

## ECONOMIC MENTALITY AS THE BASIS OF THE CHOICE OF THE VECTOR OF SOCIAL-ECONOMICAL SYSTEM'S TRANSFORMATION

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The issues of institutional transformation of the social and economic system of the Republic of Belarus are discussed. The importance of studying the phenomenon of economic mentality and its role in the processes of transformation of the institutional system is substantiated. The results of the study of the modern economic mentality of the Belarusian people are presented. The modern type of economic mentality and its influence on the choice of the institutional vector of transformation are analyzed. A cluster is singled out, to which the economic system of the Republic of Belarus tends, recommendations are given for further transformation, and the existence of the track effect is assessed.

**Key words:** economic mentality; institutional transformation; state-corporate type of economic mentality; track effect.

## ЭКОНОМИЧЕСКАЯ МЕНТАЛЬНОСТЬ КАК ОСНОВА ВЫБОРА ВЕКТОРА ТРАНСФОРМАЦИИ СИСТЕМЫ

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Посвящена вопросам институциональной трансформации социально-экономической системы Республики Беларусь. Обосновывается важность исследования феномена экономической ментальности и его роли в трансформации институциональной системы. Приводятся результаты исследования современной экономической ментальности и его влияние на выбор институционального вектора трансформации. Выделяется кластер, к которому тяготеет белорусская экономика. Даны рекомендации по дальнейшей трансформации социально-экономической системы Республики Беларусь.

**Ключевые слова:** экономическая ментальность; институциональная трансформация; государственно-корпоративный тип экономической ментальности; эффект колеи.

The economic mentality develops historically and determines the ideas, beliefs and intentions that set the course of action and the pattern of decision-making. As a result, it determines the institutional choice as the existing informal institutional matrix. Emerging formal institutions begin to define the framework of incentives, which determine the accepted norms, values and method of action. At this stage, there is a significant influence of external factors that can change internal perceptions, norms and values that subsequently affect the economic mentality by changing it.

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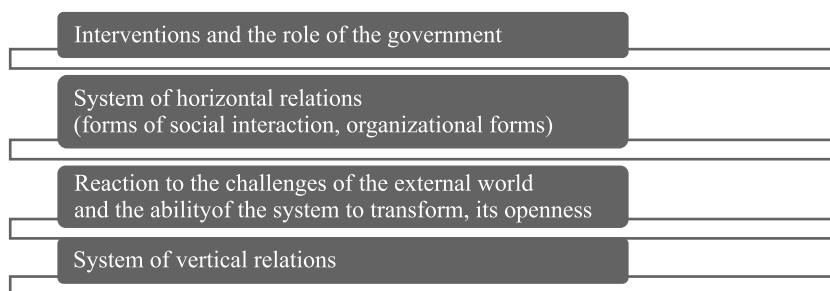
Economic mentality is a set of unconsciously-conscious patterns that form the perception of the external environment and thus the gestalt of behavior, thinking and decision-making. Economic mentality is the half-conscious experience that person does not analyze, but with the help of which the necessary actions and decisions are reproduced.

Economic mentality is not only the core that forms the type of perception of the environment and basic mechanisms of economic behavior, but it is also a kind of background that “colors” the perception of events, both external and internal. One and the same socio-economic phenomenon or process can be interpreted in different ways and differently assessed by different peoples, depending on the type of economic mentality. It is an experience that determines the framework for the perception of economic processes and phenomena. And economic decisions and behavior depend on the perception of the surrounding reality. Effectiveness and the ability to change behavior in new conditions are possible only if people understand and control the old patterns. Gradual modification of economic mentality is a reorganization of “old programs”.

The most important components of economic mentality are the value-motivational attitude to work and wealth, norms and patterns of social interaction, consumption patterns, organizational forms of economic activity, the degree of susceptibility to foreign experience [1]. An understanding of the interconnection and interdependence of formal and informal changes is the key to understanding the dynamics of institutional transformations. It has a great importance for the post-Soviet countries [2, p. 44–57].

Transformational economy is a modification in basic institutions. It is the interaction of formal and informal institutions that determines the vector of development of the socio-economic system.

All economic systems have unique and different characteristics, but all systems can be classified on the basis of common criteria. It makes the aggregate of elements in a single system (fig. 1). This is a structural basis that determines the type of socio-economic system.



