

MPRA

Munich Personal RePEc Archive

Thresholds in institutional spaces

Pyastolov, S.M.

National Research University Higher School of Economics

2010

Online at <https://mpra.ub.uni-muenchen.de/43854/>

MPRA Paper No. 43854, posted 18 Jan 2013 04:32 UTC

Thresholds in institutional spaces

Threshold effects in behavioral patterns as well as in the public domain seem to be special among peculiar phenomena concentrated in a rather short time period in Russia (e.g. Russian labor market paradoxes). Examples of such changes are chosen among peculiar phenomena concentrated in a rather short time period in Russia (e.g. Russian labor market paradoxes, inertia of the power property system etc.). The observed cases give a possibility to check the validity of the proposed Helical Institutional Development Scheme (HIDS). The paper shows that the HIDS might be regarded not only as a sketch of a decision making model and a pattern for an institutional space. It may show the direction in which the evolutionary theory is developing: from the analysis of situations with the stable certainty (complete and perfect information) to the “stable” uncertainty and then to “unstable uncertainty” cases where peoples’ preferences and beliefs are changing. Within the frameworks of HIDS the paper offers an explanation for the quantum structures in Russian institutional matrixes.

Keywords: *Individual Labor Supply Curves, Institutional matrix, Threshold Effects, Institutional Space*

Introduction

While one is considering a problem of a development of institutions it is supposed that there exists a certain (progressive or not) direction in a certain (institutional) space. This is especially urgent for a country in transition like Russia for example. Here they declared at the beginning of 1990-ies that the goal of the social and economic reforms was to create a free market economy. But actually one can observe a phenomenon which resembles more a power property system, a bureaucratic state rather than a desired formation: although the achievement of the goal had been proclaimed in the “Conception 2020”¹, Economic Freedom, Corruption Perception and other indices measured by international organizations demonstrate that Russian institutional parameters are quite far from genuine market economy conditions.

Attempts to introduce liberal institutions and institutes into the Russian context failed quite too often. Such effects were already described by G.Myrdal as “Asian Drama” for other countries (Myrdal, 1968) and rediscovered in Russia and in some other post - soviet countries. Actually the reformers have not got enough political, administrative and economic power to implement a new “Great Transformation” in Russia as it happened in Great Britain a couple of centuries before (Polanyi, 1944).

¹ Theses generated by the Russian government in the spring of 2008 which ought to become a core for development strategies and programs.

Following Polanyi's trend of thought the author also claims that the main part of the "Great Transformations" takes place in people's minds which is revealed in behavioral patterns and mentality changes. So in the quest for an institutional space design we cannot define institutes simply as social forms (norms, rules, conventions) that enable or constrain human action by setting incentives, providing orientation, or settling frameworks for certain activities.

Other research domains lie close to decision making and institutional development theories, the economics of knowledge and knowledge management. The scholars whose contribution should be praised here are H.Simon (for the studies of informal layer of specific organizational culture among others), K.Arrow (for the studies of correlation between information and knowledge), M.Polanyi (for the tacit knowledge concept development) P.David, R.Cowan, D.Foray (for their version of knowledge topography) and others.

Concerning the transformation phenomena description we are mostly interested in the construction of an institutional space where knowledge is generated, accumulated and multiplied. After D.North (North, 1990) we regard institutes as carries of historical experience, i.e. knowledge of a community, organization, or people. Thus the epistemological and ontological coordinates might be found rather helpful for an institutional space mapping.

Institutional space mapping

It is worth noting that one needs a combined complex method to describe complicated phenomena which depend on quite a few economic, social, historic and cultural factors. Thus the research field lies on intersections of various traditional scientific domains and findings are usually strictly questioned by representatives of sometimes alternative schools. As R. Scott noted: "an astonishing variety of approaches and sometime conflicting assumptions limits scholarly discourse" (Scott, 2004).

It is actually not so a simple task to represent a methodology for an institutional change phenomenon description because quite a few concepts from different domains ought to be put together. Still we suggest that the Helical Institutional Development Scheme (HIDS - Pyastolov, 2007b) might be helpful for this purpose.

The first basic assumption for the HIDS's construction is that although a man is uncertain about the exact utility value of a good to be consumed he is nonetheless aware of the good's level in his personal hierarchy (in Maslow's sense). To adjust the Goods Hierarchy Levels to Weberian ideal types of human behavior² we limit its number by four. So we distinguish: S (zero level) that corresponds to survival (the implicit need of any living creature); LLG – low level

² Originally this concept was coined as "social action": in (Weber, 1924: 24-25).

goods; MLG – middle level goods; HLG – higher level goods. Thus the Goods may be regarded as parameters of order in the multidimensional space of human choices and actions.

The second basic assumption is that the consumption of a Good takes time and a certain amount of energy-information (EI) (in the simplest cases the energy-information concept is replaced by that of money). And the higher is the level of a Good the more EI is needed to consume it. Obviously an ordinary man needs more Goods of lower levels than of higher ones. So on fig. 1, where factors affecting human behavior are presented, the triangles of Goods and EI are placed together. The “pyramid” of Goods is wider at the bottom (the quantity of Goods needed is more here than in the higher levels) and at this level it corresponds to the narrowest part of EI angle (it takes the least amount of EI to get and to consume a Good at this level) which is open at the top.

[fig. 1 is about here]

Further the decision making process conditions are formulated. Complete and perfect information, sufficient time, serenity, considerable intellectual efforts are needed to make rational choices, i.e. to behave target-rationally and thus to get the desired HLG. It may be noted here that a HLG has almost no substitution as a rule, but a LLG generally has (in another case it must be reconsidered whether it is really a LLG, not a HLG – a might be symbol or fetish).

