

Problem Field of Informal Institutions

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Abstract: The study explores methodological approaches to the definition of the basic unit of institutional research institution. Essential characteristics of formal and informal institutions are summarized their common properties and distinctive features are presented. The researchs define informal economic institutions as a spontaneous order of creating economic relationships which allows participants to meet their economic interests through the use of informal networks. The researchs emphasize that the study of informal institutions should include not only negative but also positive aspects of these phenomena. Problem field of informal institutions should include not only “anti-institutions” but also public goods (social capital). The study examines the contribution of Russian and foreign scientists to the study of informal institutions. It highlights the differences between Russian and foreign informal institutions.

Key words: Informal institutions, social capital, economic mentality, informal, spontaneous, anti-institutions

INTRODUCTION

Modern institutional theory is characterized by varying degrees of understanding functioning mechanisms of formal and informal market institutions. The issues of designing formal institutions are developed more actively, formal market institutions traditionally act as independent objects of research while the study of informal institutions is often linked to the study of formal institutions. We consider that the inclusion of informal institutions in the problem field of economic disciplines is a natural step in the development of institutional research because they deal with all aspects of public relations. For example, history shows that economic lobbying in one form or another has taken place throughout the evolution of trade and economic relations between countries. While raiding as an informal institution of redistribution of property is relatively new institution in modern Russian economy (not >30 years) it is a well developed institution with its own history in the US. Being attributes of all emerging markets, informal economy and informal employment cause serious damage to the state budgets of the countries. In India, the informal economy absorbs at least 70% of the working population. Almost 20% of the total employed population in Russia work in the informal sector. As a result, only the pension fund of the Russian Federation annually loses 710 billion rubles.

We consider the study of informal institutions only through their negative effects is not sufficient as it neglects other aspects of scientific understanding. Informal institutions are not only anti-institutions but also public goods. Therefore, it is reasonable to explore economic mentality and social capital which set positive behaviour strategy of economic agents. Thus, a variety of informal relations of market participants covers many aspects of socio-economic practices and forms the objects of research, i.e., the problem field of informal institutions.

MATERIALS AND METHODS

The objects of the research are informal institutions. The study includes the following objectives: to review the essential characteristics of informal institutions their similarities and differences from formal institutions; to identify the main directions of economic studies on informal institutions carried out by foreign and Russian scientists.

To achieve the objectives, scientific works on the theory and practice of informal institutions have been studied. The researchers have applied interdisciplinary approach, since the study of informal institutions includes a wide range of issues (economic, political, social). The researchs have analyzed scientific works published from

1966-2014. The researchers realize that they have managed to cover only a small part of the publications on informal institutions. The achievements of modern institutional economics are significant, the research field of informal institutions is constantly expanding.

RESULTS AND DISCUSSION

Definition of informal institution: Analysis of works on institutional economics shows that scientific discussions and search for ontological and methodological foundations have not finished yet. The problem of interpretation of the term “institution” which is the basic concept of institutional research, remains unsolved. First of all, interpretation of the term “institution” is determined by methodological platform, basic principles of a researcher. It should be noted that intense scientific discussions over the question which methodological principle, individualism or holism is more relevant for economic analysis are going on (Kirdina, 2014). Supporters of the classical institutionalism prefer methodological principle of holism. This principle means that every object of economic analysis is part of a larger whole, therefore, more complex objects should be taken into account while analyzing economic behaviour of individual entities. Trade unions, government have been actively involved in the studies of this scientific school. That is why the classical institutionalism is characterized by a favorable attitude to government regulation, state intervention in the economy.

The representatives of neo-institutionalism and new institutional economics support principles of methodological individualism that examines collective actions of economic agents through behaviour strategy of individuals. The most important thing for this scientific school is the principle of personal benefit which causes opportunistic behaviour of market agents and their informal behaviour as their life-style. Institutionalism is not homogeneous as a result there is no single research programme in new institutional economics (Shastitko, 2013). The basic scientific approaches to new institutional research include the theory of institutional changes, the theory of property rights, the theory of transaction costs, the theory of agency agreements (contracts), the theory of social contract. This diversity leads to a variety in the interpretation of basic concept “institution”.