Basic criteria for the formation of socio-economic system.  
Source: author’s own development

A survey was conducted to analyze the economic mentality of the Belarusian people. In the preparation of questions, questionnaires were used, composed by G. Hofstede [3], Trompenaars [4; 5], the GLOBE research [6]. Indicators of economic mentality were calculated by the author on the basis of the conducted survey using the Likert scale and the indexing method.

**Economic mentality of the Republic of Belarus**

Indicator	The characteristic of the indicator value
Uncertainty Avoidance	Belarusian people need clear rules and reject innovations and creativity; there is a fear to take the initiative; the changes are mainly considered by the negative side
Affectivity/neutrality	In the Belarusian economic culture restraint and neutrality, the ability to control feelings are appreciated. But at the same time, emotionality is also considered as norm. Depending on the situation, people can both show their emotions publicly and openly, and restrain them
Orientation in time and traditionalism	a) Belarusian society is more characterized by a short-term orientation. Time is perceived as linear motion along a straight line in the form of a sequence of events separated by each other. Planning and activities relate mainly to the present and the near future; people are more concerned with their current situation and obtaining maximum benefits in the present, even to the detriment of the future b) Belarusian society is characterized by traditionalism and conservatism
Masculinity versus Femininity	More closely to femininity: in society softness, friendliness, openness of contact, interaction of people, interpersonal attitude are highly valued, but careerism, money, assertiveness are appreciated too

Ending table

Indicator	The characteristic of the indicator value
Internal/external control	Mean value: a respectful attitude towards nature, but there is a desire to take nature under control and use to achieve goals
Universalism – personal bonds (particularism)	High level of particularism (personal bonds). Personal bonds are above the rules. For particularistic cultures, the priority is human friendship, human relations. Rules can be acceptable and executable, but certain exceptions are made in certain cases. In this society, priority is given to personal relationships and kinship ties. The behavior of a person strongly depends on the specific circumstances and people, involved in the situation. Also, society needs a sense of protection from the government
Attitudes to wealth	Mean value: people believe that wealth is the result of work, but on the other hand they think that luck is also necessary
Individualism/collectivism	In general for the Belarusian society is characterized by an average (moderate) level of collectivism and individualism
The relationship to power (power distance)	Above the average indicator of the distance of power: society delegates authority and allows the authorities to interfere in their lives; agrees that all decisions are made for them, there is a fear of making decisions by themselves; also people need a centralized type of system
Attitude to work	Above the average indicator of diligence, perseverance
The degree of openness	Low indicator of the degree of openness to change: Belarusian society can adopt the experience of others and enter into symbiosis with it, but with a considerable time lag and difficulties

Source: author's own development.

The influence of elements of economic mentality on the formation of a certain type of economic system can be represented:

1. Uncertainty Avoidance:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: negatively; old patterns of behavior and thinking interfere effectively transformation of the system based on new experiences; the rejection of innovative and creative approach with the initiative;

- the degree of influence and the role of the government: the degree of influence of the government is high; people need clear guidance and don't want to make decisions and solve problem themselves; they are afraid to express an opinion and take the initiative; passivity of civil society;

- system of horizontal relations (forms of social interaction, organizational forms): alienation; mostly organizational forms are based on a centralized management system and hierarchy; passivity; unwillingness to make decisions and take responsibility; solving disputable issues through higher-level leadership;

- system of vertical relations (system of hierarchy, power relations): strong centralization and hierarchy; bureaucratization, fear of superior leadership.

2. Affectivity/neutrality: the influence is neutral.

3. Masculinity/femininity:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: neutral; softness and the desire to adapt to external situations, but also the opportunity to be sharp and assertive;

- the degree of influence and the role of the government: the softness and tranquility of society allow government to intervene in many spheres and make decisions for society;

- a system of horizontal relations (forms of social interaction, organizational forms): a symbiosis of two contradictions: society evaluates family values, morality, harmony, interpersonal relations, but there is also a desire for careerism, assertiveness, ambition;

- the system of vertical relations (the system of building hierarchy, power relations): mainly the desire for an creation of warm and soft relations with others.