Then, if the decision making conditions change, the man’s behavior also does so. From the top on fig. 1 the target – rational behavior turns into whole – rational (strategic), then into traditional, and affective at last (this classification is a bit different from that of M.Weber: he took the traditional behavior as the basic type). Psychologists, sociologists and economists name the factors that influence a decision making process. Phenomenological characteristics of a man who makes decisions under those factors influence can be lined up from the bottom to the top of the scheme on fig.1. (along with the cognitive vector) as follows:

Bioid – a man whose actions are influenced by instincts, emotions and dominants of the lowest level (affective behavior type);

Executor – a man whose activity is subordinated to routines, habits, is economically or technologically determined;

Social man – a man whose characteristics correspond to the description of SRSM, OSAM or RREEMM models³;

³ RREEMM (Restricted, Resourceful, Evaluating, Expecting, Maximizing, Man) – W.Mecling’s version. SRSM (Socialized, Role-Playing, Sanctioned Man) and OSAM (Opinionated, Sensitive, Acting Man) presented in (Linndenberg, 1985).

Intellectual man – a man whose characteristics correspond to the description of the REMM model.

Note that emotions are included in the set of factors that affect human behavior because they as a psychological reaction of a man in a decision making process strengthen the influence of lower level factors (Brams, 1997).

Then in order to create a basis for a dynamic institutional model we should formulate the third basic assumption which is actually composed of a set of ones:

1. A Need of a certain level may be actualized only if the Good of this level exists (as an individual mental representation).
2. The Man's choice whether to consume this Good or not and his behavior are affected by factors of the level corresponding to the Good. A decision about the Good's consumption is made as a result of the analysis to what extent the personal rules coincide with public institutes. The decision will be positive, if needs and personal rules of the subject ...
 - (a) do not contradict informal institutes («everybody does so»),
 - (b) do not contradict formal institutes («the law does not forbid this»),
 - (c) will ensure such performance of the decision, that the results will benefit to the subject and will not do much harm to other people,
 - (d) will ensure such performance of the decision, that the results will bring harm to other people and advantage (benefit) to the subject, but the subject decides to use «the right of force».The conditions (a), (b) define conformity (or submission) of personal rules to «strong» institutes, condition (c) - to «weak» institutes. The presence of a Written Rule by itself does not provide stimulus for acceptance of the decision.
3. As a rule, the subject does not spend more EI on process of acceptance of the decision about consumption of the Good, than it is required for its consumption.
4. There is a positive dependence between quantity and «rigidity» of institutes and quantity of objects (Goods) of the appropriate level.
5. A Man estimates the utility of an institute for himself depending on to what extent it is useful to him in consumption of appropriate Goods.

While speaking about a decision making process one cannot help mentioning the contradiction between the formal coordination ethics and the normative ethics of values. This problem known also as the contradiction between the business ethics and Kant's ethical imperatives may also be judged under the I-st basic assumption (the assumption of Quantified

Goods). The Goods in this case can be regarded as parameters of order that influence the processes of coordination in transition from one EI level to another. The idea is not actually new (W. Jevons, K. Menger and other scholars ought to be praised for their contributions). But one cannot yet formally describe the coordination mechanism when values and beliefs are changing. This takes place in transitive economies or when we are considering educational phenomena. Actually one seeks answers to the following questions:

- A.** At what moment and under what conditions beliefs of certain individuals become public value?
- B.** At what stage of a decision making process the coordination of actions of the subject with the requirements of the convention happens?
- C.** What are the conditions under which such informal mechanisms of coordination are most likely to emerge and be maintained?⁴
- D.** How such mechanism is changing and whether it is possible to foster its development by legal means?

With the help of assumptions formulated above we can create a new scheme that will allow us to evidently express changes of individual values, preferences and beliefs and also how a mutual influence each of these factors and public institutes (formal and informal) is realized. And thus to find the desired answers. We can see three groups of incorporated objects on the figure 2:

[fig. 2 is about here]

Group A: The hierarchical structure of the Goods which consumption satisfies people's wants;

Group B: The types of human behavior models which may be useful under different conditions (i.e. various degrees of uncertainty);

Group C: The types of Social Institutes which regulate the human behavior under various degrees of uncertainty.

The types of coercion, which also are shown on the scheme, do not form a separate group of elements but show the ways the institutes format different kinds of human activity. The same remark refers to the types of motivation⁵.

There are also several dimensions shown on the scheme. First of all the space on fig.2 is divided in two domains: that of Individuality (where the individual's thought activity is shown)

⁴ The initial formula of the questions A-C can be found in (Khight, 1998).

⁵ The types of motivation are borrowed from (Etzioni, 1961).

and the Social domain (where one can see the factors which affects the relations between the individual and the society).

The area of the “Ideal World” and the areas of the “Material world” and the “World of Objects” are designated also. These are the worlds constructed according to Plato’s interpretation: *The Idea* and *The Matter*. The breakthrough of the “Ideal World” amidst (in boundary area) the “Material world” and the “World of Objects” deserves a special comment. It might be considered illogic especially if one would approach the consumption of HLG. But we will not find any contradiction if we consider for example some religious doctrines. Thus the creation of The “Kingdom of God on Earth” in Christianity means in fact the total reorganization of human activity, the Buddhism teaches how to overcome the physical human nature for the sake of the Enlightenment and so on. And the secular ethics would highly appreciate man’s spiritual achievements only if they do not contradict social norms. And moreover if a man would seek some spiritual enjoyments outside social ethics and if he would not even do any harm to other people (e.g. taking drugs for himself) it will not be considered a Good neither for the man nor for the society.

Numbers (in circles) on fig.2 correspond to the stages of the representations, norms, rules and institutions emergence and maintenance process:

1 – First stage: a Want is being actualized. Note: the multitude of Wants that can be actualized is determined by the multitude of norms and rules of the corresponding level that the individual possesses. An object can not be a motivation by itself⁶.