Ideas of new institutional economics provide a basis for our methodological platform so interpretation of “institution” given by North (1991) is the starting point of our study. Institutions are rules of the game, created by an individual to structure political, economic and social interactions and to make order and reduce uncertainty

(North, 1991). At the same time, we support the idea of institution as a special economic resource which was given in one of the first Russian text books on institutional economics edited by Academician D.S. Lvov. We consider the definition given by representatives of the school of institutional economics at Moscow State University as the basic definition of institution: “institution is a set of a rule and an external mechanism for enforcing individuals to observe this rule”.

There are various interpretations of definition “informal institution”, too. Deep analysis of works of foreign and domestic scientists on this issue is given in the monograph “economics of informal institutions” by Tambovtsev (2014). He notes that it is difficult to give a clear definition of informal institutions which would be unanimously recognized by leading experts in the field. Most researchers regard informal institutions as customs, traditions, taboos, settings that are not spelled out in laws and regulations. A significant number of informal institutions exist in daily behaviour and have often little sense (Tambovtsev, 2014).

Examining essential characteristics of informal economic institutions, scientists emphasize close relationships between formal and informal institutions. They are not even the two sides of the same coin but a “shell” and a “core” that determines the nature and functioning of these institutions and their effects in the process of informal management. Both formal and informal institutions have the following essential characteristics: the content of institution, its nature, a guarantor of performance, coercive measure, reasons for changes. The detailed description of common and distinctive features of the two types of institutions was given in our other works (Tsvetkova, 2014). In this study, we examine main options that allow us to reveal the distinctive features of informal institutions and formulate their essential characteristics (Table 1).

We support the ideas of the scientists who consider it reasonable to part informal institutions from informal practices. This idea is clearly marked in T.I. Zasluskaya’s sociological research works and Inshakov (2003)’s institutional economic research works. Without any doubt, informal practices are specific forms of implementation of informal institutions they are more various than institutions themselves. For example, economic lobbying is an informal institution, the practice of lobbying activities is not legally fixed in the Russian legislation, although the project is actively discussed in the expert community. Informal practices as role model are supported by not all market participants, unlike institutions that set standards of behaviour for all market participants, therefore, we can talk about the system of

Table 1: Comparative characteristics of formal and informal institutions

Criteria for analysis	Formal institutions	Informal institutions
Nature of establishment of an institution	The state «law-based order»	«Spontaneous order»
Carrier	Official documents (laws, orders, etc.)	Memory of market agents
Degree of formalization	Maximum, rules are established at the legislative level	Not high
Prevailing types of relationship	Formal, business, administrative	Related, friendly
Main form of market coordination	Price exchange	Information exchange
The form of coercion of economic entity	External, coming from other entities, the higher structures	Internal, self-restraint
Enforcement mechanism to keep agreements	Threat of punishment-exclusion from business entities	Sanctions of social exclusion, the higher status of counterparty, increase in costs
The reason for change of an institution	Formal and informal rules	Formal and informal rules
Coercive methods	Economic, administrative, criminal	Social, economic, physical
Period of time required to establish institution	Relatively short period of time	Long period of time, inertial character
Position in the institutional space	Superstructure, the result of formalization of the existing system	Basis, the lower layer of the socio-economic system
Behaviour strategy of the entity	Obligatory	Adaptive

informal institutions in contrast to the practices, however, informal institutions include informal practices generated by the system of formal institutions (Chausovsky, 2001).

