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Culture and Institutional Changes and Their Impact on Economic and Financial Development Trajectories

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Abstract: The quality of institutions occupies a central place in the set of non-economic factors influencing macroeconomic dynamics and the development of financial markets. This quality is largely shaped by objective factors that accompany the historical process. Therefore, this study focuses on the driving forces of this process and how they affect the quality of institutions. It is shown that the main such force or source of institutional change is culture, interpreted in a broad sense, which includes not only that accumulated at different stages of the historical process relevant heritage, but also behavioral attitudes and value beliefs prevailing in society that affect decision-making. The thesis about the importance of culture as a source of formation of the quality of national institutions and a factor of sustainable economic dynamics is substantiated through the example of specific historical events. Underestimation of this conditionality often prioritizes economic policy goals of financial development without due consideration and assessment of institutional constraints. This factor in macroeconomic decision-making is mainly characteristic of emerging market economies. At the same time, the results of research in recent decades indicate that the impact of financial development on macroeconomic dynamics is positive and strong in conditions of high-quality institutions. This allows the article to assess the role of finance and the quality of institutions differently in the set of state economic policy priorities. As applied to individual countries with obvious deficiencies in the institutional environment, this study, referring to historical experience and modern empirical material, puts forward and substantiates the thesis that ensures a high quality of institutions is the most important priority of transforming financial development into a factor of positive and sustainable economic growth.

Keywords: quality of institutions; institutional changes; culture; economic growth; financial development

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1. Introduction

Studies of the last three decades have been devoted to identifying the relationship between financial development and macroeconomic dynamics. The direction and measure of interaction between these processes turn out to depend on the quality of institutions that ensure the functioning of the economies of individual states, their unions, large regional formations, etc. It is obvious that the difficulty of formalizing any qualitative parameter (which should include institutions) determines the difficulties of an accurate and reliable assessment of the threats associated with the state of this parameter, its impact on financial development and growth. At the same time, currently available empirical evidence and statistical assessments indicate the presence of a direct and significant conditionality of macroeconomic dynamics with financial development. These processes are accompanied by high-quality institutions and, consequentially, low risks associated with the state of the institutional environment. Bearing these risks in mind, the study is mainly devoted to the quality of institutions, implying that the potential of these risks is inversely proportional to this factor, which, in particular, consists of the measure of protection of the property rights of economic organizations and citizens, the interests of participants in the investment process, the nature and number of judicial decisions in the economic sphere and much more. This quality is identified and evaluated in various ways, including through the use of economic indicators, for example, demonstrating the scale of the inflow or, on the contrary, the outflow of capital into/out of the country. This approach has both its pros and cons. The advantages consist in simplicity of estimations and interpretations. Particularly, indicators of capital inflow/outflow can be used as evidence of the investment climate and quality in the economy for a certain period. The disadvantages are, for example, the threat of transposing economic assessments, which are more likely to indicate the opportunistic properties of the system, to its fundamental properties.

The quality of institutions or institutional risks, assuming assessments of the predominantly legal environment of economic processes, is also characterized by well-established legal traditions, fixed in the relevant legal regimes. Directly related to the quality of institutions, the legal factor is considered as a separate determinant of financial and macroeconomic dynamics, along with political conditions and the degree of centralization, manifested in financial and macroeconomic decision-making. These factors are expressed in the established degree of accumulation of tax and other revenues by the upper level of the budget system. The selection of these three factors into independent units of analysis of empirical data and statistical evaluations does not eliminate their institutional background or their dependence on established traditions in decision-making. In this regard, turning to the historical retrospective is often useful for identifying the reasons hindering the pace of financial development, justifying measures aimed at modernizing existing institutions and building new institutions that create opportunities for overcoming lags in social and economic dynamics.

2. Literature Review

Consideration of institutions' quality producing the corresponding risks should be preceded by reviewing the provisions of the conceptual order on the foundations of institutional changes that have taken place throughout the historical process and economic development. Thus, the study is limited to analyzing the role of institutional conditions in economic growth and financial development, rather than the content of specific threats to them and their quantitative assessment. An important assumption, moreover, is that both economic growth and financial development are equidistant from the quality of institutions.

