

# THE INFLUENCE OF INFORMAL INSTITUTIONS ON THE VECTOR OF SOCIO-ECONOMIC DEVELOPMENT: THE EXPERIENCE OF POLAND AND BELARUS

ALIAKSANDRA SIDARAVA

Department of economic history at the University of Lodz Poland  
E-mail: aliaksandra.sidarava@uni.lodz.pl/aliaksandrasidarava@gmail.com

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**Abstract** - The article explores the influence of informal institutions on the choice of the socio-economic development vector. The significance of informal institutions in the context of institutional transformation is provided. The difference in informal institutions between Poland and Belarus is also analyzed. Using the example of these two countries, the key importance of informal institutions in reforming the economy is demonstrated.

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**Keywords** - Informal Institutions, Institutional Transformation, Historical Development Vector, Poland, Belarus.

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## I. INTRODUCTION

Recently, there has been a growing interest in the study of institutions and their role in the socio-economic development of countries. It is recognized that "institutions matter" and determine the structure, type, and effectiveness of a country's economic model, as well as the vector of external development and interaction with other countries.

In studying both the institutions and institutional structure of the socio-economic system, as well as the main institutions of countries that facilitate or hinder effective and successful integration processes, the main attention is paid to the study of formal institutions and the specifics of their functioning. However, informal institutions have a much greater influence on the formation of economic behavior, as well as determining the framework and vector of formal institutions' functioning. If informal institutions are not taken into account, important motives and incentives that underlie and determine economic and non-economic behavior can be overlooked.

D. North wrote in his fundamental study that even in the most developed economies, formal rules make up a small (though very important) part of the set of constraints that make up the choice situations facing us; it is easy to see that informal rules permeate our entire life [1, p.56].

One of the key challenges is to identify effective institutional transformations and vector of the socio-economic development and their corresponding foundations. This necessitates active research on the institutional systems underpinning socio-economic development. Typically, reforms begin with formal changes, such as alterations to procedures and rules. However, experience shows that even when formal rules, government, and economic systems change, the results of socio-economic development may not improve, or may even worsen. In some cases, the initiators of reforms who head certain power structures may significantly alter their status and economic situation at the expense of power rent.[2]

Informal institutions, such as established habits of behavior and thinking, determine the potential and effectiveness of the institutional system's functioning. Only when new economic systems are based on congruent formal and informal institutions can effective economic relationships be distributed and consolidated. The impact of informal institutions determines the principles of socio-economic system quality and the effectiveness of its development. Therefore, a crucial task of economic research is to thoroughly examine the economic system's structure and analyze the relationship and interdependence of various structure elements. This long-term approach can provide insights into the nature of institutional changes, their limitations, and the primary economic mechanisms for implementing planned reforms.

## II. THE ORETICAL BACKGROUND

When developing economic policies and institutional transformations, usually a lot of attention is paid to formal institutions, as their effect can be measured and they can be relatively easily implemented and changed. For example, in the 1990s, when market reforms were being implemented to transform the economy, a new formal structure was introduced, but formal institutions did not begin to function effectively in all countries. The main obstacle was the presence of informal institutions that did not correspond to the implemented formal ones.

The influence of informal institutions on the emergence of institutional traps is a widely recognized phenomenon. Informal institutions, such as cultural norms and social conventions, often override formal institutional arrangements. This happens when formal institutions are unable to address the complex problems and challenges faced by societies. Informal institutions can create path-dependence, leading to institutional inertia that prevents the development of effective formal institutions. This results in institutional traps, where societies become locked into suboptimal institutional arrangements that are difficult to change.

The problem with informal institutions is that they are difficult to change. They are deeply ingrained in society, and their influence is often invisible. Formal institutions, such as laws and regulations, are easier to change, but their effectiveness is limited by the informal institutions that surround them. In fact, formal institutions may be ineffective or even counterproductive if they are not congruent with the informal institutions that shape the behavior of individuals and groups.

For example, if the cultural norm is to evade taxes, formal institutions that mandate tax compliance will be ineffective. Similarly, if the social convention is to prioritize family connections over merit-based criteria, formal institutions that promote meritocracy will be undermined. In such cases, informal institutions create an incentive structure that undermines the effectiveness of formal institutions.

Furthermore, informal institutions often provide a source of power for elites who benefit from the status quo. They may manipulate informal institutions to their advantage, using their influence to protect their interests and maintain the existing institutional arrangements. This leads to institutional sclerosis, where powerful actors block the development of effective formal institutions.

