

## HONESTY AND TRUST

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Kornai J. and Rose-Ackerman, S. eds.: *Tisztesség és bizalom a poszt-szocialista átmenet fényében I-II.* [Honesty and Trust in the Light of the Post-socialist Transition I–II.] Budapest: Nemzeti Tankönyvkiadó, 2005.

The author presenting the book had been a participant of the project announced under the title as given above; therefore it is a special pleasure for her to be able to report on the results of the research program, and on the collection of papers published in two volumes in Hungarian, too. Unfortunately, the topic of the project and the related papers have not lost their currency even to this day, though some years have passed since the research. The issues of honesty and trust have been on the agenda since the change of the system; moreover, it seems to have become increasingly important in the post-socialist countries during the past one or two years. Despite the fact that there had been a change of system of historical dimensions on the level of the economy as well as of social policy (market economy, a democratic political system, etc.) the 'big break-through' has not yet taken place. Unfortunately it can be said that mistrust, dishonesty, smaller or greater cheats, corruption, a lack of governmental 'transparency' continue to characterize these countries. The initial illusions have vanished, and responsible political and economic leaders have to face the fact that the transitory period would be longer than originally thought of by those who had changed the system. Therefore, the volume reports about results that are not only important to social scientists, but it can be recommended with confidence to the decision-makers of the practical political and economic life, too.

The interdisciplinary research project of the *Collegium Budapest*, entitled *Honesty and Trust* was conducted by two internationally acknowledged social scientists, Susan Rose-Ackerman, Professor of the Department of Law and Political Science of Yale Law School, and János Kornai, Emeritus Professor of Harvard University. Almost fifty noted and less known, senior and young researchers have participated in the broad international research work, representing several disciplines, such as economics, sociology, political science, anthropology and law. The heads of the program basically had two aims: partly to bring together the representatives of the two areas of honesty and trust on the one hand, and to create a forum on the other, that would allow for exchanges of views and discussions of specialists of the different disciplines of social sciences. The dual aim has been successfully accomplished, as we are informed by the introduction written by János Kornai and Susan Rose-Ackerman. The initial professional biases, one-sidedness, or narrow-mindedness, to put it differently, has

changed positively with the progress of the project, and specialists of neighboring fields have increasingly got acquainted with each other's way of thinking, methodology, and style. What is even more important is that "interdisciplinarity" has required a wording, methodology and conceptual clarification understandable by the other, which may be felt and is of an enriching effect for researchers in the longer run, as well. During the recent years 'interdisciplinary' attitude has been increasingly spreading, the formerly isolated disciplines meet and mutually acknowledge and use the other one's achievements. As contrasted to the specialization of the Modern Age, the comprehensive, horizontal attitude of the disciplines of the Classical Age, believing that everything was related to everything else, is once again coming to the foreground in the 21st century. It is manifest not only in natural sciences but also in the social sciences. Nevertheless, the heads of the workshops and the editors of the volume have had a liberal attitude to the individual work of the researchers participating in the project right from the beginning, and even when the work itself was completed, they did not strive to develop a uniform stand and summary, but respecting the different views they have restrained themselves to integration within the main topic.

The first volume, the main topic of which is indicated by its subtitle: *Building a Trustworthy State in the Period of the Post-socialist Transition*<sup>1</sup> studies the phenomena of trust and honesty in the East-Central European region under transition in the relationship between the state and society throughout three sub-chapters. Trust and honesty are closely interrelated but do not have an identical meaning. Honesty is a highly important value; it is good if one may trust in the other person acting honestly and responsibly, in that he/she is law-abiding. A person, however, may be honest in vain if he/she is not skilled at work, incompetent, unable to perform his/her task professionally well; therefore one cannot fully trust him/her. Whereas corruption is dishonest behavior when public office is used for individual profit, by which confidence in public servants is being damaged. Trust has two diametrically opposing meanings in the relationship between the state and society. On the one hand, the individual may have trust in that during official procedures he/she would enjoy advantages in the face of the other citizens, because grease money was paid, or his/her relative or acquaintance is the official in charge, etc. This meaning, however, can be related to corruption and dishonest behavior as mentioned above. In contrast one would prefer rather that meaning of trust in the relationship between the state and society, when the citizen may trust the state institutions, laws and rules, in that all this is applied equitably and impartially in the concrete cases by the public officials. This kind of trust exists only if the state functions transparently, if the government publicly supports its decisions, if it can be taken to account, and it is made obvious that all are equal before the law. The papers published in the first part of the volume (Rose-Ackerman, Sajó, Horne and Levi) precisely study how publicity of state decision-making and the authenticity of governance can be enhanced by alternative institutions (such as neutral institutions, supervisory organs, civil society) beyond democratic elections. Though those institutions are in high demand, their creation is