The interdependence of financial development and economic growth observed at the empirical level does not mean unanimity in positions on cause-and-effect relationships in the interaction of these processes. Early sources draw convincing conclusions about the important and significant impact of financial development on growth (Schumpeter 1911; Hicks 1969; Goldsmith 1969; Gurley and Shaw 1955). This view of the relationship between financial development and growth was reinforced later in the 1970s (McKinnon 1973; Shaw 1973), and in-depth studies on its outcome have been published using extensive empirical material (Beck et al. 2000; King and Levine 1993; Levine and Zervos 1998; Levine et al. 2000). It should be noted that the causality of the general economic development, which formed a set of conditions for the improvement of the complex financial system, and the financial factor's link to it were investigated even earlier (Robinson 1952; Patrick 1966). A number of arguments indicated that the role of financial development in growth was greatly overestimated by economists (Lucas 1988). At the turn of the XX–XXI centuries, there was a paradigm shift. First, the linear relationship between financial development and economic growth is actually refuted, then it is recognized that it disappears at various threshold values of indicators of financial depth. It also turns out that the nature of this dependence is predetermined by the parameters of the financial structure, the absence and varying degrees of macroeconomic stability, and the intensity and speed of globalization.

Regarding the role of institutions, it has been found that financial development has a greater impact on economic growth when the financial system is embedded in a sound institutional structure (Demetriades and Law 2006). The question of the quality of institutions, assessed in various ways and by different organizations, becomes, if not decisive, then at least topical for the correction of regulatory practices. These actions, among those focused on manageable factors, can achieve macroeconomic targets if sustained and balanced financial development is seen as a condition for economic growth.

Without disputing the reliability and practical significance of the obtained estimates of this dependence, it seems important to pose the problem regarding the possible opposite direction of the causal relationship—to be more precise, the conditionality of financial development by socio-economic development. The theoretical provisions of the Marxist, Keynesian and other traditions of economic research close to them speak in favor of the subordination of money, and even loan capital, which eventually acquires the features of fictitious, industrial capital. This, however, does not detract from the importance of finance in later periods of their expansion. As already noted, financial development and economic growth are interdependent processes. In the context of the problem posed in the title of this article, it is important to recognize that the quality of institutions is equally important both for ensuring acceptable economic growth rates and for financial development. In this regard, in the following, the quality of institutions as the most important non-economic factor equally affecting the interests of economic and financial processes is discussed.

3. Methodology

When conducting the analysis, the authors proceeded from the methodological approach, which determines the importance of institutional changes in solving problems of socio-economic development. This condition is the strongest in countries characterized by insufficient quality of institutions, which, in turn, determines the need to identify factors and conditions affecting this quality. Culture can be one of such factors.

The purpose of this research is to prove the hypothesis about the interdependence of institutional changes and cultural features, as well as the influence of this connection on the trajectories of economic and financial development. To achieve this goal, it is necessary to turn to the methods of comparative historical analysis, including economic processes. The analysis of historical events has shown that cultural characteristics have influenced and continue to influence the nature of economic decisions, accelerating or hindering economic growth and financial development. A certain quality of institutions corresponds to these characteristics. Being inertial in themselves, these features can be transformed by reform impulses, laying the foundation of future institutions in a new and productive quality.

If today the quality of institutions is the object of assessment, including that which is carried out by international organizations, the assessment of the cultural factor remains mainly a subject of scientific research, and it is partly carried out with the help of sociological surveys and questionnaires. These conditions have determined the necessity to use methods of macro- and micro-analysis at the second stage of research. In the first case, macro-processes are analyzed, the way the dynamics of macroeconomic indicators and indicators of financial system development depended on the quality of institutions assessed by the system of indicators whose values were formed under the influence of the cultural factor as well. This factor is analyzed by using both empirical materials describing the events in the recent history of the Russian Federation and the results of previous studies dedicated to the identification of individual values, which are one of the most important indicators of cultural characteristics. The combination of the methods used allows us to conclude that culture and the quality of institutions are interdependent, and that this relationship influences economic growth and financial development, which can accelerate each other under conditions of high quality.

4. Results

What were the patterns and specific conditions for the formation and subsequent development of institutions? What are the driving forces that unwound this evolutionary path? The results of this evolution vary from country to country, and, admittedly, contain the potential to influence the tendencies and pace of economic and financial development.

The most significant of the forces mentioned above is culture, interpreted in accordance with the canons of its representation in modern institutional analysis.

Research in the field of institutional economics has been focused on questions of the historical process' mechanisms and economic development as an important part of it. One of these mechanisms is culture, understood in a broad sense. Interpretation of its influence on the course of the historical process, economic development and related trajectories in the formation and evolution of the financial system is associated with the need to study the corresponding phenomenon, its role in the mentioned process, and the formation of national institutions. Such an analysis, in its task, claims to be a fairly wide measure of coverage of empirical data and therefore requires reliance on the results presented in the modern analysis of this phenomenon.