In conclusion, the influence of informal institutions on formal institutions is complex and multifaceted. Informal institutions can create path-dependence, leading to institutional traps, and provide a source of power for elites who benefit from the status quo. Formal institutions, on the other hand, may be ineffective or counterproductive if they are not congruent with the informal institutions that shape the behavior of individuals and groups. To develop effective institutional arrangements, it is necessary to carefully study the influence of informal institutions and develop strategies to align them with formal institutional goals. [3]

Many authors have researched the impact of informal institutions on economic development. In economic science, the problems of socio-economic development, patterns of social evolution, cyclical dynamics, mechanisms of transformation of economic and political structure of society, processes of socio-economic and institutional changes were in the focus of attention of many authors: A. Smith, K. Marx, F. Engels, F. List, M. Weber, T. Eicken, T. Veblen, A. Toynbee, J. Galbraith, and J. Haleb. Smith, K. Marx, F. Engels, F. List, M. Weber, W. Oiken, T. Veblen, A. Toynbee, J. Galbraith, D. North, J. Buchanan, D. Bell, O. Williamson, O. Toffler and others. The issues of cyclical dynamics were studied by W. Mitchell, J. Schumpeter, E. Hansen and others; the evolutionary theory of economic change is currently being developed by R. Nelson, S. Winter, T. Eggertsson and R. Pipes.

Douglass C. North argues that informal institutions shape the incentives that drive formal institutions. Daron Acemoglu and James A. Robinson suggest that

extractive institutions, supported by informal institutions, hinder economic growth. They propose that inclusive institutions, supported by inclusive informal institutions, lead to economic prosperity. Avner Greif emphasizes the importance of informal institutions in supporting economic growth through cooperation and trust. These authors highlight the crucial role of informal institutions in shaping economic development, and advocate for policies that promote inclusive and supportive informal institutions.

Also studying the impact of informal institutions is of utmost importance, given the effect of dependence on the previous development trajectory and the historical past of the countries. The concept of path dependence suggests that the history of a country plays a significant role in the development of its institutions. Path dependence refers to a situation where the current state of affairs is determined by past events and decisions, which creates a lock-in effect that makes it difficult to change course. In the case of institutions, path dependence can result in the persistence of certain norms, values, and practices that become deeply embedded in a society's culture. This can affect the trajectory of economic development, as certain institutions may be more conducive to growth and prosperity than others. [4]

### III. THE INFLUENCE OF INFORMAL INSTITUTIONS ON THE CHOICE OF THE SOCIO-ECONOMIC DEVELOPMENT VECTOR IN POLAND AND BELARUS

#### 3.1 Evaluation of Informal Institutions in Poland and Belarus

One of the difficulties in analyzing informal institutions is the complexity of their quantitative measurement. One of the popular methods is Hofstede's methodology.

Hofstede's cultural dimensions are: Power Distance (PDI), Individualism (IDV), Masculinity (MAS), Uncertainty Avoidance (UAI), Long-Term Orientation (LTO), and Indulgence (IND). [5, 6]

The Power Distance Index (PDI) measures people's acceptance of power inequality and their attitude towards the unequal distribution of power. Countries with a low PDI are usually more democratic and pluralistic, while those with a high PDI tend to have a greater acceptance of authoritarian governments. Belarus has a very high PDI score of 95, indicating that power holders are distant from the society, and Belarusians accept a hierarchical order without further justification. Similarly, Poland has a PDI score of 68, which is lower than Belarus, but it is still a hierarchical society compared to the rest of the EU. The high PDI index in both countries is attributed to religion, as Catholic and Orthodox countries tend to have a higher PDI index. This leads to the importance of status symbols and the perception of hierarchy in organizations reflecting inherent inequalities.

Hofstede defines individualism (IDV) as a characteristic of societies with weak interpersonal bonds, where people focus on themselves and their immediate families. Conversely, collectivism refers to societies with strong ties and high loyalty among members. There's a positive correlation between a country's wealth and the level of individualism its people exhibit. Countries with high power distance tend to be collectivist, as they depend strongly on group dynamics and hierarchical power structures. Belarus scores low on individualism (25), showing its collectivist nature, with a commitment to a strong, cohesive "in-group" and a responsibility for fellow members. Poland scores higher on individualism (60) than Belarus, but still needs a hierarchy. This combination creates a unique "tension" in Polish culture, where personal contact is advised to maintain the delicate yet intense relationships among individuals.

Hofstede's 6-D model includes the masculinity index (MAS), which distinguishes between factors typically associated with male or female traits. Cultures with high MAS scores are characterized by high levels of competition, materialism, ambition, the need for power, and assertiveness. On the other hand, more feminized cultures prioritize relationships, quality of life, and a sense of security, and emphasize cooperation. Belarus scores 20 on the MAS index, indicating that it is a feminine society. In Belarusian culture, equality, solidarity, and quality of life are valued, and the focus is on working to live. In contrast, Poland scores 64 on the MAS index and is considered a masculine society, similar to English-speaking countries. In masculine societies, people "live to work", leaders are expected to be decisive and assertive, and there is an emphasis on equity, competition, and performance. Conflicts are resolved through confrontation.

The concept of Uncertainty Avoidance (UAI) is concerned with how people handle situations that are new and unfamiliar, which can generate stress and a desire for predictability that may be met through laws, regulations, and customs. This factor is linked to the geographic location of a culture, with the Far East exhibiting a more positive attitude towards risk due to historical experience, whereas Western societies have a strong foundation in the rule of law stemming from Roman civilization, while Asia has a long-standing tradition of authoritarian rule rooted in Confucianism. Belarus and Poland, located at the junction of Eastern and Western Europe, both display a strong preference for avoiding uncertainty, with Belarus scoring 95 and Poland scoring 93. As a result, both cultures possess mechanisms that discourage ambiguity, and people are resistant to change, adhering to strict codes of conduct and beliefs, and being intolerant of non-conventional behavior and ideas. To minimize uncertainty, there is an emotional need for strict rules, regulations, policies, and laws. In Poland, religion is regarded as

the sole truth, resulting in an attitude of intolerance towards religion, politics, and ideology.

