

The Fabric of Economic Trust

By Sam Vaknin, Ph.D.

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Economy is called the dismal science because it pretends to be one, disguising its uncertainties and shifting fashions with mathematical formulae. Economy describes the aggregate behaviour of humans and, in this restricted sense, it is a branch of psychology.

People operate within a marketplace and attach values to their goods and services and to their inputs (work, capital, natural endowments) through the price mechanism. All this elaborate construct, however, depends greatly on trust. If people were not to trust each other and / or the economic framework (within which they interact) - economic activities would have gradually ground to a halt. A clear inverse relationship exists between the general trust level and the level of economic activity.

There are four major types of trust:

Trust related to Intent - the market players assume that other players are (generally) rational, that they have intentions, that these intentions conform with the maximization of benefits and that people are likely to act on their intentions.

Trust related to Liquidity - the market players assume that other players possess or have access, or will possess, or will have access to the liquid means needed in order to materialize their intentions and that - barring force majeure - this liquidity is the driving force behind the formation of these intentions. People in possession of liquidity wish to maximize the returns on their money and are driven to economically transact.

Trust related to knowledge and ability - the market players assume that other players possess or have access to, or will possess, or will have access to the know-how, technology and intellectual property and wherewithal necessary to materialize their intention (and, by implication, the transactions that they enter into). Another assumption is that all the players are "enabled": physically, mentally, legally and financially available and capable to perform their parts as agreed between the players in each and every particular transaction. A hidden assumption is that the players evaluate themselves properly: that they know their strengths and weaknesses, that they have a balanced picture of themselves and realistic set of expectations, self esteem and self confidence to support that worldview (including a matching track record). Some allowance is made for "game theory" tactics: exaggeration, disinformation, even outright deception - but this allowance should not overshadow the merits of the transaction and its inherent sincerity.

Trust related to the Economic horizon and context - the market players assume that the market will continue to exist as an inert system, unhindered by external factors (governments, geopolitics, global crises, changes in accounting policies, hyperinflation, new taxation - anything that could deflect the trajectory of the market). They, therefore, have an "investment or economic horizon" to look forward to and upon which they can base their decisions. They also have cultural, legal, technological and political contexts within which to operate. The underlying assumptions of stability are very much akin to the idealized models that scientists study in the accurate sciences (indeed, in economy as well).

When one or more of these basic building blocks of trust is fractured that the whole edifice of the market crumbles. Fragmentation ensues, more social and psychological than economic in nature. This is very typical of poor countries with great social and economic polarizations. It is also very typical of countries "in transition" (a polite way to describe a state of total shock and confusion). People adopt several reaction patterns to the breakdown in trust:

Avoidance and isolation - they avoid contact with other people and adopt reclusive behaviour. The number of voluntary interactions decreases sharply.

Corruption - People prefer shortcuts to economic benefits because of the collapse of the horizon trust (=they see no long term future and even doubt the very continued existence of the system).

Crime - Criminal activity increases

Fantastic and Grandiose delusions to compensate for a growing sense of uncertainty and fear and for a complex of inferiority. This nagging feeling of inferiority is the result of the internalization of the image of the people in their own eyes and in the eyes of others. This is a self-reinforcing mechanism (vicious circle). The results are under-confidence and a handicapped sense of self esteem. The latter undulates and fluctuates from overvaluation of one's self and others to devaluation of both.

Hypermobility - People are not loyal to the economic cells within which they function. They switch a lot of jobs, for instance, or ignore contracts that they made. The concepts of exclusivity, the sanctity of promises, loyalty, future, a career path - all get eroded. As a result, there is no investment in the future (in the acquisition of skills or in long term investments, to give but two examples).

Cognitive Dissonance - The collapse of the social and economic systems adversely affects the individual. One of the classic defence mechanisms is the cognitive dissonance. The person involved tells himself that he really chose and wanted his way of life, his decrepit environment, his low standard of living, etc. ("We are poor because we chose not to be like the inhuman West").

The Pathological Envy - The Cognitive Dissonance is often coupled with a pathological envy (as opposed to benign jealousy). This is a destructive type of envy which seeks to

deprive others of their successes and possessions. It is very typical of societies with a grossly unequal distribution of wealth.

The Mentality (or the Historical) Defences - these are defence mechanisms which make use of an imagined mentality problem ("we are like that, we have been like this for ages now, nothing to do, we are deformed") - or build upon some historical pattern, or invented pattern ("we have been enslaved and submissive for five centuries - what can you expect").

The Passive-Aggressive reaction: occurs mainly when the market players have no access to more legitimate and aggressive venues of reacting to their predicament or when they are predisposed to suppressing of aggression (or when they elect to not express it). The passive-aggressive reactions are "sabotage"-type reactions: slowing down of the work, "working by the book", absenteeism, stealing from the workplace, fostering and maintaining bureaucratic procedures and so on.

The inability to postpone satisfaction - The players regress to a child-like state, demanding immediate satisfaction, unable to postpone it and getting frustrated, aggressive and deceiving if they are required to do so by circumstances. They engage in short term activities, some criminal, some dubious, some legitimate: trading and speculation, gambling, short termism.

The results are, usually, catastrophic:

A reduction in economic activity, in the number of interactions and in the field of economic potentials (the product of all possible economic transactions).

An erosion of the human capital, its skills and availability.

Brain drain - skilled people desert, en masse, the fragmented economic system and move to more sustainable ones.

Resort to illegal and to extra-legal activities.

Social and economic polarizations. Interethnic tensions and tensions between the very rich and the very poor tend to erupt and to explode.

Sam Vaknin is the author of "Malignant Self Love - Narcissism Revisited" and "After the Rain - How the West Lost the East". He is a columnist in "Central Europe Review", United Press International (UPI) and ebookweb.org and the editor of mental health and Central East Europe categories in The Open Directory, Suite101 and searcheurope.com. Until recently, he served as the Economic Advisor to the Government of Macedonia.

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Need Fabric For Both Inside And Outside Your Home? Try Sunbrella Fabric!

By Mike Yeager

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Mike Yeager

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