4. External/internal control: neutral influence.

5. Particularism/universalism:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: the desire to focus on traditional patterns of thinking and behavior, preferring the way of transformation "from above", the need in clear leadership and samples of behavior;

- the degree of influence and the role of the government: this characteristic determines the need for high government influence, the passivity of society;

- a system of horizontal relations (forms of social interaction, organizational forms): the need in clear rules and guidance in solving local issues;

- system of vertical relations (system of hierarchy, power relations): rigid hierarchy, high level of paternalism “from above”, initiative and dissent are not welcome.

6. Institutional collectivism:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: the leading role is given not to the individual, but to the institutions that define the framework and vector of coordination of people;

- the degree of influence and role of the government: the government defines a set of formal institutions that set the framework for people to interact with each other;

- a system of horizontal relations (forms of social interaction, organizational forms): the resolution of issues through third parties, and not by direct contact;

- system of vertical relations (system of hierarchy, power relations): the majority of formal institutions are directly selected by the government for loyalty to the state.

7. Institutional collectivism (individualism):

- reaction to the challenges of the external world, the ability of the system to transform, its openness: the leading role is given not to the individual, but to the institutions that define the framework and vector of coordination of people;

- the degree of influence and role of the government: the government defines a set of formal institutions that set the framework for people to interact with each other;

- a system of horizontal relations (forms of social interaction, organizational forms): the solving problems through third parties, and not by direct contact;

- system of vertical relations (system of hierarchy, power relations): the majority of formal institutions are directly selected by the government for loyalty to the state development goal.

8. Individualism/collectivism:

- reaction to the challenges of the outside world, the ability of the system to transform, its openness: on the one hand, it ensures synchronism and unity of action, while on the other hand in society there are prerequisites for analyzing and making decisions in terms of maximizing of own profit;

- the degree of influence and the role of the government: perception of government as a guarantor of common values;

- a system of horizontal relations (forms of social interaction, organizational forms): collective communal values are preached in the society, the need for sacrifice and the importance of common goals are realized, but at the same time atomism and individualism begin to appear;

- system of vertical relations (system of hierarchy, power relations): passivity and obedience of society provides an opportunity to build a rigid vertical power.

9. Attitude to wealth:

- reactions to the challenges of the external world, the ability of the system to transform, its openness: people tend to believe that the important role in the success and attainment of wealth play case and luck, although the need for work in the direction does not reject;

- the degree of influence and the role of the government: the political elite, taking advantage, can receive a wealth; the government and power are associated with the benefits that political authorities can receive;

- a system of horizontal relations (forms of social interaction, organizational forms): neutral influence;

- system of vertical relations (system of hierarchy, power relations): neutral influence.

10. Power distance:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: the passivity of society before the challenges of the external world; unwillingness to take initiative and responsibility; the need for strong leadership from government;

- the degree of influence and the role of the government: a strong influence; interference in all spheres; endeavor to eliminate dissent; centralization and directivity;

- a system of horizontal relations (forms of social interaction, organizational forms): isolation, passivity, unwillingness to show initiative;

- system of vertical relations (system of hierarchy, power relations): rigid hierarchy of society and vertical of power; society is passive in resolving issues.

11. Attitude towards work: positive influence.

12. Orientation in time:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: priority to traditional patterns of behavior;

- the degree of influence and role of the government: priority is given to the present, the government plays an important role in providing of present needs, even to the detriment to the future;
- a system of horizontal relations (forms of social interaction, organizational forms): spending more than income, life in debt;
- system of vertical relations (system of hierarchy, power relations): short-term planning.

13. Degree of openness:

- reaction to the challenges of the external world, the ability of the system to transform, its openness: the low ability to adapt to transformation and the difficulty of finding answers to the challenges of the external world;
- the degree of influence and role of the government: bureaucratization and conservatism of the government apparatus, inability to respond flexibly to external challenges;
- system of horizontal relations (forms of social interaction, organizational forms): the behavior and thinking of people depends on old routines;
- the system of vertical relations (the system of hierarchy, power relations): the model of vertical interaction due to traditionalism and low ability to transformation tends toward the Soviet model.