The Long-Term Orientation (LTO) index examines how people cultivate virtues and skills for future benefits. Conversely, a Short-Term Orientation prioritizes values and practices related to the past and present, such as adherence to traditions. Long-term orientation is more prominent in Far Eastern cultures, where people tend to be practical, persistent, thrifty, and cautious. In contrast, Western societies often favor short-term thinking, leading to societal pressure on consumption and the belief that success should come quickly. Belarusian culture scores very high on the LTO index (81), reflecting its Eastern influence and pragmatic approach. They believe that truth depends on the situation, time, and context, and have a strong ability to adapt traditions to changing circumstances. They are also very thrifty and focused on achieving results. Poland, on the other hand, scores low (38) on this index, indicating a more normative than pragmatic approach. Poles are more concerned with establishing an "absolute truth" and place great value on tradition. They also have a lower propensity to save for the future and are focused on achieving quick results to impress others in society.

The sixth dimension of the 6-D Model is indulgence (IND), which refers to the extent to which people try to control their desires and impulses based on how they were raised. Cultures can be described as indulgent or restrained depending on the level of control. In contrast to weak control, which is called indulgence, strong control is referred to as restraint.

Belarus scored low (15) in indulgence, indicating a culture characterized by high restraint. The Belarusian society tends to be cynical and pessimistic, and people do not give much importance to leisure time. They control their desires and believe that indulging themselves is somewhat wrong. Poland's score of 29 is still relatively low, although higher than that of Belarus, and can also be classified as restrained. [7]

### **3.2 Impact of informal institutions on the development vector of Poland and Belarus**

At the start of the institutional transformation, Poland had a clear goal of introducing market reforms as quickly as possible and becoming part of the European Union and NATO. Whereas in Belarus there was a sense of nostalgia for the Soviet past and the past system. Polish society was active from the very beginning, and desired freedoms and rights, and less authoritarianism in governing. Whereas in Belarus, people were not used to making decisions independently and wanted maximum involvement of the state in all spheres. In the case of Poland and Belarus, the influence of informal institutions on their respective market transformations has been significant. Poland, for example, has a strong tradition of entrepreneurship and private enterprise, which has facilitated its transition to a market

economy. This is reflected in its relatively high scores on Hofstede's individualism and masculinity dimensions, which suggest a culture that values competition, risk-taking, and self-reliance. In contrast, Belarus has a more collectivist culture, with a greater emphasis on state control and central planning. This has made its transition to a market economy more challenging, as informal institutions that support entrepreneurship and innovation are less well-developed. Belarus scores lower on Hofstede's individualism and masculinity dimensions, suggesting a culture that values conformity, stability, and hierarchy.

Belarus and Poland initiated their transformation process around the same time, but they followed different paths of institutional change. In the early stages, Poland opted for building democracy and a market economy, while Belarus struggled with divided opinions and eventually adopted authoritarian rule and a state-controlled economy. The main reasons for this divergence can be attributed to the different mental models that shaped their attitudes towards change. Poland's path was influenced by factors such as the Solidarity movement, the Catholic Church, private contacts with the West, and the intellectual elite's interaction with the West. On the other hand, Belarus was hindered by factors such as societal conservatism, the longing for stable times of communism, a lack of national awareness, and the absence of sufficient support for democracy and the free market.

Institutional change can only be effective when it is supported by appropriate mental attitudes embodied in informal institutions. This was a critical problem for Belarus, as it lacked the necessary type of informal institutions that Poland had. The choice of a strategic external protector was also significant, as Poland's ties with the EU forced it to adopt formal institutions of the West and accelerate institutional changes, while Belarus found a protector in authoritarian Russia, which perpetuated its authoritarianism.

Poland's transformation is widely regarded as a success, as evident in its indicators of wealth, quality of life, and institutional development. In contrast, the Belarusian economy has not yet achieved accelerated growth, and its indicators lag behind Poland's. Differences in mentality are still visible, with Poles

prioritizing individualistic values and masculine behavior, while Belarus has a high power distance indicator, low individualism, and a high level of femininity, which prioritizes personal relationships and control and support from the state.

## CONCLUSIONS

Informal institutions are a basic element of the institutional system of society. They determine the vector of a country's development and also have a significant impact on the functioning of formal institutions. Informal institutions have a special significance during periods of institutional transformation in countries. At present, the quantitative expression of informal institutions is of great importance in determining the degree of society's adaptation to the changing institutional structure and methods of economic policy. It is precisely informal institutions that have become one of the main reasons why Belarus and Poland have chosen different paths of evolution and, at present, despite their historical similarity and similarity of reform instruments, have achieved completely different results.

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