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**WHETHER THE TRUST IS THE SIGN OF INSTITUTION?**

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***Abstract***

The item that the trust is the integral sign of social institution, a part of the mechanism putting the rules in the real functioning social order is proved in the article. The mechanism which puts the rules in action is understood the system of the interconnected and interdependent forms and methods of trust maintenance. The article investigates the trust in the process of expansion of its range at various economic schools and concepts. The trust within the greatest social interval approaches the absolute values of belief, hope and love. Institution researchers added social interaction to the expectations which is the simplest neoclassical element of trust. The differences in methodology of old and new institutionalism generate the features in establishment of the relations of trust. The commitment to the reproached habits and moral values in the theory of old institutionalism and the conscious choice with collective participation in formation of rules at neoinstitutionalism – both act as two components of the uniform mechanism of trust maintenance. Both components are interconnected and interdependent. The laws, agreements and contracts developed in the terms of consensus and reflecting ideas of the people of social justice are the main background of trust. Such rules structure the behavior and social interaction from the outside but also act as internal, subjective motive of behavior as well as inseparable from the person.

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## 1. Introduction

A long time ago the economists noticed that the trust deficiency negatively influences the result. J. Mill connected it with the reduction of the credit (Cejudo, 2010), with the production investments (Marshall & Marshall, 1881), J.M. Keynes – with the change in the level of savings (Keynes, 1936). The relevance of a research of trust was increased among the economists in connection with accounting of uncertainty factor that was reflected in the researches of F.H. Knight, J.K. Arrow, G. Simon (Arrow, 1994; Knight, 1924; Simon, 1993). The institution researchers (Coase, 1993) pointed out in a particular way the problem of trust due to the inclusion in the analysis of a social context. However, studying the consequences of deficiency of trust, the economists don't go deep into the maintenance of the phenomenon (Shazi, Gillespie, & Steen, 2015). Mostly the sociologists are engaged in it (Müller et al., 2013).

Highlights:

1. The notion "trust" has the wide range extending from expectation by the isolated individuals of values of economic variables up to the expectation of honest, corresponding to the rules, behavior from others.

2. The trust is the integral sign of institution as the rules can't be embodied in the real operating social order without it.

3. The mechanism which puts in action the rule is the system of the interconnected and interdependent forms and methods of trust maintenance.

4. The laws, agreements, contracts developed in the terms of consensus and reflecting ideas of the people of social justice are the main background of trust. They not only structure the behavior from the outside, but also become internal motive of human behavior.

## 2. Problem Statement

The scientists still express their dissatisfaction with the definition of subject field in the institutional theory. In this regard the approach to the definition of social institute by means of attributing to this concept of several essential signs is represented to more constructive (Bobkov, Vakhtina, & Simonova, 2016). Each definition in that case is a necessary, but insufficient element as it doesn't express all interrelations which are inherent to the studied subject. At the same time together they make the system of integrity having logically consecutive order and revealing itself through a ratio with other definitions (Bice, 2017).

## 3. Research Questions

The article makes an attempt to track the evolution of ideas on trust at various economic schools from the simplified rational approach of neoclassical researchers to a wide range of social interactions in the institutional economic theory. Unlike "the trust radius" of F. Fukuyama (Sudakov, 2015) which the scientist understands as a circle of people who enter the uniform system of the confidential relations, the article discusses the "trust range" stretching from forecasting by the isolated individuals of values of economic variables to the confidence of subjects in honest, corresponding to the established rules, actions

of the others. The trust within the widest social interval approaches the absolute human values – belief, hope and love.

It is necessary to go deep into the methodology to reveal the features of approaches to representatives' trust of old and new institutionalism. The conditionality of economic behavior of social context and social values became a distinctive sign of old institutional school. Its such founders as T.B. Veblen, J.R. Commons, W.C. Mitchell construed the economic rationality as socially and culturally caused and considered the reproached habits as the most significant factor (Volchik & Oganesyana, 2014). The most significant characteristic of initial institutional school is the institutes created by people exert a strong impact on them by the means of "the reformative descending causal relationship" (Müller et al., 2013).