The current study attempts to illustrate the impact of culture on historical events, an important part of which is the process of formation of national institutions. These institutions, in one capacity or another, produce both risks and opportunities, and are capable of exerting and are influencing the trajectories of economic and predetermined financial development. The recognition that the quality of institutions largely determines the possibilities of economic growth has already become commonplace in the assessment of economic reality. The research paper does not rely on the traditional representation of culture, but from the standpoint of the underlying motives behind decision-making and the factors influencing this process. Regarding this, the latter best illustrates the value beliefs and behavioral attitudes that are dominant in society. This kind of interpretation of such a comprehensive concept as culture is determined by the purpose of the analysis, which consists in identifying the ways in which the phenomenon can affect the trajectories of historical development and economic dynamics. As a result, the current study mainly relies on the provisions of Western analysis regarding the interaction of decision-making's cultural characteristics and the course of the historical process, an integral part of which is economic and financial development.

The underestimation of the influence of culture on the historical series of events is largely due to the fact that this concept, in the view of individual researchers, does not have a strict generally accepted definition from the standpoint of the grounds or driving forces for decision-making. Subsequently, N. Nunn points out that "the concept of culture is that it is necessary to make a decision based on heuristic rules when it becomes necessary to make decisions in complex and uncertain conditions" (Nunn 2012). If the collection of information turns out to be expensive and imperfect, then the decision is made based on empirical rules and heuristics (Boyd and Richerson 2005). The choice of what to do in a certain situation has to be made based on values, beliefs, and instinctive feelings. There is no cost to addressing these attitudes and feelings, which in a significant number of cases outweighs the inaccuracy of the information. The dominant behavioral attitudes, values, and beliefs developed by culture thus determine decisions, activating the subjective factor of the historical process. They often determine the course of the latter, which in turn provides numerous forks in the economic movement. N. Nunn rightly points to the main characteristic of the cultural factor—its inertia—saying that culture is "a slowly moving quantity, the evolution of which can affect historical events" (Nunn 2012). At the same time, the presence of important feedback is not disputed, but expressed in the fact that historical events influence the process of formation and dissemination of cultural traits, thereby influencing long-term development trajectories. An important conclusion that follows from all this is that cultural characteristics and the historical process are closely interconnected. Within this interaction is economic development with all its attributes and branches, including those associated with the formation and functioning of the financial system. In the historical context, attempts to study cultural characteristics and their impact on macroeconomic dynamics were also made in domestic analyses (Fiapshev et al. 2014).

Thus, the driving forces of the historical process and its constituent economic development are complex and numerous. Among them, as already noted, there is also a cultural factor, the transformation of which is at the same time the result of this process. Thus, the legacy of this factor should not be perceived as a kind of curse, including when assessing economic prospects. However, its inertia requires efforts in accordance with the extent to which it is rooted in existing institutions.

Empirical data in the study of the influence of culture on the historical series of events and, accordingly, on economic development are essential. Different societies in the course of their functioning often face the same problem. It seems to involve approximately the same set of available actions. However, in the end, different decisions are made. The explanation for these differences is seen in the fact that decisions are made in different environments that have their own history and culture. Thus, it has been noted that decision-making mechanisms in Eastern and Western cultures differ markedly (Nisbett 2003). The West, identifying the cause mainly analytically, often resorts to abstraction, separating objects from their environment. Oriental societies, as a rule, explore the problem as a whole, proceeding from the premise that objects are closely connected both with each other and with the environment external to them. An analysis of the European and Asian cultural traditions shows that the former is based on its inherent pragmatism, based on separating the essence from the diversity of the observed. The second is based on an assessment of the origins of a phenomenon or problem, its root connections. For a long time, these features determined the trajectories of the evolution of these societies, the differences in institutions. Today, the results of this movement are on the surface, they are present in applied management technologies, decision-making methods, etc. At the same time, it must be recognized that the logic of the historical process, its economic background, forces us to "reject" inefficient institutions, abandon traditions and values that hinder development and make technological leaps, which are integral for progress, impossible. Differences in fundamental institutions are gradually minimized. This process is reflected mainly in the political system, the rule of law, and regulatory practices. We find confirmation of this result from the recent history of individual Asian countries that have given an example of effective political, economic and cultural modernization (Japan, South Korea, Taiwan, partly Singapore, which generally supports its traditional political institutions of an authoritarian nature, but not unsuccessfully put them "on service" to economic interests).

