architect within the economic system. By establishing a legal framework, protecting property rights, enforcing contracts, and supporting a competitive environment, the state ensures economic stability. At the same time, state institutional activity contributes to reducing transaction costs and improving the efficiency of economic relations.

In the context of global economic crises, financial instability, and social inequality, the need to strengthen the institutional role of the state has become increasingly evident. This is especially relevant for developing countries, where the implementation of institutional reforms is considered a strategic task of the state. This article analyzes the role of the state in economic development within the framework of institutional economics theory and reveals its significance for national economic progress.

MAIN PART

1. The Essence of Institutional Economics Theory. Institutional economics theory explains economic processes through institutions—laws, rules, traditions, and social norms. Scholars such as T. Veblen, J. R. Commons, and W. C. Mitchell are considered the founders of the institutional approach. Later, the theory was further developed by D. North, R. Coase, and O. Williamson.

According to D. North, institutions reduce uncertainty in economic activity and create the necessary conditions for economic growth. Therefore, the quality of institutions is considered one of the key determinants of economic efficiency.

2. Institutional Functions of the State. Within institutional economics theory, the primary function of the state is to establish an effective institutional environment. The state contributes to economic stability by protecting property rights, ensuring contract enforcement, supporting competition in markets, and limiting monopolistic practices. In addition, the state creates a legal framework for economic activity and regulates relations among economic agents. This leads to a reduction in transaction costs and enhances the effective functioning of market mechanisms.

3. Interaction Between the State and the Market. From an institutional perspective, the state and the market are not opposing forces but complementary mechanisms. For a market economy to function efficiently, the state must establish clear, stable, and reliable institutions.

Especially in situations of economic crises, market failures, and social inequality, the necessity of strengthening the role of the state becomes evident. In such cases, the state ensures social stability and economic growth through appropriate economic policies.

4. Importance of the State's Role for Developing Countries. In developing countries, institutional problems often act as major barriers to economic growth. Imperfect legislation, weak governance systems, and corruption reduce economic efficiency. Therefore, the state plays a decisive role in implementing institutional reforms.

In the case of Uzbekistan, legal and institutional reforms are being carried out by the state as part of the transition to a market economy. These reforms are aimed at ensuring economic stability and increasing investment attractiveness.

CONCLUSION

The conducted scientific and theoretical analysis demonstrates that within institutional economics theory, the state emerges as a key and indispensable actor in the economic system. Under modern economic conditions, the effective functioning of market mechanisms depends not only on free competition or resource mobility but also on the existence of a well-functioning institutional environment. In this sense, institutions established by the state form the foundation for economic stability and long-term development.

The research findings confirm that the institutional role of the state is primarily manifested through the creation of legal foundations, protection of property rights, enforcement of contracts, and the establishment of an environment of trust among economic agents. The effective implementation of these functions contributes to reducing transaction costs, increasing transparency in economic relations, and ensuring the stable operation of market mechanisms.

Moreover, institutional economics theory does not view the state and the market as opposing forces, but rather as complementary mechanisms. To ensure market efficiency, the state must introduce clear, stable, and reliable institutional rules. Especially under conditions of market failures, economic crises, and social inequality, strengthening the institutional functions of the state is essential for maintaining economic stability.

The experience of developing countries indicates that institutional weaknesses are among the main factors constraining economic growth. Imperfect legislation, inefficient public administration, and corruption deteriorate the investment climate. Therefore, the consistent and comprehensive implementation of institutional reforms by the state is a crucial condition for economic development.

In the case of Uzbekistan, the role of the state in institutional development has significantly increased during the transition to a market economy and the deepening of

economic reforms. Legal, economic, and administrative reforms implemented by the state are aimed at ensuring economic stability, improving the business environment, and enhancing investment attractiveness. This, in turn, contributes to the integration of the national economy into the global economic system.

In conclusion, within the framework of institutional economics theory, the role of the state is of decisive importance in shaping and implementing economic policy. By building effective institutions, continuing institutional reforms, and improving the quality of public governance, countries can achieve sustainable economic growth. These conclusions provide an important theoretical and practical foundation for improving economic policy and for future scientific research.

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