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The Connection between Finance and Growth

Evan Vas*

Department of Dermatology and Cutaneous Surgery, University of Miami School of Medicine, Miami, Florida, USA

Introduction

The fairness of the overwhelming number of conclusions regarding the role of the institutional factor is supported by a wide range of studies of the impact of financial development on the speed and quality of macroeconomic dynamics in contemporary political economy. There is ample evidence that higher institutional quality enhances the impact of financial development on economic growth, whereas poor institutional quality prevents it, according to a comprehensive review of studies devoted to the identification of this role. The connection between finance and growth was found to be fundamental in all of these ways. Information frictions and transaction costs that characterize the development of the financial sector can be mitigated or made worse by institutions. Because they define property rights, safeguard nonprofits, enforce contracts, and influence macroeconomic and financial policies, their quality also contributes significantly to strengthening the connection between growth and financial development. Increased investment, faster growth, and a lower debt share in total external financing are all outcomes of improved investor protection. Additionally, the predictive power of domestic resources for capital investment is reduced by improved financial contract execution. Financial development will encourage investment and growth by alleviating severe financial constraints the better the institutions. Corruption, unsustainable law enforcement, or political interference may, however, prevent the acceleration of financial development from being reflected in macroeconomic dynamics. These factors may also cause resources to be diverted to activities that are either inefficient or wasteful.

Description

The design of the financial system is another important issue because different solutions determine different trajectories of financial development, which are typically categorized according to the degree of dominance of the banking sector in this process. Non-economic factors have historically also influenced the relevant determinants of the selection of one or more financial system designs. Studies that focus on the role of political and legal factors ought to be highlighted in this section. According to the authors interpretations, these elements generally conform to the preceding definition of culture. When state centralization was sufficient to establish a strong central bank with a dependable status as the lender of last resort, there are results arguing for the possibility of building the banking system on the principle of universality of the institutions activity. However, more recent research disproves the idea that banking design can be explained by quantifiable political factors like government centralization [1].

They also confirm the significance of this influence on the design of the entire financial system's market orientation. Due to the long-established alternative in the representation of the structure of modern markets, the study is inclined to believe that these results complement one another rather than oppose them. In addition, the article focuses on the connection between political conditions and legal tradition and their combined impact on financial development. The political structure, which is reflected in the degree of centralized power and the power of various interest groups, is undoubtedly linked to the legal tradition. They have also had a significant impact on the financial system's design because they are connected to one another. Indeed, legal traditions are crucial to the characteristics of political systems, such as the strength of interest groups or the centralized nature of power. As a result, while civil law is likely to discourage the transfer of power to the periphery, common law makes it easier to do [2].

Despite the fact that this quality hasn't changed much in recent years, the minuscule effects of this growth actually hampered the ability of the budget system and the financial market to provide financial incentives. As previously mentioned, these institutions should provide financial incentives based on the effectiveness of emerging markets, which reduces uncertainty and encourages productive economic activity because they are dependent but not culturally predetermined. The so-called cultural code, which not only does not exclude but also determines the necessity of considering it as a developing phenomenon, is frequently associated with this factor. When discussing the Russian cultural code, its ambivalence should be noted first. In it extremes coexist. The long-term institutional framework of actual slavery has preserved obedience alongside the desire for freedom, which frequently manifests itself in rebellion. The same can be said for the desire to create and the desire to destroy and historical examples show how waste and thrift, the desire for order and the provocation of uncertainty, both predominate in economic behavior. The standard Russian worker, in contrast to the Western (and other) worker has historically been poorly motivated to earn more money associated with substantial labour efforts. This was frequently manifested in economic life. Additionally, even if he had such a chance, he frequently desired to continue living as everyone else lives. Even today, this behavioral syndrome is distinct. The state did not do enough to eliminate it during the reform process. Foreign standards were actually introduced into corporate codes in the same parts of the national economy that show positive dynamics, like the financial sector. However, a significant number of Russian workers, if not the majority, still bear the hallmarks of a long-term evolution of state paternalism, dependency, and a lack of involvement in the resolution of socially significant issues and material incentives [3].

The study concludes that the effectiveness of the link between financial development and economic growth is confirmed by the concentration of cultural characteristics in decision-making procedures at the state and economic management levels, "carved" into the architecture of existing institutions. Institutions have the potential to both propel and impede economic and financial progress. Economic decisions that are erroneous are made when the importance of this factor is undervalued, and even the smallest of emerging difficulties can set off a chain reaction of social and political instability and weakening of national institutions. Institutional changes can also alter the dominant behavioural motives of the cultural layer. As the most significant national institution, the state is tasked with initiating this transformation process to modernize the institutional environment and achieve the declared objectives of economic development. Changes in the individual values across the entire layer will unavoidably result from this [4,5].

Conclusion

In terms of determining the future direction of political-economic

***Address for Correspondence:** Evan Vas, Department of Dermatology and Cutaneous Surgery, University of Miami School of Medicine, Miami, Florida, USA, E-mail: vas@789.miami.edu*

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development, the Russian reality of today raises numerous questions. Despite the state's declared priorities, the specific reality does not support the social recognition thesis and does not yet support the notion that the current situation is stable and healthy. Increasing xenophobia, widening gaps in living standards, territorial differentiation, and still inadequate entrepreneurial potential are all indicators of this. The main issue is that national institutions aren't perfect, which keeps individual attitudes the same or even makes them worse. This shows up in the rise of asocial phenomena, the criminalization of the corporate sector, and other things. As a result, modernizing the vast array of national institutions should be the most important direction for the country's future development. This will change the dominant cultural attitudes and ensure that financial incentives for the economy's growth will work.

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Conflict of Interest

No potential conflict of interest was reported by the authors.

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