1 The original English version title was: *Building a Trustworthy State: Problems of Post-Socialist Transition*.

rather difficult, for if the civil sphere is weak in the face of the state, if partisanship is strong, or, if it is the state itself that falls victim to various interest groups. The papers of the second sub-chapter are about the captured state. There are major differences in the scale and extent of corruption among the various countries of the region, but it is beyond doubt that the more one moves to the east the more serious the problem becomes. It is not accidental that several papers deal with the situation in Russia (e. g. Szlinko et al., or Vacroux): what kind of regional interest groups have emerged, what kinds of rent seeking have become known, or to what extent Russian pharmaceutical industry is hit by bureaucratic corruption? The third part, closing Volume I, contains optimistic as well as pessimistic views on the existing democracies. These papers may offer important lessons to countries beginning to build their democracy on the basis of the experiences of the USA and Western Europe richer in historical dimension. Russel Hardin, Professor of Political Science of Stanford University is somewhat skeptical, for in his view each democracy is governed by a narrow elite, less interested in whether they are accepted by society or not. Bruce Ackerman (Yale Law School), however, holds that the set of institutions of democracy would not allow for a narrow group to monopolize power in the long run. Rose-Ackerman is also rather optimistic regarding improvements in the accountability of the state, though building an honest state and the creation of social trust are difficult and complicated tasks, and not only for countries of this region.

Volume II offers some moorings to this latter issue. It was published under the title *Creating Social Trust in the Period of the Post-Socialist Transition*.<sup>2</sup> The first part of the volume deals with the relationships between social capital, trust and of the political institutions in the papers of authors in dispute among themselves. The Scandinavian countries often figure as societies of high trust and low corruption, as contrasted to countries in this region, such as Romania. According to Rothstein this high level of trust in Sweden is primarily due to the universal and impartial state institutions, the task of which is to implement public policy in daily routine. In his view the causal mechanism operates in a way that trust in these state institutions, or a negative experience gained about their corrupt functioning, if any, would influence the general level of the citizens' trust. The authors Badescu and Uslaner challenge it: they say that Rothstein's statement is only valid for Sweden, but it cannot be generalized for Romania. In societies where corruption is generally widespread people distinguish between trust in public servants and in the citizens: in other words, the corruption of the former ones does not influence the extent of trust among people. Further on, they also reverse the causal mechanism, saying that it is trust among people that influences more their faith in legality. This statement challenges the effectiveness of anti-corruption campaigns.

The main part of Volume II (seven papers) is devoted to the topic of trust and the economy. Raiser et al. have studied in their joint research project with EBRD and the World Bank the extent of trust in not less than 26 transitory economies and have reached the conclusion that transition has only lowered the originally not too high level

2 Bo Rothstein has also participated in editing Volume II. The original English version title was: *Creating Social Trust: Problems of Post-Socialist Transition*.