In assessing the significance of the studied non-economic factor in the historical process and economic development, it is also important whether culture can be determined by history. The experience of the aforementioned countries' development provides sufficient evidence of these processes. Indeed, historical events can lead to the transformation of cultural characteristics and their subsequent dissemination. Confirmation of this conditioning can be found in the recent history of post-Soviet and post-socialist states. Thus, we see that in some countries the influence of the previous path of development has been noticeably minimized, inefficient attitudes have been discarded, and new institutions have been created that gave impetus to socio-economic transformation. Additionally, somewhere, on the contrary, rudimentary cultural features and institutions inherent in them turned out to be extremely inelastic to external impulses. There was no significant response to new challenges here. Additionally, it is not just a matter of the inertia of cultural characteristics. This factor is still present, and it apparently requires great efforts in the political superstructure to correct the course of the historical process and economic transformation. Indicative in this regard are individual countries of the former USSR (Russia, Belarus, the countries of Central Asia). Thus, in Western countries, perceived today by the majority as examples of management, regulation of relevant practices and solving social problems, the ideology was built on the foundation of a market social culture. This was facilitated to no small extent by the "market nature" of economic dogmas, their inherent encouragement of the values of the market order. In Russia, the modernizations undertaken not only of a reformative but also revolutionary nature often, despite the declared values, weakened the "rudiments of marketism", consolidated the ambivalence of the cultural code with its inherent extremeness in judgments, motivations and actions (Emelyanov and Khachaturyan 2009). Having embarked on the path of economic modernization somewhat later than other Eastern European countries, the Russian Federation still managed to build the basic institutions that correspond to the conditions of the market order in the 1990s. Processes of privatization of the property complex, formation of the country's legislative basis and decentralization of financial system, despite facing many challenges and obstacles in their implementation, promoted the development of entrepreneurial initiatives, expansion of self-government practices and enhancement of regulatory practices. These results were already evident by the end of the last century, when the recovery and subsequent economic growth following the 1998 crisis began to acquire more features of stability, typical of investment-based development. Finally, external circumstances relieved Russia of the restrictions on increased sales of the commodities that formed the specialization of national exports. All these factors determined the architecture of economic growth at the beginning of the 21st century, the parameters of which are not exclusively linked with the foreign economic situation that was favorable to Russia in those years. Comparing the dynamics of the six indicators that make up the composite index Worldwide Governance Indicators (Worldwide Governance Indicators (WGI) Project n.d.), the article notes a decline in the values of such important indicators as Voice and Accountability, Rule of Law and Control of Corruption since the second half of the 1990s. Moreover, the values of the first two indicators in 2021 are noticeably lower than in 1996, while the third, having increased during the first fifteen years, fell by the end of 2021. The dynamics of the other three indicators—Political Stability and Absence of Violence, Government Effectiveness and Regulatory Quality—have been uneven over the past 25 years. The Regulatory Quality score was significantly higher at the end of the first decade of the analyzed period, but then declined to the level of the mid-1990s. The study compares the values of indicators characterizing the state and development of institutions in the Russian Federation, as well as in five post-Soviet and three post-socialist countries. The sample consisted of the Czech Republic, Romania, Poland, Estonia, Latvia, Lithuania, Georgia, and Kazakhstan. The choice of these countries was predetermined by the fact that, at the beginning of the reform period, they were all in relatively the same conditions, while the vast majority of them are now members of the European Union. Such membership indicates that the quality of institutions in these countries generally meets EU standards. Indeed, positive dynamics in all indicators can be observed, noting only insignificant country-related differences. They consist in the fact that the countries have moved at different tempos to improve their institutions, and today they occupy different positions in the relevant rating. The dynamics of other post-Soviet countries—Kazakhstan and Georgia—are noteworthy. The former, not without difficulties and not without setbacks in some periods, is moving towards improving the institutional environment. Today, the values of all relevant indicators for Kazakhstan are higher than Russian values, and by such indicators as Rule of Law and Control of Corruption, the excess is double. In Georgia, there was a noticeable growth in all institutional positions, and later during the second decade of the XXI century there was a setback, which not without reason can be seen as a partial loss of the country's political-economic achievements of the previous period. A similar picture, but on an incommensurably larger scale, is noted by experts in the Russian Federation. Although the analyzed ratings are not without a certain amount of subjectivity due to the peculiarities of calculating the indicators that form them, the study notes that the values of these indicators, as well as the aggregate index reflecting the quality of institutions, significantly correlate with the indicators characterizing the state of the economy and social sphere.