Examples of informal institutions: The main objects of economic research are real economic relations and processes, experience and results of economic activities of various socio-economic systems. Such socio-economic phenomena as corruption, clientelism, the phenomenon of “cronyism”, raiding, informal employment, lobbying can serve as an object of economic research as they characterize real economic relationships and processes. The objects of economic research are relationships developed in the process of production, distribution and consumption of a social product, therefore not only legal, formal but also informal economic relations. The followers of new institutional economics actively study such research phenomena which previously belonged to the research field of sociologists, psychologists, political scientists taking into account the principle of economic imperialism. One of the founders of the principle of “economic imperialism” is Becker who studied human behavior, racial discrimination and its impact on the labor market, crime and punishment, family relations from the standpoint of economics.

Thanks to the works of R. Anderson, G. Becker, M. Davidson, A. Ehrlich economics of crime and punishment has become an independent field of economic research which studies informal institutions in the economy. The economic approach to crime has become very popular and is applied to the analysis of various sections of the law, even when giving judgments. The principle of economic imperialism is logically interconnected with interdisciplinary approach as it expands the scope of the object of economic research and allows us to explore informal institutions not within the traditional framework of sociology, political science, philosophy but with the use of tools of economic science.

Theoretical and methodological platform of new institutional economics allows us to explore informal

institutions as forms of behaviour of economic agents which are not legalized in legal documents. Informal institutions are treated as accepted in society rules (usually unwritten) which are created, kept, transmitted, distributed and provided with enforcing sanctions through informal channels. The concept of “informal institution” is used quite widely that is why it is difficult to formulate the definition of this type of institution. Informal institutions are considered to be diverse phenomena beginning with civil society to mafia, including traditional culture, corruption, personal relations, shadow economy. Essential characteristics of informal institutions of the economy are associated with traditions, customs and cultural context of socio-economic systems. Significant contribution to the development of the theory of informal institutions has been made by such Russian scientists as A.A. Auzan, A.N. Arkhangelsky, E.G. Yasin, R.M. Nureev, V.V. Radaev. However, all the developers believe that cultural context of informal economic institutions is only one side of their essential characteristics.

To understand the nature of informal institutions, it is important to consider a form of coercion. Taking into account a form of coercion, German scientist Kryusselberg, calls informal institutions as “internal order” because they are characterized by self-restraint. Formal institutions in this context correspond to “external order”, since they are characterized by an external form of coercion that comes from other subjects, higher structures. The study of informal institutions always faces the problem of determining the boundaries between formal and informal rules. It is fair to note that even the uniquely formulated formal rule contains an informal background about how this rule should be applied and in what situation. Comments to the Russian Civil Code, the tax code actually confirm the existence of this problem. In many cases, formal and informal institutions have more common than distinctive features. Domestic and foreign experiences of development of market relations prove that there are two interrelated processes: formalization and deformalization of economic relations.

At the heart of each informal institution there are economic interests of certain entities that lead to the conflict with formal institutions of the economy. We support the viewpoint of scientists who emphasize the direct relationship between institutions and economic interests. In particular, Volchik (2011) notes that institutions are formed by interest groups and exist while they effectively coordinate the activities of their constituent individuals. While exploring informal institutions, economic behaviour, particularly the behaviour of «homo-post-soveticus» is taken into account. Informal institutions are typed forms of informal practices supported by most economic agents of the market, any such typification is an institution. Thus, informal institutions should be investigated as a way of meeting economic interests through specific information models which are informal and can be freely modeled according to economic interest of an entity.

Above mentioned ideas allow us to give the following definition of informal institutions. We consider

informal institutions as spontaneous order of economic relationships which allows market agents to meet their economic interests using informal social networks. Thus, from our point of view, informal institutions are the rules of creating informal relationships.

Analysis of works of foreign and Russian scientists allows us to present their ideas about informal institutions and practices. It should be mentioned that our list does not include all the names of scientists who investigate behavioural phenomena of economic entities, moreover, many of the presented scientists have studied several informal institutions simultaneously as interdependent and interrelated phenomena (Table 2).