2 – Second stage: the target function determination (the decision about the means and the ways of meeting one own Wants is being made; the Goods, that are to be consumed to meet the Want are estimated *ex ante*)⁷. This forms the answer to the question B.

3 – Third stage: actions are being undertaken in order to get and to consume the Goods⁸.

⁶ It is important to note, that individual’s believes, norm and the rules determine a set of needs of the appropriate level, which can be actualized. The decisions cannot be imposed to the individual from the outside, even if they “are rational”.

⁷ The personification of a thing occurs at this moment as well as the materialization of an image of the subject. The matter has been thoroughly studied in traditional Marxist philosophy which actually pays much attention to the categories of “Thing”, “Object”, “Vergegenständlichung”, “Versachlichung” (reification), “Entäuserung” and “Entfremdung” (alienation). But this very stage of a decision making was somewhat omitted in description of the corresponding processes or mixed with reification. In the classical economic theory they did not take it into account either.

⁸ At this stage the process of reification takes place, and the working process accepts the social form. At the given stage “the human subjects” by interaction with the forms of culture, symbols and other institutes, become “public

4 – Forth stage: the utility of the consumed Goods is estimated (*ex post*)⁹.

5 – Fifth stage. At the given stage the individual estimates the marginal utility of a subject (object of the convention), taking into account the EI volume which he receives as a result of consumption of the appropriate Good, or loses, if it is – a negative Good (antigood). As a result of the process of the Good's "dematerialization" the preferences and beliefs of the man are formed and developed:

5a – If the utility is negative – the man has not got the desired Good and/or has been punished (has got an Anti-Good), the individual rule or norm which has had been in the basis of the Need actualization and the decision making is being deactivated and is going to the subconscious level (but it never completely disappears);

5b – If the utility is positive the individual rule or norm is being secured in the Subjectus normative individual structure. The rule becomes fixed in the active normative matrix for the long run if the Subjectus gets enough experience of receiving Goods as a result of following the rule or norm.

One can recognize the Hegelian triad elements at every stage of a decision making in the scheme on fig.2. Hence the formation and development of individual values and beliefs processes may be regarded as rational, i.e. the subject of such sciences as New Institutional Economics (NIE). So microeconomic concepts and algorithms such as Bayesian or others from the Game theory can be used to describe the processes. A helical movement can be recognized in sequence of stages on fig.2 which might be described as *the pivot mechanism* (Kreps, Wilson, 1982) or according to the author's interpretation the Helical Institutions Development scheme (HID).

The spiral is twisting inwards if the development of representations, beliefs and institutes follows the way **5a**, the quantity of conventional objects appropriate to HLG decreases, the institutional

subjects ". "The relations between the people take the form of the relations between things", this phenomenon is frequently called as "fetishism of the subject forms" in Marxists' theories. They also used to consider a non-material form of such reification; however a philosophical judgment of XX century science achievements, the idea of the material essence of energy and space-time first of all, forces one to consider the reification as a uniform process.

⁹ It is not so easy to distinguish a border between stages 3 and 4 in real processes of manufacture - exchange – consumption. But the duality of the concept of labor might be useful in this case. And one should also take into account that the value of a thing could not be estimated until it takes the form of a subject, i.e. becomes the matter of a convention. Hence, it is possible to consider the end of the "dematerialization of the Good" process as the end of stage 3, and beginning of the process in which human abilities become an object - as the beginning of stage 4. Obviously a question arises here: in what form does our object exist while in transition from stage 3 to stage 4? The answer may be that the EI is the intermediate substance. The analogy with the ether idea in Physics seems to be quite pertinent. The EI is an equivalent of efforts spent by the man on searches of the information, estimation of utility and consumption of the Good. It is a monetary equivalent in the simplest case. When coming back to the problem of the contradiction between the cost and the value of the Good we may just consider it as the problem of different estimation values of EI at the stages 3 and 4.

field is narrowed. The quantity of objects of the civil and the market conventions is reduced, first of all. And as a result the share of shadow economy sector grows.

The reduction of quantity of legal institutes that ensure access to the Goods of the higher levels, results in reduction of density of distribution of personal beliefs at the same levels¹⁰. The sociological researches show a decrease in the generalized parameter of trust in a society that means above all - trust to the government and to legal norms (Pyastolov, 2005; Pyastolov, 2007a). Consequently it results in a reduction of a legal transactions quantity and in a decrease of the total number of legal and illegal ones as well.

The spiral is untwisting outwards, if the development of representations, beliefs and institutes follow the way **5b**. It means that the personal beliefs and values with a greater probability become parts of public institutes (See question A). And it is a self supported process: the strengthening of public institutes opens access to the Goods of higher levels. As transactions result in consumption of a HLG they form and strengthen the appropriate personal preferences and beliefs¹¹. Moreover the growing level of trust in a society (community) increases probability of positive synergy effects. This must be the most probable answer to the question D.

Let's note also some other properties of HIDS:

*i. The movement from one group of elements to another in the HIDS format is carried out clockwise only. Thus, for example, the preferences (beliefs) of an individual cannot be generated under influence of the right of force, informal or formal social norms, and even of logic. However preferences can appear as a result of experience under influence of various kinds of stimulus as an opportunity to receive the appropriate Good (or AntiGood), and also can be inherited from the parents or the society (community) (as a result of education). Consequently the *ex post* mechanism of coordination dominates during the formation of new institutes process (import and - or legalization) because the appropriate qualities of the human capital are not yet generated.*

The following formulation of this property is known in NIE: it is possible to consider any institution both as a means and as a consequence of the formation of expectations and preferences; the institution creates its own stability by forming expectations and preferences.

ii. The elements of two neighboring groups only can cooperate in the decision making process in a transition from one stage to another. So, for example, presence of any of the possible Goods (the presence of the information about an opportunity of reception of the Goods) can not by itself cause occurrence of effective public institutes,

¹⁰ The idea proposed by such NIE scholars as R. Posner, S. Goldman S., S. Norton etc.