The fluctuation in Russian indices over the last twenty-five years is fully consistent with the logic of interaction between cultural specificities and institutional changes. The latter have substantially undermined the cultural blocks that stand in the way of economic development. The positive macroeconomic dynamics, which emerged at the turn of the century, helped to overcome the inertia inherent in the phenomenon of national economic culture. The subsequent slowdown and the suspension of institutional modernization minimized and soon eliminated the possibility of a positive impact of the modernization process on many aspects of social life. In the economy, this impact is demonstrated by a marked shift in the trajectory of its development. In some years, this trajectory reached negative values. However, the most important aspect is that this process was accompanied by the consolidation of its dynamic and structural characteristics, which minimized the efficiency of the state's stabilization. In particular, this manifested itself in a pronounced trend towards nationalization of the economy, excessive regulatory and supervisory practices that provoked instability in the dynamics of its most important sectors, and weakened the effectiveness of economic incentives to support the development of these sectors. Under these conditions, priority was given to levers of direct action on economic and investment activity and the use of state budget resources for these purposes. At the same time, the efficiency of utilization of budgetary funds was no longer supported by the weakened and eliminated institutions of independent control. These investments generally supported the dynamics of GDP, but they did not give it proper stability. This feature is also characteristic of changes in GDP per capita. This conclusion follows from a comparison of the dynamics of GDP per capita in Russia with the corresponding indicators for the group of countries that formed our sample (The World Bank n.d.). The Russian dynamics of this indicator is more unstable than in other countries (including Kazakhstan and Georgia), and its values are noticeably lower that the levels achieved by the former Soviet republics and the socialist countries that are now EU members. The lag of Russia from Romania, which is in the bottom of the chosen countries from this group, in 2021, was more than USD 1500, and from the leader, Estonia, more than USD 15,000. Additionally, Kazakhstan's GDP per capita indicator approached the Russian level of the corresponding indicator. Against this background, the level of financial development of the Russian economy, characterized by the relevant synthetic index calculated by the IMF (IMF Data to Macroeconomic & Financial Data 2022), is high relative to the level of the countries in our sample. This index takes into account a set of conditions for the development of financial institutions and markets, including their efficiency and depth. The developed situation should be considered as a result of efficiency of the policy of the Russian central bank. On the one hand, this policy had an obvious stabilization effect giving impetus to development of all sectors of financial markets. On the other hand, it fixed and deepened the gap between macroeconomic dynamics and financial development, which once again confirmed the thesis that this development can have a positive effect on economic growth when the quality of institutions is high.

The economic and social order was inextricably linked and is still connected today to Russia with state power, as well as distrust of the institutions of self-government. Perceived as inevitable, paternalism is both the source and the consequence of this syndrome. Implemented in an excessive number of spheres of public life, state participation consolidates institutions appropriate to this measure and the nature of influence, not only encouraging dependence in economic decisions, but, moreover, scaring citizens away from this kind of activity. This syndrome is confirmed by the peculiarities of macroeconomic dynamics, the structural characteristics of the Russian economy, and the quality of governance, which is not conducive to reducing the severity of the social situation. Today's Russian reality gives rise to many questions regarding the determination of further directions of political and economic development. Despite the proclaimed state priorities, this reality refutes the thesis of public consensus for the recognition of the latter and so far does not give grounds to consider the current situation as completely stable and healthy. Evidence of this is the persisting xenophobia, the growing gaps in the standard of living of the population, territorial differentiation, and the still insufficient development of entrepreneurial potential. These features perpetuate the inefficiency of functioning institutions, increasing the potential for institutional risks, making the possibility of modernization without breakthroughs in the development of the political system and legal infrastructure less and less elusive.

To prove that historical events can influence cultural characteristics, examples from the history of migration to the United States can be cited. The long-term consequences of the slave trade here were expressed in the fact that this vicious practice was reflected in cultural norms and the behavioral characteristics determined by them of the descendants of those who were subjected to it. People became less trusting, and institutions remained inefficient for a long time. Subsequently, their radical transformation took place with incredible effort, but social tension persisted for a longer time (Nunn 2012). It must be said that the role of trust in economic life can hardly be overestimated. The well-being of a nation, its ability to compete, largely depends on the presence of this element in social and economic life. F. Fukuyama defines the level of trust as one of the most important cultural characteristics that permeate all layers of social life and is expressed in the fact that people expect normal, honest behavior and mutual assistance from each other, as generally recognized norms suggest (Fukuyama 2004).

Thus, cultural change is an important channel through which the formation and development of institutions takes place. The process of institution-building in North America by migrants from Europe is a compelling example of this dependence. They were shaped by the values and beliefs brought by immigrants. There are four waves in describing this process (Fischer 1989). Differences between immigrants of different waves led to differences in institutions that persisted in North America for a long time, hindering the development of certain territories and leading to known, extremely painful conflicts. However, there were also values and beliefs about equality, freedom and the role of the state. In the end, they proved dominant. What was also important was that migrants, as carriers of these stimulating institutional attitudes, took with them technologies that influenced long-term development. These two competing explanations for the long-term perspectives opened up and realized by the movement described constitute essentially the same evolutionary process (Nunn 2012).