The algorithm of effective transformation of the institutional structure can be represented as follows:

- evaluation of economic mentality and its key elements;
- determination of the type of economic mentality;
- identify the ultimate goals of change and a set of final new formal institutions;
- determination of the relative similarity of types of economic mentality and formal institutions of possible exporting countries with the type of economic mentality;
- determination of the necessary vector of development of formal institutions and changes in the informal;
- creation of intermediate institutes and coordinating institute;
- the strengthening of the new institutional environment through the congruence of the functioning of formal and informal institutions.

In general, we can make the following conclusions on the institutional development of Belarus.

**The initial (historical) type of economic mentality:** since the end of the 18<sup>th</sup> century, the non-market type of economic mentality dominated in Belarus. It was largely due to the accession of Belarusian lands to the Russian Empire; until to the 18<sup>th</sup> century there were foundations for the creation of a market economy; but later a redistributive economic system was built up with a rigid centralized power and a communitarian ideology.

**Recommendations for Institutional transformation:**

- at the initial stage of the transformation, gradual changes are necessary, but in the future it is reasonable to apply more “quick” methods of reforming based on the adaptation of the population;
- it is necessary to take for the standard of reform not theoretical postulates and concepts, but real experience of countries that have a certain similarity in informal institutions and the historical path of development; for Belarus is the experience of the countries of France, Spain, Italy;
- it is necessary to create intermediate institutions for the adaptation of the population;
- development of activity “from below” and congruent interaction of the population and political will are necessary.

In the context of the transformation of the economic system, it is necessary to understand that there are no bad or good mental characteristics, it is important to use them correctly. Therefore, it is more appropriate to talk about competitive and noncompetitive characteristics.

Strengths:

- moderate individualism, on the one hand, it allows to follow the maximization of own benefit, the effective realization of economic interests, which has a positive impact on the development of small and medium-sized businesses; on the other hand, public priorities, respect for public and state property, social policy and mutual assistance;
- moderate indicator of affectivity and neutrality – it provides an opportunity to effectively establish business ties and international business with both Western and Eastern, Asian partners;
- short-term orientation in time – effectively develop short-term plans and solve present problems;
- moderate masculinity – in the society valued careerism, money, the presence of aggressiveness and assertiveness, but at the same time there is the ability to build warm relations with people, the opportunity to be gentle with others, the value of coziness;
- a moderate indicator of internal and external control – understanding and solution of environmental problems, but at the same time understanding of the technical factors and the importance of moderate anthropogenic impact on nature;
- attitude to work.



Weak sides:

- high level of avoidance of uncertainty – lack of initiative, the need for clear leadership from the top, the complexity of adapting to innovation and new rules and norms and the fear of everything new;
- short-term orientation – an emphasis on the past and present, the difficulties with the development of long-term programs and the ability to think in advance, there is no attention to future generations, the inflexibility of solutions;
- particularism – the priority of personal relationships, by passing the law and formal norms: it leads to a low potential of managerial staffing;
- attitude to wealth – not only as a result of own labor, but as a result of luck and ties;
- high power distance – fear of leadership and power, lack of initiative;
- degree of openness – closeness and inflexibility of thinking and system, the complexity of adaptation to the new.

Capabilities:

- moderate individualism – personal abilities as the basis of achievements, self-sufficiency, achievement of the set goals; moderate collectivism – the practice of joint projects, mutual responsibility;
- paternalism – informal relations can provide productive results, the importance of reputation, mutual responsibility;
- moderate masculinity – purposefulness, prudence, effective cost-benefit analysis, aspiration to work for results;
- diligence – high labor productivity;
- short-term orientation – the successful development of short-term projects, partner analysis, emphasis on reputation, quality standards;
- environmental programs.

Threats:

- low innovative potential of the country;
- low degree of activity of civil society;
- difficulties in the development of private business;
- the existence of the problem of “favoritism”;
- the possibility of falling into institutional traps;
- discrepancy between public and private interests;
- bureaucracy;
- fear of independence and personal autonomy.

Thus, informal institutions, and first of all, economic mentality, have fundamental role for choosing the most effective vector of transformation. It determines economic thinking and behavior. Ultimately, these stereotypes determine the directions of institutional transformations and their result. Formal rules should be based on informal norms and values, otherwise their effectiveness is reduced, and the results of transformations can be unpredictable.

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