

Fran TONKISS, “Trust, Confidence and Economic Crisis” in *Intereconomics*, July/August, 2009 Article Review

Ovidiana Bulumac

The article brings into light a different discourse that advocates for a certain type of approach in an era dominated by the neoliberal paradigm and principles. And the approach has the objective of creating a direct link between numbers, statistics and financial formulas and the *social* dimension of the larger groups that participate in the economic exchanges. Therefore, the economic flows must not be dragged into the abstract and speculative area because consequences tend to appear at a large scale. In contrast, the tendency should be oriented towards the social component of trust. The importance of the article resides in the fact that it increases consciousness regarding the irrational component of the economic relations tied to the social sphere where the key concepts are trust and confidence, by using a strong theoretical framework as basis of analysis.

The difference between the two economies (speculative and productive) is currently found under the form of an enormous gap that ultimately produced the ongoing financial crisis. And from a social sciences perspective, trust is the basis of any kind of relationship, economical, cultural or social. Robert Putnam, an adviser to presidents and leaders around the world, became one of the most cited authors in social sciences in the last half century due to his *Bowling alone* book. The publication was based upon reemerging a central concept, the one of *social capital*, that is basically defined by the stock of trust within a given societal structure. For it to work, one must need reciprocity.

For the purpose of efficiency and risk minimizing, the economy furthered far from its social component by lowering the trust in future transactions. In order to sustain the significance of such a linkage, the author, Fran Tonkiss, chooses to outline a brief history in terms of research and discourse that is relevant to the topic of the discussion. And the focus is kept on this precise idea of interdependence stated quite clearly by the author, a relationship between trust and confidence that became relevant to the current financial crisis: „The reduction of economic uncertainty, the “oiling” of exchange relations, the management of risk, can be seen to foster economic efficiency at a macroeconomic level as well as within any given exchange. Trust leads a double life as both a social value and an economic resource; as such, it is a critical concept for linking social arrangements with economic outcomes”. „The financial crisis could be a perfect illustration of the trust thesis, as specific exchanges (lending or investment) are paralyzed as part of a larger crisis of trust.”

An interesting aspect of the paper is that in the literature review section, the focus is slightly changed from the post-modern but dominant points of view towards the more classical ones, a dusty perspective that the neoliberal elites tried to bury in the last decades in the name of theoretical and practical evolution, e.g. the case of Keynes and the revival of his notion of “animal spirits” for the study of global capitalism done by George Akerlof and Robert Shiller.

However, the author resorts to a fine distinction between confidence and trust, stating that when the mechanisms of confidence are failing or, worse, are absent, „one resorts to trust in order to make decisions and in an attempt to deal with risk”. From this perspective, the ongoing financial crisis is the image and consequence of such a failure, a process which leads to a trust crisis overall, that has a formal, but also an informal basis. Therefore, the next three levels of analysis are the mechanisms of confidence: information, law, and contracts.

Regarding the information, the author argues the lack of transparency of the derivative type of economy, “often too complicated and insufficiently transparent to allow for the reliable assessment of risk”, for they deal with promises, but not certainties. Secondly, there was another failure identified, the one of the contract institution, affected by “the collapse of the sub-prime mortgage market in the United States and elsewhere”. And thirdly, the regulation was another mechanism of

confidence that can explain by its failure the ongoing crisis, because the market systems “depend on regulation to function effectively”. However, the author suggests that de-regulation was converted into a mis-regulation, from a perception point of view, a discussion that takes the arguments into the sphere of ethics and/or morality.

Finally the policy dimensions are considered by addressing the role of the central governments in the economical sphere, a part in which a significant number of ideas used are linked to Joseph Stiglitz, former head of the World Bank that confessed the failures of the institution he conducted and the overall neoliberal economical system.