Returning to the influence of the cultural factor on history, it makes sense to reinforce the significance of this influence with European examples. The groups of mercantile capital that dominated in the late Middle Ages represented two geographical areas. The first were the Maghreb states; the second were the Italian city-states, which practiced a republican type of government. In essence, these trading societies embodied different types of cultures. The first was collectivist and the second individualist. These differences determined different trajectories of their development. The collectivist tradition relied on appropriate procedures, including those practiced in dispute resolution. The individualistic strategy of punishment was characteristic of Italian merchants. These differences and peculiarities influenced the development of societies considerably. The city-states of the Apennine peninsula, relying in their social and economic life on the traditions of Roman law, formed institutions that promoted the primacy of individual responsibility. They thus laid the foundations for the subsequent development of many European countries. Where responsibility was blurred, collective principles of economic management prevailed, production efficiency fell steadily, and institutions degraded (Gaidar 2005).

The successor countries of these types are located in the same geographic belt of the Mediterranean. These are the countries of southern and partly western Europe, which are models of market economy with developed financial systems, and the countries of North Africa. The development of the latter has been influenced by their subsequent colonial status and by the religious factor, the full analysis of which on the trajectories of economic and financial development is often constrained by well-established considerations of an ethical nature, which, admittedly, camouflages a considerable part of the palette of circumstances of a non-economic nature that influence these trajectories. In this case, the factor of religion is closely correlated with the cultural factor. Considering all limitations, it is seen as important in determining the path of the historical process and related directions of financial and economic development. Of course, this factor has its influence through the institutions. This link was shown even by M. Weber (Weber 1990), who essentially linked the Reformation and the formation and emergence of the capitalist order. In his view, Protestantism contributed to the emergence of forms of behavior specific to this way of life and economic activity.

While generally acknowledging the evidence for the role of cultural differences in influencing the nature and quality of institutions, it should still be noted that these differences can diminish. Within one state, there is a progressive suppression of ineffective institutions. Institutions that promote economic activity and financial development, with appropriate political efforts, sometimes of a revolutionary nature, become dominant. Proof of this impact has been demonstrated by the Asian countries mentioned above, as well as a number of former Soviet republics (the Baltic states, Georgia). Thus, culture and institutions interact with each other, being in close connection in the historical process. In this movement, they are capable of reaching a balance. A culture based on cooperation prefers institutions that follow its principles and even reinforce this interaction. In contrast, conditions that do not conform to these principles perpetuate ineffective institutions.

The interpenetration of the course of history and culture, as well as the process of formation and development of national institutions, their permanent interaction, the presence of feedbacks and side effects in economic development, is confirmed by an extensive body of empirical evidence. Culture can be a driving force of historical events, as well as a brake on economic development. Underestimation of the importance of this factor provokes unreasonable economic decisions, when the practical implementation of the latter, even with minor emerging difficulties, can lead to a chain reaction of socio-political destabilization, the destruction of the entire array of national institutions. At the same time, radical historical events can transform the cultural layer in terms of dominant behavioral motives. In this regard, the task of the state as the most important national institution is to use this transformation process to modernize the institutional environment and achieve the declared goals of economic development.

5. Discussion

Cultural change and the improvement of the quality of institutions are an important channel through which history continues to exist and develop today. Many historical upheavals, including the slave trade, waves of migration, wars, revolutions, etc., had long-term consequences on culture, institution-building, and economic development. Ideas about justice, freedom, and the role of the state in society as an essential part of the behavioral attitudes of representatives of a particular culture have determined the nature and quality of the institutions that have been established in varying countries.

Differences in these perceptions have determined the gaps between the developed market countries and the so-called catch-up countries, which, due to various circumstances, often institutional, remained on the sidelines of the historical process. Additionally, the main driving force of the latter in the view of all conceptual economists is economic development with all its structural components, including the financial market, as well as an extensive set of attributes that signal the standard of living, wealth, inequality, etc.