But what is a new institutional economics? It starts the explanation of the institutions from the set of rational action and interaction of individuals, according to the principle of methodological individualism. According to these theoretical settings, entering the relationship the people form certain and steady interaction schemes – the institutions which become the result of their choice (Bates, 2012). The active role of economic agents in establishment of rules and restrictions acts as some kind of guarantor of trust. The participants of interaction have to regulate their relations in such way to be the most confident that the others will arrive according to the developed arrangements. The trust is provided by the coordination and calculation and in case of necessity – coercions. I have especially promoted in this question "theory of contracts" and it is close with "theory of transactional costs" connected with it.

The contracts act as the mechanism of structuring mutual devices of deal participants and restriction of the wasteful actions directed to the redistribution of a prize from it (Hillebrand, 2011). The theory of transactional costs doesn't consider the existence cases of "non-reasonable trust" at all, it is built by the means of calculation (intention) defining contract type. Two behavioral prerequisites – limited rationality and opportunism are taken as a principle at the same time. The opportunism is shown in evasion from implementation of rules and the assumed liabilities, does the behavior of economic subjects unstable and badly predicted, that is accompanies mistrust. According to the theory of transactional costs

Promoting saving the transactional costs the contract type is a derivative of transaction parameters according to the theory of transactional costs. Carrying out the mass investments causes the choice of the classical, guaranteed contracts. More flexible contracts (hybrid or relational) which are supplemented with the weak organizational forms supported with personal reputation are required in the terms of uncertainty and moderate bilateral dependence of assets. Use of less accurate and verified procedures, in the terms of relational contracting provides bigger flexibility but demands additional coordination and costs. And, at last, it is better to make specific investments in the terms of uncertainty within the integrated organizations.

The contract on checking appears nothing else as the mechanism of prudent trust (the same can be told also in relation to the laws). How effective can this or that contract be and under what terms? The theory of contracts looks for answers on these questions. At the same time the scientists agree in opinion that the necessity of "basic level of trust" exists even in case of classical contracts (Sudakov, 2015).

The approaches of "the theory of the public choice" to ensuring trust between the participants of social and political process are based on the same principles as the theory of contracts. Rationally

conceiving free individuals (voters, politicians or bureaucrats) who are subordinated to the aspiration to improve (to maximize) the welfare make their choice between various institutional devices (Davis, 2012). The mechanism of ensuring trust is looked through in actions for development of rules and procedures in the course of finding of public consensus. J. Buchanan and G. Brennan (Brennan & Buchanan, 1980) call the rules, standards of behavior and procedures as "the constitution of economic behavior". It is some kind of constitutional contract which all participants of political process have to carry out as they approved and accepted it (Bacila, 2015). As argument in favor of consensus is the fact that the large number of participants is involved in the procedure of development and coordination of rules that provides high efficiency due to the reduction of "deviators". Besides, reaching consensus interferes with the situation when few group (or the only agent) defines the system of key rules on the basis of the unilateral choice. However, in such approach there are also weaknesses which (by analogy with the theory of contracts) are connected with non-stop search of a basic support for the trust. G. Brennan and J. Buchanan (Brennan & Buchanan, 1980) don't deny that "decisions on which the rules have to be, are accepted within more abstract rules regulating the choice between various rules" which they call "meta-rules". There is such compelled dialectics.

Unlike the new institutionalism, the old one at a research of economic behavior considers the institutional and cultural environment where there are people and conditionality of economic behavior with a social environment and social values (Jackson, 2011). In the concept of old institutionalism defining (instead of "ascending") the "descending" reformative causal relationship in economic behavior (Abrutyn & Turner, 2011). The scientists standing at the origins of institutionalism proceeded from the concept of "rootedness of a habit" as the defining element in understanding of institution essence and its evolution. Focusing attention on the endogenous nature of institutions and their close connection with habits, rules and social values, the followers of old institutional school consider the person participating in economic activity as included on social environment, emphasizing importance of social communications (Volchik & Oganesyanyan, 2014). What is it necessary to rely on due to the questions of trust maintenance between people at such priorities to a research of a social order? F. Fukuyama points out two key conditions: the first is the existence in community of mutually shared values, and the second is the desire to follow them voluntarily on the internal belief (Sudakov, 2015). "The descending pattern" in economic behavior indicates that the trust between subjects is provided that they are carriers defined, taken roots in the society of moral standards and universal values. They act according to the rules and resist to temptation of being dishonest, to deceive for this reason.