¹¹ Among the proponents of the thesis are R.Ellickson, S. Sandefur, E. Lauman and others.

excluding the phase of appropriate individual preferences and beliefs appearances and, then the occurrence of public conventions.

Consequently the coordination of individual actions can be carried out on the basis of common expectations, beliefs and values (mechanism of coordination *ex ante*) only in developed societies (communities) with established institutes.

My suggestion is that according to the helical representation polar coordination system will be more convenient. Hence in interpreting the HIDS on fig.2 one can determine a cognitive vector starting from point 1 to the sector B direction. The characteristics of this vector can be taken from the description made by D.Kahneman (Kahneman, 2003) similar description was partly made in this paper when fig. 1 was presented. Another dimension of the space under construction is phenomenological which is unwrapping along the angle of the polar coordinate.

It is essential to note that the direction of the cognitive vector corresponds to the direction of the EI growth in individuality domain and one can interpret the corresponding levels in the social domain as those of synergy. In learning by study when explicit knowledge is being formed a learning individual uses logic and his behaviour is close to target-rational. On lower EI levels knowledge of experience¹² is being formed.

The predetermined place for information technologies is in the social domain and they are placed on higher synergy levels because logic implicit in algorithms is used to code and decode the information.

But one should also have in mind that since information transfer needs symbols an imaginary thinking is engaged in this process. This is especially true when it concerns hieroglyphs. It is difficult to say that knowledge is “encoded” (verbally expressed) in this case; it is more likely to have been pictured and presented as a set of images.

Thus the border between the knowledge transfer by information technologies and the learning by penetration of images (in implicit form, not verbally) is rather provisional. The role of an organization in connection to the matters discussed consists of creating new knowledge as a result of implicit and explicit types of knowledge interpenetration. This new knowledge might be expressed in new product or service characteristics, new information or new human capital qualities. Hence an organization can be determined as a social and economic coordination system which mission is to create conditions for interaction and interpenetration of different knowledge types in order to achieve socially significant goals and to create a new knowledge in particular.

¹² The term *knowledge of experience* was coined by I.Nonaka (Nonaka, 1994).

Then as a development of M. Granovetter (Granovetter, 1985) and A.Lam's (Lam, 2004) theses about social embeddedness of firm's internal knowledge HIDS offers an explanation of the dynamics of organizational types in interaction with knowledge based society structures (fig. 3).

[fig. 3 is about here]

The K.Polanyi concept of transformation (Polanyi, 1947) presumes that changes in social and economic structures in order to be successful must be followed by the changes in peoples' minds¹³. Hence new institutes importers besides other goals ought to solve a problem of reshoeing of the "human material". World history offers quite a few examples of particular goals of such kind and of methods used. The hammer as a symbol on State Emblems of Austria, Soviet Union, China etc. serves this particular purpose.

The reshoeing of "human material" means education and training above all. HIDS explains these processes in a form of phenomenological educational spiral: [Want] → (1) [Motive] → [Need] → (2) [Image of the Object (to be consumed)] → [Object] → (3) [The Idea of the Good] → [Energy – Information] → (4) [Consumption of the Good] → (5) [New Motive: 5b – strengthening; 5a - weakening] → ... (numbers in brackets signify the stages of the decision making process on fig. 2).

Findings in the field of behavioral patterns

The effects of interaction between society's institutional structures and households economic strategies were discovered in our survey (Pyastolov, 2005, 2007a). The project "Individual Labor Supply Parameters Survey" is being undertaken by the author and his colleagues during the recent years since 2002. The project's objective initially was to determine typical individual strategies of workers on local labor markets in various Russian regions, the influence of values and norms distributions and other parameters on the revealed strategies. The initial assumption included a thesis that workers strategies may be revealed with the help of the individual labor supply (ILS) schedules, which were later classified.

We had taken ILS curves forms as a proxy for workers' strategies, also seeking the approval in other parameters. The classification for "primary" and "secondary" workers of the "poor" households (households at the subsistence level), borrowed from M. Dessing (2002), had been developed by the types of "artists", "institutional" workers from "reach" households besides

¹³ "To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one" (Polanyi, 1947, ch. 14).

“classic” workers from the book. The dummies for regions and professions as well as “institutional numbers” (Utility, Interpretative Rationality, Empathy and Trust’s Indicators) were successfully used in order to improve the regression quality.

Some of Institutional Norms’ indicators turned out to be valid regression independent target variables for the ILSF shape as well as for the wage function. Moreover the correlation between target variables and norms’ values in some age strata were revealed to be even stronger than between target variables and traditionally measured educational parameters: years of schooling, ages, work experience etc.

It was found out that the probability for a certain ILS curve type, which had been considered a correlation for a strategy on a labor market, depended on regional labor market conditions, ages, years of schooling and on norms as well. It was revealed that threshold effects noted as changes in the market strategies (= shifts to a different ILS curve type), take place because workers behavioral patterns are framed by certain types of conventions. So behavioral patterns tend to change when a convention, that a worker positions him(her)self in, is changing. The degree of such effects probability increases when households are forced by external factors to review their economic strategies.

The results in the most parts prove the preliminary conclusions about the behavioral patterns of different types of the workers. Thus the log of the working hours (lnH) turns out to be the only valid variable for the “secondary” workers of the “poor” households. The negative influences of the same variable and also of the working week’s length and the regional and profession’s dummies should be noted, while regarding the results for the “primary” workers of the “poor”.