A vast stratum of modern political economy, studies of financial development's impact on the pace and quality of macroeconomic dynamics, convinces of the fairness of the overwhelming number of conclusions about the role of the institutional factor. A thorough review of studies devoted to the identification of this role, presented in (Glaeser et al. 2004), points to plenty of evidence that higher institutional quality enhances the impact of financial development on economic growth, while poor institutional quality prevents it. In fact, financial development promotes growth only when there is a strong institutional framework, where there is protection of private property rights, compliance with contracts that minimize the effects of information asymmetry and other transaction costs in the financial sphere. With the emergence of global standards of institutions (International Country Risk Guide, Global Governance Indicators, Freedom House and Fraser Institute) (Worldwide Governance Indicators (WGI) Project n.d.; The International Country Risk Guide (ICRG) n.d.; Economic Freedom n.d.) that take into account such components as the rule of law, corruption, bureaucratic quality, government stability and accountability, democracy, etc., they began to be actively used to obtain estimates of the impact of institutional quality on financial development, and consequently on macroeconomic dynamics in both developed and developing countries.

All these components were found to be fundamental to the link between finance and growth (Ehigiamusoe and Samsurijan 2019). Institutions can mitigate or worsen the information frictions and transaction costs that characterize financial sector development.

Additionally, their quality plays an important role in strengthening the link between growth and financial development because they define property rights, protect nonprofits, enforce contracts, and influence macroeconomic and financial policies. Better investor protection is known to minimize risk, and it leads to a lower share of debt in total external financing, more investment, and faster growth. Additionally, better execution of financial contracts reduces the predictive power of domestic resources for capital investment. The better the institutions, the better financial development will promote investment and growth by reducing severe financial constraints. However, the acceleration of financial development may not be reflected in macroeconomic dynamics due to corruption, unsustainable law enforcement or political interference, which may divert resources to unproductive or wasteful activities (Law et al. 2013; Law et al. 2018).

Another important issue is the design of the financial system, in which different solutions determine varying trajectories of financial development, most often classified according to the measure of dominance of the banking segment in this process. The relevant determinants in the choice of one or another financial system design have historically been shaped by non-economic factors as well. In this part, studies focusing on the role of political and legal factors deserve to be highlighted (Rajan and Zingales 1999; Verdier 1999). These factors, as interpreted by the authors under consideration, generally fit into the above definition of culture. These studies are based on available empirical data, covering the period from the end of the 19th century to the beginning of the current one. The results obtained, mainly with reference to Western European countries, contain different assessments of the influence of the political structure characterized by different measures of state centralization on the design of the individual components of the financial system. However, for the latter as a whole, there is also historical evidence that government and interest group support for the growth of financial institutions determines the course of development (Rajan and Zingales 1999). As for the design of the banking system, there are results arguing for the possibility of building this system on the principle of universality of the institutions' activity, when the state centralization was sufficient to create a strong central bank with a reliable status of the lender of the last resort (Verdier 1999). However, the fact that quantifiable political factors, such as government centralization, have power in explaining banking design is refuted by more recent studies (Fohlin 2000). At the same time, they also confirm the importance of this influence on the market orientation of the design of the entire financial system. Far from opposing these results, the study is inclined to believe that they complement each other, given the long-established alternative in the representation of the structure of modern markets. Moreover, the article focuses on the relationship of legal tradition to political conditions and their joint influence on financial development. The legal tradition is undoubtedly linked to the nature of the political structure, expressed in the degree of centralization of power and the strength of various interest groups. Additionally, in conjunction, being interrelated, they have had a significant impact on the formation of the design of the financial system. Indeed, characteristics of political systems such as the centralization of power or the strength of interest groups depend on legal traditions. Thus, common law facilitates the transfer of power to the periphery, while civil law is likely to discourage it. Nevertheless, civil law can, if motivated, replicate the result of common law, as is demonstrated by the experience of several continental European countries. Additionally, the legal tradition, in contrast to political conditions, turns out to be in a more significant relationship not only with the market orientation, but also with the architecture of the banking system. These results, while showing the importance of the issue of the structure of the financial system, also emphasize the importance of institutional factors in influencing the growth and design of the financial system. Despite the obvious links between political, legal, economic, and financial institutions, reliable, long-term, causal links are often elusive.

Active financial development that has taken place in recent Russian history and has been confirmed by data on the growth of the financial depth of the economy (absolute and relative indicators characterizing the role and position of the financial market, indicators of the so-called financialization, etc.) did not provide long-term economic benefits (Travkina et al. 2022). The ability of this development to promote economic growth turned out to depend on the quality of institutions—political, legal, informal, etc. Features of macroeconomic dynamics over the past two decades, expressed in its structural characteristics, stability and social performance indicators, do not give reason to consider financial incentives for these dynamics effective against the background of being recognized by a significant number of researcher flaws in the quality of institutions. Admittedly, this quality has not remained unchanged over recent years, but insignificant results in this growth actually blocked the potential of financial incentives provided through the channels of the budget system and the financial market. As noted, these institutions, being dependent but by no means culturally predetermined, should give financial incentives the efficacy inherent in emerging markets, reducing uncertainty and encouraging productive economic activity.