The approach of old institutionalism expands trust range. Its "skeleton" dressed by the flesh expressed in the simple aspiration to follow the rules is complemented with one more component – the soul. The trust isn't a simple expectation of the behavior related to the rules and restrictions, but the expectation of the behavior deprived of insidiousness, deception, based on conscientiousness and honesty any more. There is a wide list of moral values which carrier is an institutional subject reveal. We believe that exactly thanks to "a spiritual cover" which the trust transforms in the environment of old institutionalism the theory of the social capital has gained its development as it is inseparably linked with an ethical perspective (Gauchat, 2012). Moral potential of trust makes it a special type of resource which invests a positive contribution to the production of a public product by the means of increase bringing

back from other production resources (Vakhtina, 2016). The trust as "the club benefit" doesn't possess such public resource.

How the trust prerequisites based on the implanted habits and moral values in practice can appear strong? It is definitely possible to tell that it directly depends on a condition of public morals (Sen, 2015). When society is in conditions of decomposition of morals or the existing morals don't meet expectations of people of justice, the basis of the confidential relations is exposed to corrosion. The advantage of neo-institutional researcher's approach to the institution formation becomes more obvious in the terms of ethics crisis.

#### **4. Purpose of the Study**

The article purpose – is to prove that the trust is the integral sign of social institution as the rules can't be embodied in the real operating social order, and institutes work inefficiently without it.

Among the research tasks are the following: to study the evolution of ideas on trust at various economic schools in the process of expansion of its range, to reveal distinctive signs of interpretation of trust of old (initial) and new institutionalism, to show that the trust is the sign of social institution, and its deficiency makes the institutions ineffective.

#### **5. Research Methods**

The research is based on the methodology of the institutional economic theory taking into account the features of approaches of old and new institutional school to the formation, development and transformation of institutions. The economic behavior is treated taking into account the influence of factors of ethics that expands a traditional model of the rational choice. The interdisciplinarity and multi-aspects of the problem of trust caused the application of general and individual scientific methodology (Arrow, 1994). The researches of domestic and foreign scientists on a research subject are analyzed and generalized.

#### **6. Findings**

All above helps to understand why the trust so difficult makes its way in life in economic researches. Originating from simple expectations of the isolated individuals according to neo-classical researchers, it brings us to the top of universal values which are directly connected with such supreme moral values, such as belief, hope and love. Being beyond the simplified rationalism and economy, the researcher gets to the area of social interactions, ethical standards and moral guidelines. The belief is the same trust, but movable by love which doesn't give a chance for artful plans and opportunism. The hope which acts as nothing else as a special form of trust – trust to the future is closely connected with the trust and belief. Human life without hope (whether it is economics, policy or the private sphere) condemns itself to the senseless, depending only occasionally existence. The hopelessness blocks vital forces of the person-worker, interferes with the investment without which any social and economic development is impossible. The top of moral, humane attitude towards the person is the love where there are two major components – hope and trust are merged together. The supreme human values having confidence find direct manifestation in public life and in economics. The humane social institutions enjoying people

confidence and forming a desirable image of the future work effectively and provide the development. In this regard on credibility level to the institutions it is possible to judge their quality, to build the forecasts for the future, to invest and expect return from investments. To the contrary, the low level of credibility is the indicator of deformation of institutions, blocks positive changes and undermines the best hopes for the future.

## 7. Conclusion

In the process of inclusion of a social component in the economic analysis there was an evolution in a trust research from the lowest to the highest, from material to spiritual, the range of its action extended. It provided more and more common ground for cross-disciplinary researches. From expectation by the isolated individuals of an economic environment in the future the vector moved in the direction of regulation of social interaction problems. The mechanism of management of trust is like some kind of guarantor of regulation. Along with formally economic this mechanism includes also the moral component expressed in aspiration of the person to social justice, the humane economics based on belief, hope and love. Each of the components has its meaning - they can (probably and have to) supplement each other. Some factors can become defining and move to the forefront during this or that period of time. In this regard the main thing - is constantly to support a responsible existence of the person in his\her relations with other people and nature by the means of public institutions which wouldn't interfere but promote solidarity and humanity of all human life spheres.

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