Besides other facts we have found that the direction of strategies development (from a destructive to innovative) correlated with the direction of depersonified trust vector development but not with the utilitarianism one (yet the later norm serves as in indicator of the probability of a household’s strategy change).

Among other results we can also name no significant correlation between years of schooling (EdT), professional learning (EdS) and the ILS elasticities (Elasticity) at different levels of russian labor market choices. Although correlations between some of the Institutional Values and the target function are marked by significant values of t-statistics. The influence of EdT on labor market choices (on ILS curves types) is found insignificant. Only special education (EdS), which is desired to correct the shortages of general education and to improve it, influences the market decisions.

Some of our findings presented on fig.4 and fig.5 besides other results demonstrate that changes in strategic choices are caused by or at least correlated with changes in individual institutional matrixes. Thus workers from “richer” households demonstrate higher degrees of Trust for higher strategy levels, but the revealed correlation between Trust and household income (HHIncom) is negative for lower strategy levels.

[fig. 4 and 5 are about here]

The same kind of interdependence has been revealed for other norms (e.g. fig. 6 shows Interdependence between Utilitarianism values, household incomes and ILS curve types). These interdependences differ in details but similar in common features for other norms.

[fig. 6 is about here]

One can also observe that the trend of households’ strategies development, as long as we distinguish it from the destructive, conservative, constructive strategies to innovative ones, does not coincide with the development vector of the Utility indicator, although it correlates with the trend of depersonalized Trust development.

Possible switches from one strategy to another presumably a better one often seem to be hindered by certain types of thresholds: expectations and believes that frame workers’ decisions. The number and the qualitative characteristics of those thresholds (to be more exact – of those that the worker takes into account) are generally determined by the market activity experience. So one may expect that that a higher level of economic education would help a worker to overcome those thresholds or even ignore them.

Thresholds in the public domain

These findings and arguments suggest that innovations more often take place at the lower levels of rationality if the latter would be connected with utilitarianism. Obviously one observes more utilitarianism in bureaucratic organizations than in those of operational adhocracy or J-organisations (the least amount of utilitarianism can be seen in Russian clusters). Thus a paradoxical feature is revealed: *the more is the organization level in a society the less is its ability to generate, accumulate and propagate tacit knowledge.*

Hence while internal colonization of a new convention is taking place knowledge is generated and accumulated. Then as the space the knowledge can occupy is filled up organizational forms are to be changed in quantity as well as in quality.

Under the transformation (it means a change of public conventions first of all) the society’s machine bureaucracy is turning into an operational adhocracy which is presumably true

for clusters as well. But furthermore the system would follow the law of the entropy growth if the economic behaviour patterns would not be regulated by common norms (ideas).

Some experts diagnosed Russian people's state of conscience from the midst of 1990-es and up to nowadays as *schizophrenia*: the split mind. Actually on the one hand the possibility to gain profit and to have a rich consumer choice attracts people but on the other hand they do not wish to part with state guaranteed income equal distribution, economic and social security etc.

The experience of the latest decades prove that a society can not reach a free market convention from the point where Russian economy was situated in an institutional space before the reforms of 1990-es (it can be actually described as a symbiosis of a command economy and a power-property system) directly (by a leap = shock therapy) (fig. 7). The HIDS can interpret such an attempt as an effort to move counter-clockwise: from a market institutions import to a creation of new preferences and believe, i.e. representations, in people's minds.

[fig. 7 is about here]

The duality of Russian institutional system, the two phase nature of the management cycle (Pyastolov, 2008) caused the choice of a clanship organizational type during the short period of stability characterized first of all as a seeming absence of external military and political threat. The prevalence of kinships and clanship organizations in Russian economy preconditioned the inward helical movement in the institutional space so that the trajectory almost reached the subsistence core (see fig. 2). The sociologists reported that level of trust among the Russian population fell as low as 34% and film producers would name this time as a "glacial epoch".

The mortal threat (that meant in particular increasing mortal rates for the people and the death of the Russian Federation by scattering of its regions for the government) made Russian people accept the switch to the bureaucracy management mechanism undertaken by president Putin's team.

This development trend might signify that the national organization is again trapped in the "Instability" – "Stability" (or "Threat" – "No Threat") dilemma. Will there be other steps further out of this trap towards a market convention?

The HIDS suggests that there may be not so many alternatives: one way is through the learning society model to an organized society (the history of China's transformation is regarded as a good national example in this case) another is the way back to the command system (an industrial convention will dominate among others in this case).

Conclusion

The changing economy cases need a dynamic theoretical approach which is realized in the form of the proposed Helical Institutional Development Scheme (HIDS) – a specific model of an institutional space form. The paper shows that the HIDS offers the direction in which the dynamic institutional and organizational theory is developing: from the analysis of situations with the stable certainty (complete and perfect information) to the “stable” uncertainty and then to “unstable uncertainty” cases where peoples’ preferences and beliefs are changing. It also may explain some of so called quantum effects in human behavior and in a society’s development occurring during these processes of change¹⁴.

As the world economic history demonstrates successful market economies and organizations tend to choose one phase management cycle models which are actually less loaded with thresholds. Within the frameworks of HIDS the paper offers an explanation for these phenomena. Besides other things this also means that an exit from the organizational development traps of “Instability” – “Stability” types (which turn to be an equivalent to the “Threat” – “No Threat”) is possible in the form of an organized society under the conditions of unifying values and expectations generation.