This factor is often associated with the so-called cultural code, which not only does not exclude, but also determines the need to consider it as a developing phenomenon. Speaking about the Russian cultural code, first of all, its ambivalence should be noticed. Extremes coexist in it. The desire for freedom, which often spills out into rebellion, was, and still is, side by side with obedience, which for a long time has been preserved by the institutional framework of actual slavery. The same can be said about the motivation to create and the urge to destroy, and historical examples provide a demonstration of the simultaneous dominance of opposing attitudes in economic behavior—waste and thrift, the desire for order and provocation of uncertainty. In economic life, it was often manifested in the fact that the "standard" Russian, in contrast to the Western (and not only) worker has historically been poorly motivated to earn more money associated with substantial labor efforts. Additionally, even if he had such an opportunity, he often wished to continue to live as he was used to, "as everyone else lives". This behavioral syndrome is still distinct today. In the course of the reform process, the state did not do enough to eradicate it. In the same sectors of the national economy, which demonstrate positive dynamics, including the financial sector, there was actually an introduction of foreign standards in corporate codes. However, if not the majority, then a significant number of Russian workers retains the stamp of a long-term evolution of state paternalism, dependency, which determines their insufficient receptivity to material incentives, weak involvement in the solution of socially significant problems.

This dependence was identified in our comparative analysis of the measure of the correspondence of individual and organizational values of the personnel of Russian and British banks (Fiapshev and Fiapsheva 2020). Bank employees were not chosen by chance. They belong to the most qualified part of the labor force, and, therefore, they are more characterized by achievement motivation and dissatisfaction with the current situation than employees in other sectors of the economy. Besides, Russian banks have been practicing managerial approaches successfully tested abroad for a long time. The surveys using well-known methodological techniques (Schwartz and Bilsky 1987; Chatman 1989; Cable and Judge 1996) revealed differences in the behavioral attitudes of Russian and British bank employees. In the former, a high degree of correspondence between individual and organizational values is achieved mainly through organizational commitment, a significant level of which, in its turn, is provided by low-order motivational factors—fear of losing employment and worsening relations with management. Contrastingly, the latter are dominated by higher level factors—job satisfaction, provided by availability of conditions for self-development, etc. The revealed dependences confirmed at least insufficient effectiveness of HR-management efforts in Russian banks, which should be admitted as being caused to a great extent by factors which are out of their control. We are talking about the pressure of the persisting low-productive cultural background on the dominant attitudes of economic behavior in Russian society. It must be said that Russian, mainly political, institutions actively exploit if not preserve these features, ignoring institutional practices that have been successfully tested in a number of Asian countries, which have successfully overcome the inertia of the cultural code. At the same time, the body of empirical evidence, some examples of which were cited above, provides convincing evidence of interpenetration, the permanent interaction of culture and national institutions, reflected in growth and financial development, the presence of feedbacks, refuting the thesis of the cultural curse, as well as the side effects caused by ill-conceived or hasty institutional modernization.

6. Conclusions

In conclusion, the study finds confirmation of the influence of cultural characteristics, presented in a concentrated form by decision-making procedures both at the level of state and economic management, "carved" in the architecture of existing institutions, on the efficiency of the link between financial development and economic growth. Institutions can become a driving force, as well as a brake on economic and financial development. Underestimation of the importance of this factor provokes unreasonable economic decisions, when the practical implementation of the latter even with minor emerging difficulties can lead to a chain reaction of socio-political destabilization, degradation of national institutions. At the same time, institutional changes can transform the cultural layer in terms of dominant behavioral motives. In this regard, the task of the state as the most important national institution is to launch this transformation process in order to modernize the institutional environment and achieve the declared goals of economic development. This will inevitably have an effect on changing the entire layer of individual values.

Today's Russian reality raises a lot of questions in terms of determining the future direction of political-economic development. Despite the priorities proclaimed at the state level, the specified reality refutes the thesis about the social recognition of the latter and does not yet give reasons to consider the current situation quite stable and healthy. This is evidenced by the growing xenophobia, widening gaps in living standards, territorial differentiation, and still insufficient entrepreneurial potential. The main problem is seen in the imperfection of national institutions, which preserves and even provokes the degradation of individual attitudes and is expressed in the growth of asocial phenomena, criminalization of the corporate sector, etc. In this connection, the most important direction of further development of the country should be modernization of the vast array of national institutions, which in turn will be reflected in the dominant cultural attitudes, and will ensure the effectiveness of financial incentives for the development of the national economy.

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