The practice of economic institutional research provides a wide variety of interpretations of informal institutions, some informal institutions are alike in their performance and characteristics this leads to “similarity” and “proximity” of some definitions. Such informal institutions as clientelism, protectionism and economic

Table 2: Problem field of informal institutions*

Informal institutions and practices	Essential characteristics	Foreign scientists	Russian scientists
Clientelism	Relationships between entities with different status towards resources	R. Graham E. de Soto M. Olson	A.A. Auzan M.N. Afanasev E. Gaidar V.V. Radaev E. Shestopal
Corruption	Contract interaction between agents for the sake of private benefits on the basis of replacement of legal relationships with economic ones	G. Grossman S. Cameron D. Kaufman S. Rose-Ackerman K. Arrow	M.L. Alpidovskaya E. Paneyakh V.M. Polterovich V.L. Tambovtsev
Informal employment	Not officially registered economic activity, the entities of which do not pay taxes	M. Granovetter A. Henley E. de Soto	S.Y. Barsukova T.I. Zaslavskaya R.I. Kapelyushnikov
Informal economy	Sector of national economy which is not taken into account in official statistics and is not included in GNP	G. Becker K. Hart M. Kasteles R. Coase J. Scott	S.Y. Glazyev V.V. Radaev Y.V. Latov M.I. Odintsova
Protectionism	The form of clientelism, patron entity protects client entity	P. Samuelson W. Stolper W. Eucken E. Reinert	A.P. Zaostrovtshev V.A. Mau A.E. Shastitko L.I. Jacobson
Raiding	Control over the assets of the business entity against their will	P. Gohan A. Samli K. Mayer S. Estrina	Yu.D. Denisov M.G. Iontsev A. Kireev Y. Pappé A.N. Oleynik
Social capital	Social networks and norms benefits of reciprocity that can serve as a resource to receive economic	P. Bourdieu F. Fukuyama R. Putnam J. Coleman	A.V. Buzgalin N. Kalyuzhnova L.I. Polischuk M.Y. Sheresheva
Economic mentality	A set of stereotypes and values that influence economic behaviour of entities	G. Myrdal M. Olson A. Portes	A. Arhangelsky A.A. Auzan R.M. Nureyev V.S. Ryazanov E.G. Yasin
Economic lobbyism	Informal ways of influencing economic decision-making, taking into account interests of certain entities	A. Bentley D. Truman G. Almond J. Bury J. Buchanan	A. Gryaznova V. Inozemtsev A.P. Lyubimov P.A. Tolstyh A. Shokhin

*Compiled by the researchers

lobbying are quite alike. Clientelism characterizes the relationships between entities with different status towards resources. In a classic sense, protectionism characterizes a kind of economic policy to support domestic producers, informal practice of protection is quite stable on the labor market. Moreover, protectionism is sometimes defined as a form of clientelism when patron entity protects client entity. Thus, the common feature of these informal relationships is preference which one party provides the other party with.

The research data on the problems of informal employment and informal economy are well presented in the works of foreign and Russian researchers, a good theoretical and methodological framework is developed in this field of economics. It should be noted that one of the first researchers who investigated informal employment in third world countries was Hart (1973). He defined the difference between formal and informal relationships through a degree of rationalization of labor, its constancy and regularity, presence or absence of a fixed remuneration. K. Hart's ideas lay the foundation for the concept of informal economic activities developed by the International Labour Organisation. Such modern Russian scientists as S.Y. Barsukova, R.M. Nureev, V.V. Radaev significantly contributed to the development of this field of research.

Economic lobbying as an institution and an independent object of research is widely presented in the works of political scientists, sociologists and lawyers. Firstly, the term "lobbying" is connected with the Anglo-American political tradition. Lobbying is defined as the institution of the political system, the task of which is to promote the interests of individuals and corporate bodies in public authorities. Secondly, lobbying as a way of influencing government agencies is a formal, legal practice in many countries in the US, for example, a lobbyist is a profession. With regard to the Russian practice we define economic lobbying as an informal institution because currently there is no law that regulates lobbying activities here. It should be noted that the representatives of the corporate sector and business elites demonstrate the desire to make contact primarily with the executive not the legislative authorities. The interrelationship between lobbying activities as an informal Russian practice and state and political structures makes it difficult to obtain empirical data for economic research. The exception are the works on the global economy, international business where the empirical material is more open due to access to international statistical databases. Perhaps that is why the problem of economic lobbying as a formal institution of national economics is not adequately explored.