References:

- Brams S.J. (1997) *Game Theory and Emotions*. Rationality and Society, 9, pp. 91-124
- Dessing M. (2002) *Labor supply, the family and poverty: the S-shaped labor supply curve* Journal of Economic Behavior & Organization, Vol. 49, pp. 433–458.
- Etzioni A. (1961) *A Comparative Analysis of Complex Organizations*. New York: The Free Press.
- Granovetter M. *Economic action and social structure: The problem of embeddedness*. American Journal of Sociology, 1985, 91 (3): 481-510.
- Kahneman D. Maps of Bounded Rationality: Psychology for Behavioral Economics. The American Economic Review, 2003, v.93, # 5, pp.1449-1474
- Knight J. (1998) *The Bases of Cooperation: Social Norms and Rule of Law*. Journal of Institutional and Theoretical Economics (JITE), vol.154, p.754-763.
- Kreps D., Wilson R. *Sequential equilibria*. Econometrica, 1982, v.50, pp.863-894.

¹⁴ Naturally conventions, not law, tend to guide and constrain the human behavior in contemporary Russia. But it is now obvious that informal norms form certain types of institutional lacunas that one can observe while monitoring different social strata (Pyastolov, 2005; Pyastolov, 2007a). So the uncertainty that a Russian citizen has to deal with is in fact delimited. The psychological and other problems occur when a subject is forced to move from one quantum level to another.

Lam A. *Tacit Knowledge, Organizational Learning and Innovation: A Societal Perspective*. DRUID WP# 98-22. 1998.

Linndenberg S. (1985) *An Assesment of the New Political Economy: Its Potential for the Social Sciences and for Sociology in Particular*. Sociological Theory. Spring 1985, p.99-113.

Nonaka I. *A Dynamic Theory of Organizational Knowledge Creating*. Organizational Science, 1994, 5, pp. 14-37.

Polanyi K. (1947) *The Great Transformation. The political and Economic Origins of our Time*. [in Russian]. St. Petersburg, Altheia Publishing House, 2002.

Pyastolov S.M. (2005) *Russain Households Labor Supply Peculiarities*. Voprosy Ekonomiky, № 8, pp.124-138 (Пястолов С.М. Особенности предложения труда российских домохозяйств // Вопросы экономики, № 8, 2005, стр. 124-138).

Pyastolov S. (2007a) *Norms as Indicators of Human Capital Investments Effectiveness*. Investment Research and Analysis Journal. Volume 2, N 1, Spring 2007, pp. 25-37.

Pyastolov S.M. (2007b) *Prospects of the Theory of Prospects*. Voprosy Ekonomiky, № 12, pp. 43-60 (Пястолов С.М. Перспективы теории перспектив // Вопросы экономики, № 12, 2007, с.43-60).

Pyastolov S. (2008) *Two phase cycle concept in Russian organizational model*. The Proceedings of the 9th World Congress of International Federation of Scholarly Associations of Management (IFSAM), July 26-28, 2008, Fudan University, Shanghai, China (CD-ROM).

Scott R.W. (2004) *Institutional Theory: Contributing to a Theoretical Research Program*. <http://www.si.umich.edu/ICOS/Institutional%20Theory%20Oxford04.pdf>. Last assessed: 23/01/08.

Weber M. *Gesammelte Aufsätze zur Soziologie und Sozialpolitik*, J. C. B. Mohr, Tubingen, 1924.

