

Informal institutions and radical ideologies under institutional transformation^{☆, ☆☆}

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Abstract

This article questions one of the central postulates of institutional economic theory, i.e., that of the sustainability and purely evolutionary changes of informal institutions. To study the phenomenon of the destruction of informal institutions and its consequences, we use the tools of sociological theory, which acknowledge that a period of intensive urbanization is characterized by anomie, i.e., a lack of norms, in which traditional institutions are destroyed, while new urban institutions have not yet taken shape. We reviewed the possible reactions of communities and individuals to the conditions of anomie, including the compensatory mechanisms of ideologies. In the case of the Dagestan Republic, we show how the proliferation of fundamentalist Islamic ideology is associated with the state of anomie and the consequences to which it could lead from an institutional point of view. The analysis of the situation in Dagestan is based on long-term field research conducted in the region. © 2015 Non-profit partnership “Voprosy Ekonomiki”. Hosting by Elsevier B.V. All rights reserved.

JEL classification: B52, Z12, Z13.

Keywords: institutional change, informal institutions, anomie, intergenerational conflict, Islamic fundamentalism.

1. Introduction. The sustainability of informal institutions: Axiom or myth?

The theory of institutional change, as a part of institutional economic theory, hinges on the postulate of the impossibility of abrupt restructuring of informal

[☆] The updated English version of the article published in Russian in *Economic Policy*, 2015, Vol. 10, No. 3, pp. 68–88.

^{☆☆} The article was prepared based on a 2014 study entitled “Social Roots of Terrorism in the North Caucasus,” conducted by the Gaidar Institute for Economic Policy. The objective of the study was to identify the sources of demand for radical ideologies and terrorist methods of achieving goals in the institutional conditions of the North Caucasus.

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Peer review under responsibility of Voprosy Ekonomiki.

institutions and on the related effect of “path dependence”. The logic of these relations is studied in the greatest detail in the works of Douglas North, which we use as an example in our review below.

According to North, a society’s institutional structure shapes the game rules, incentives and restrictions that govern relationships between individuals and thus reduces the uncertainty inherent in those relations: “All organized activity by humans entails a structure to define the ‘way the game is played’... That structure is made up of institutions—formal rules, informal norms, and their enforcement characteristics” (North, 2005, p. 48).

Formal, written rules are established and changed primarily by the state and are “created to serve the interests of those with the bargaining power to devise new rules” (North, 1990, p. 16). Informal rules derive from the culture, which “consists of the intergenerational transfer of norms, values, and ideas” (North, 2005, p. 50).

Interaction between formal and informal rules is quite a complex process. On the one hand, informal constraints are “extensions, elaborations, and modifications of formal rules” (North, 1990, p. 40). On the other hand, “the informal constraints that are culturally derived will not change immediately in reaction to changes in the formal rules. As a result the tension between altered formal rules and the persisting informal constraints produces outcomes that have important implications for the way economies change” (North, 1990, p. 45).

Influential political and economic organizations can invest resources to maximize the target function within the framework of existing institutional restrictions or to attempt to change them. “Maximizing behavior by the firm can take the form of making choices within the existing set of constraints or of altering the constraints... Which direction the firm or economic organization takes depends upon its subjective perception of the payoffs” (North, 1990, p. 79). The same algorithm, in fact, applies to politics. Under such conditions, “the immediate instruments of institutional change are political or economic entrepreneurs who attempt to maximize at those margins that appear to offer the most profitable (short-run) alternatives” (North, 1990, p. 100).

Incentives for investing in change emerge in the event of an institutional imbalance, i.e., in a situation contrary to those when “given the bargaining strength of the players and the set of contractual bargains that made up total economic exchange, none of the players would find it advantageous to devote resources into restructuring the agreements” (North, 1990, p. 86). An institutional imbalance can have various causes. “New or altered opportunities may be a result of exogenous changes in the external environment which alter relative prices to organizations; or they may be a consequence of endogenous competition among the organizations of the polity and the economy that induce the growth of knowledge and hence innovations” (North, 2005, p. 60).

However, even when these changes are formally radical in nature (conquests, revolutions), they are essentially incapable of completely detaching from the past. “Although a wholesale change in the formal rules may take place, at the same time there will be many informal constraints that have great survival tenacity because they still resolve basic exchange problems among the participants, be they social, political, or economic. The result over time tends to be a restructuring of the overall constraints — in both directions — to produce a new equilibrium that is far less revolutionary” (North, 1990, p. 91).

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