of trust. It is also a central issue for the other authors, too, how the atmosphere of trust can be evolved in economic and business relations in a place where the actors themselves (companies, state and economic institutions, etc.) are unreliable. The dominant strategy of the Prisoner's Dilemma – well known from game theory – wins again: every player believes that it is better to cheat the others (defect) than to be cheated (to be a sucker). Under such conditions it is no wonder that the economic actors, primarily the companies apply alternative solutions to laying the foundations of a minimum of business trust indispensable to the operation of the economy. According to Radaev's researches two kinds of solutions exist in the inevitable co-operation of Russian companies. Partly the contracts are privately enforced (often with the help of the Mafia), which runs counter to the interpretation of a democratic state based on the rule of law, and may even undermine it in the long run. This kind of solution also creates an oligopolistic market situation, because those already "inside the circle" who monitor each other by some way or another, are mistrustful towards the newcomers and may even hinder their appearance in the market. There is, however, another kind of solution, too: within a market segment those who are active there, develop conventions based on consensus which is reached from bottom up, by constant negotiations and bargains, and those conventions may, in certain cases become part of state regulations. Woodruff's paper is another contribution to mechanisms serving the strengthening of business trust. In view of the market problems caused by the well known asymmetric information, the legal institutions functioning well and honestly (and even private organizations like auditing and credit rating firms) do play a decisive role in mediating information on the reliability of enterprises. The Russian economy, however, is struggling with grave problems according to all the authors: business mistrust, the lack of transparency, corruption, rent seeking characterizes it. Ledeneva and Volkov paint a dark picture of the operation of Russian economy: there are illegal and semi-legal survival strategies (bogus companies, double invoicing, blackmailing competitors or even threatening them), and even the occupation of enemy companies is frequent. Volkov draws a highly important theoretical conclusion in relation to the implementation of law: a law that would enhance the general level of social trust in Western societies may produce an opposite effect in countries like Russia. In other words: one may circumspectly transplant the various laws because their implementation and their effects do not only depend on the given legal environment but also on "reality outside the legal system". Varese's paper also deals with the world outside the legal system, and that too not in a simple context. The main issue is whether organized crime would be proliferating without restriction in the transitory societies having weak legal institutions, and what is the reason that the Russian Mafia could successfully transfer itself to Hungary, but not to Italy? According to him the answer can be found in the existence and efficient operation of the legal institutions. In Hungary marketization and transition to the market economy have taken place earlier than for instance the development of the set of state/legal institutions guaranteeing the security of ownership rights. This is how demand for (private) protection has emerged and was satisfied by the Russian Mafia coming over. This is fully in accord with Diego Gambetta's stand, namely that it is the Mafia as entrepreneur that can ensure the

protection of ownership rights (in his case in Sicily) because this role undertaken by the state is missing or has failed.

Finally, in the third chapter of the Volume closing it issues of social psychology related to institutions and trust are discussed. Karen S. Cook et al. have studied the development of networks of trust in uncertain/transitory periods. Partly they summarize the experiences of the rather broad experimental researches dealing with social trust, and partly the results related to behavior exposed to the effects of risk and uncertainty, that can be applied to the post-socialist countries, too. They also draw a conclusion based on their research that in uncertain times people are inclined to trust only those who are close to them and not to trust people outside the closed network (this is called *specific* trust by Uslaner). This, however, strongly differs from general trust, when one can trust every member of the society, irrespective of the fact whether one knows a person or not. Most of the researches have proved that the existence of general trust is necessary to the success of democracy as well as to economic development and growth. In the last paper György Csepeli et al. study how transition to market economy has altered the thinking of people about economic and social issues, and what social psychological obstacles transition itself comes across. The authors analyze two concepts of conflicting meaning (trust and suspicion) under the title *Success Blindness* during the course of their empirical research comparing several countries. Their final conclusion projects a rather sad picture. It is revealed by the analysis of trends in time as well as of comparative analyses with Western countries that people living in the former socialist countries are more inclined to attribute successes in the market economy mostly to dishonest business behavior and as a result of corruption and abuse. What dominates is a kind of Hobbesian “war of all against all” in these market economies, where people wage a base and bitter battle against each other for the acquisition of scarce resources. Their conclusion is that while transition to the market economy has been successful in absolute sense, there has been no change as yet in the “minds” of people, the way of thinking positively about the market is not reflected by their answers, most of them, under the impact of the shock therapy, are still in a “state of shock”, and do not sense the favorable effects of the market.