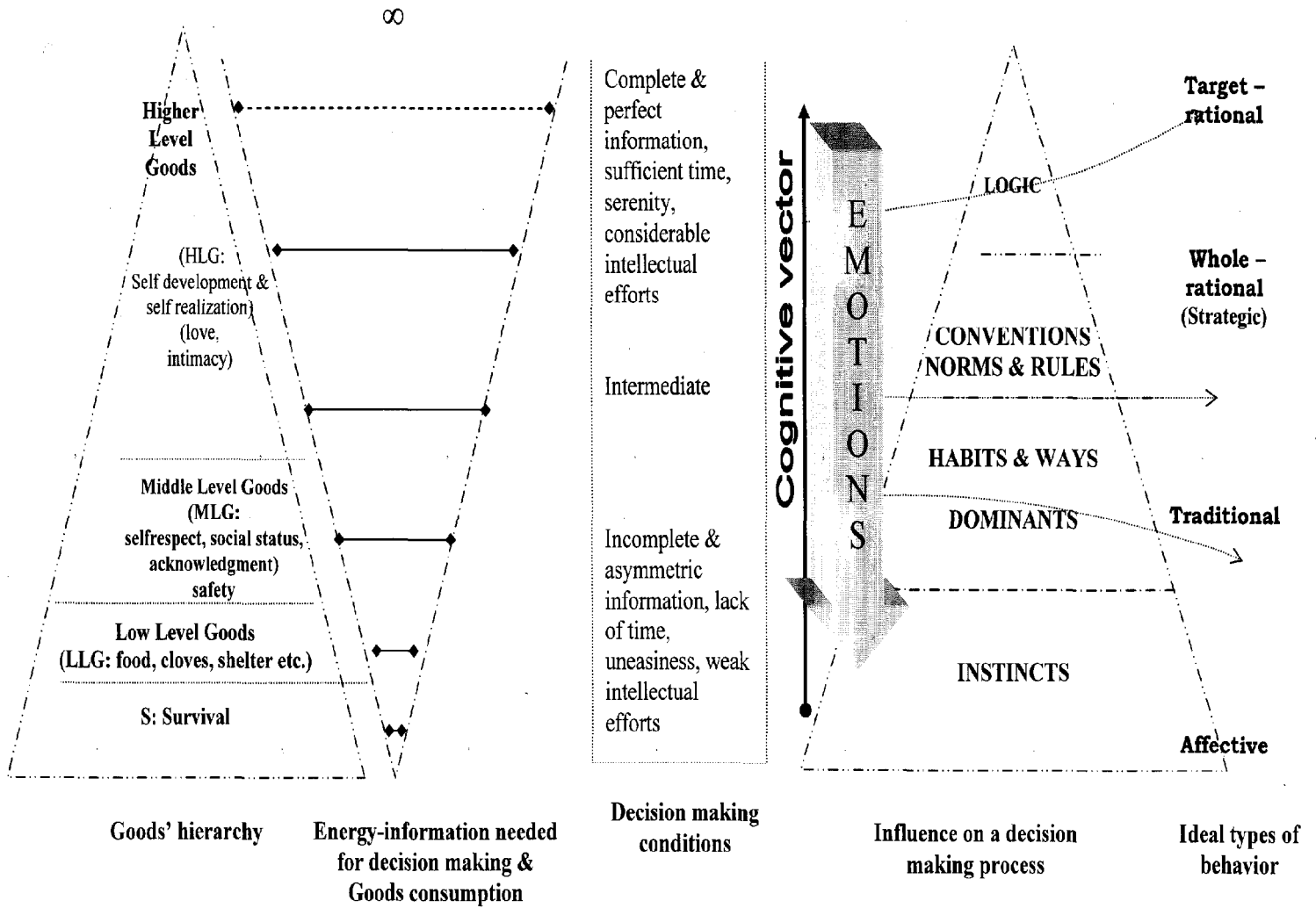


Fig. 1. Factors that determine Man's economic behavior.

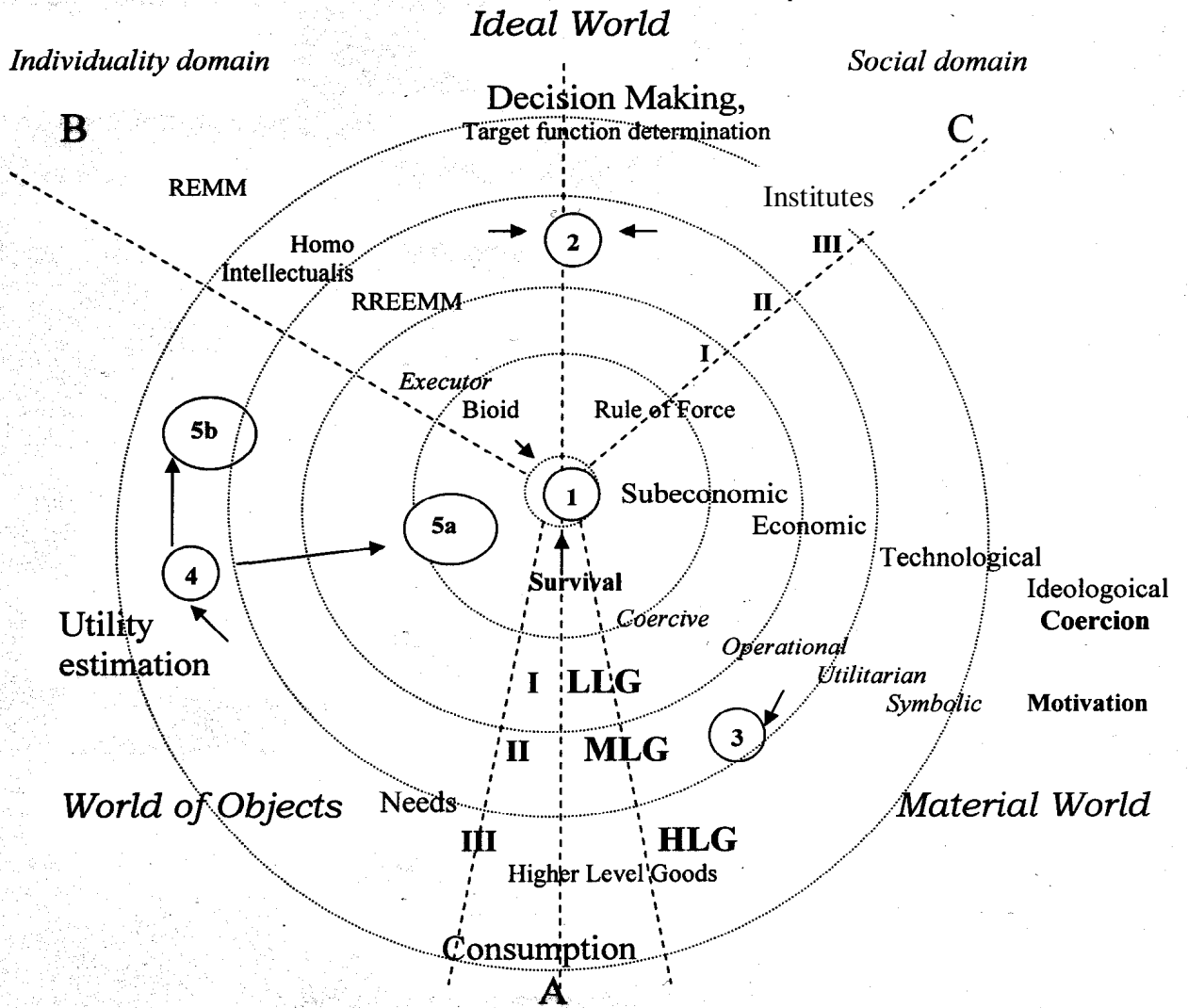


Fig.2. Illustration of the representations, believes, norms and institutions emergence and maintenance process (HIDS: Helical Institutions Development Scheme).



Fig. 3. An explanation of the dynamics of the knowledge based society structures within the HIDS framework.