Increased interest in economic security of the state and enterprise has led to the inclusion of corruption in the field of economic and sociological research. The essence of this informal institution is connected with its etymology-corrumpere (Lat) means "to corrupt" and corruptio (Lat) means "bribery, corruption". The Federal Law N 273-FL "On Combating Corruption" treats corruption as an abuse of power, giving and taking bribes, commercial bribery or another illegal use of official position by a natural person contrary to the legitimate interests of society and the state in order to obtain benefits (money, property, property-related services).

Economics has its own attitude to these phenomena and defines corruption as a specific type of economic relationships that arise as a result of the replacement of uneconomic social relationships with market relationships. The conceptual apparatus of new institutional economics allow us to determine corruption as an informal economic institution which is the result of imperfection of business environment and in a way, compensates it.

Much of the research on informal institutions focus on their negative effects and forms of performance. Informal institutions in Russia oppose formal institutions as economic entities need to survive in hostile legislation. However, to understand the functioning mechanism of informal institutions it is necessary to examine not only their negative forms but also positive ones. Social capital and economic mentality as informal institutions are more likely to demonstrate positive effects than other informal institutions.

Social capital connects contrary, antagonistic forms of socio-economic relationships (Buzgalin, 2011). Social capital is a special kind of economic capital which exists in the form of intangible asset unlike other forms of capital. The founders of the social capital concept Bourdieu, J.C. Coleman and R.D. Putnam pay attention, first of all to the positive characteristics of social capital. A distinctive feature of social capital from other tangible assets (finance, equipment, land, labor) is that social capital does not disappear in the process of consumption but is multiplied (amount and frequency of connections increase, network gets more complicated). Social capital has the least liquidity of all the forms of the capital (it cannot be traded by individuals on the open market) but can be converted to all forms of capital the productive nature of social capital can make up for the shortcomings of other forms of capital (can replace other factors of production). Credit is an example of conversion of social capital into cash, finance capital when a person borrows money from coworkers without interest for a long period of time. Analysis of the works on the problems of social

capital allows us to consider it as an informal institution, a risk reduction factor which prevents from inefficient institutional interaction.

Foreign representatives of institutional theory J. Buchanan, T. Veblen, G. Myrdal, M. Olson, E. Soto study economic mentality as an informal institution. All of them share the view that national mentality is a factor of institutional environment and economic development of the society. Economic mentality as an informal institution of the economy exists in the form of objective information, external and independent from an individual factor. As an informal institution it is subjective information, i.e., internal and subjective behavioural control, inseparable from a particular business entity. According to Kleiner, 2011 mentality is principal he presents the structure of the socio-economic space with the first (basic) layer of mental models.

The experts point out that for the last 20 years there have been significant mental changes in the social consciousness of Russians that are typical of a turning point in the historical development. Over the last decades, the country has experienced significant mental transition to a new quality of social consciousness which is based on the values of civil society, jural state, innovation-oriented economy. We strongly believe that modernization of the Russian economy is impossible without active involvement of informal institutions in this process, the use of their positive potential, neutralization of their negative forms.

CONCLUSION

Summing it up, it is necessary to note that interest in the study of informal market institutions has increased in economic sciences. The study of informal institutions highlights, first of all, the behaviour of individuals and their social problems. The institutional approach allows us to explore the variety of informal economic phenomena through political and legal issues. A significant part of the research on informal institutions focuses on their negative

effects and performance forms (clientelism, corruption, informal economy, informal employment, raiding, economic lobbying).

In order to solve practical problems of modernization of the Russian economy it is necessary to investigate the positive features of informal institutions. An understanding of informal institutions as a spontaneous order of creating economic relations which allows market agents to meet their economic interests, using informal social networks can be used as a source for further scientific research.

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