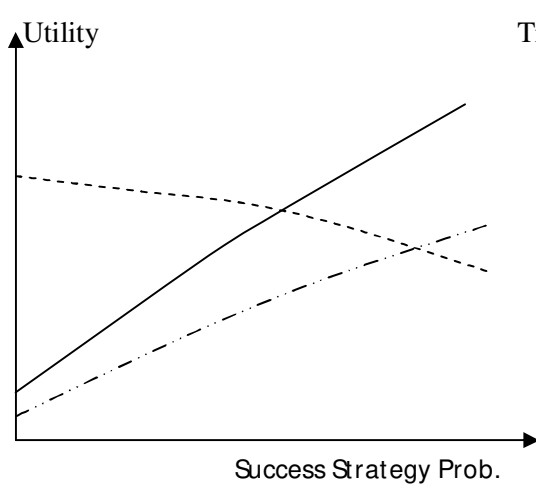


Fig.4. Interdependence between Utility indicator and Probability of successful strategy realization

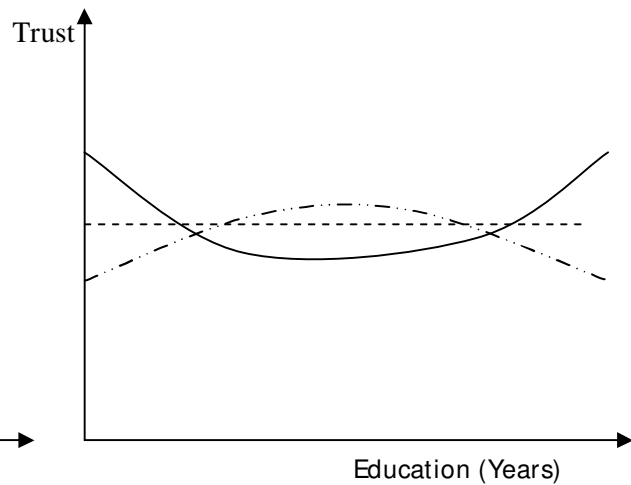


Fig.5. Interdependence between Trust indicator and Years of Education

Notation:

- workers from higher income households;
- workers from middle income households;
- · - · - · - workers from lower income households.

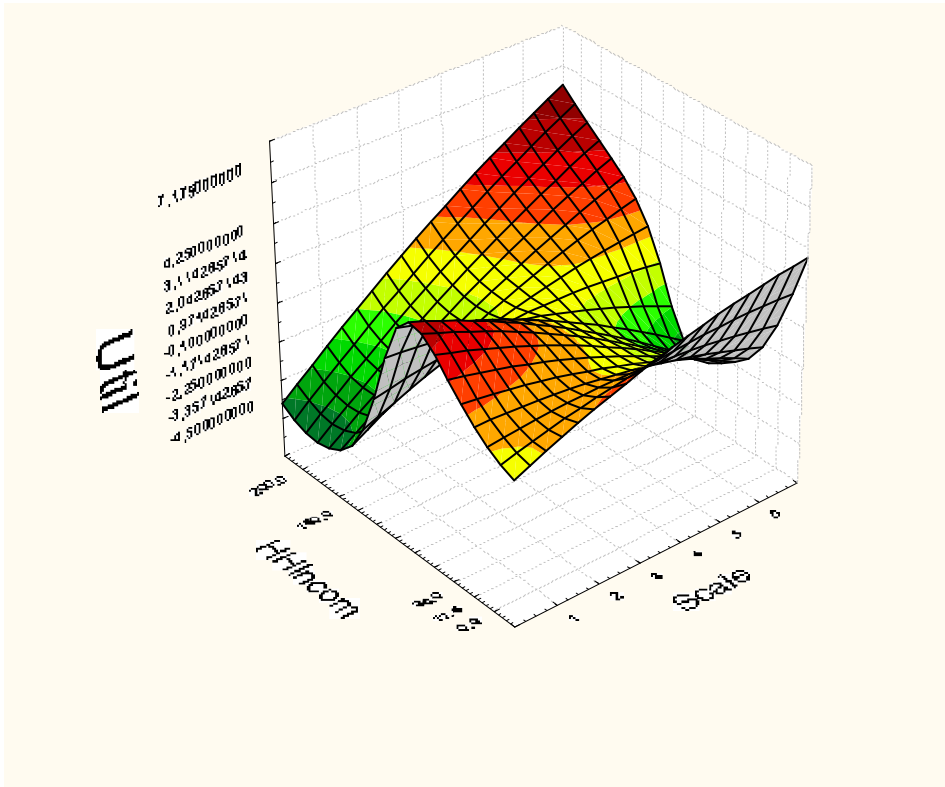


Fig.6. Interdependence between Utilitarianism values, household incomes and ILS curve types.

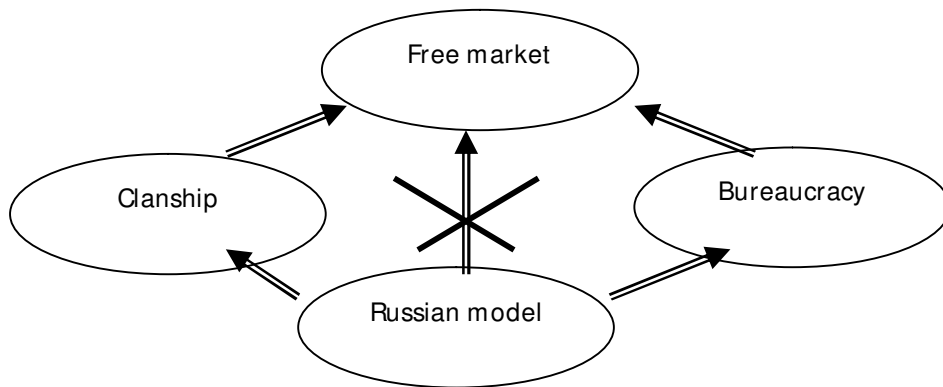


Fig. 7. Possible ways for a market oriented transformation in Russia.