
HUMAN NETWORKING ON THE BASIS OF GENERALIZED TRUST

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Abstract: People getting more independent over time and the role of the family being reduced have influenced people's behavior and decision-making. Under the influence of globalization and mass culture, we are becoming more and more careful in establishing interpersonal relations. The propaganda based on theses such as: "Do not believe to the stranger" keep people apart one from another. That creates a fear of unknown and that makes more difficult people connecting within society. A sense of non-adherence to a group or society negatively affects people's mentality and characteristics. The spread of general distrust on global level, especially within developing countries, creates barriers to establishing cooperation among people. Under such conditions, the society is not ready to take the risk of implementing structural reforms.

The complexity and diversity within society requires the analysis of its components. Individuals are actors in a game whose rules are defined by institutions. In this way, the field of operation of economic entities is limited and shaped. In order to create a favorable business environment, it is necessary to look at the relationships that are established between people. The basis for creating interaction among people is trust. It represents the starting point for every kind of cooperation. Living in the community affects the mental set of each individual. The role of each individual, especially in the field of education, is to transfer the knowledge about the modern value system. The development of the information society in the 21st century reduces the degree of interconnection among people. The transition from collectivism to individualism has reduced the need for face-to-face contact. Such development throughout the history has contributed to the decline in generalized trust, especially in post-socialistic economies. The aim of this research is to demonstrate the impact of trust on business environment. For this purpose, business culture was analyzed as a product of generalized trust. From an economics standpoint, the necessity of creating added value and making a profit requires research of human factors that contribute to business success. In particular, it is necessary to emphasize the success of contracting in conditions of different degrees of trust. In addition to human and physical capital, it is necessary to explore social capital as a constituent of social system. Trust as the basic, and probably the most important, factor of social capital plays a role in the unification of individuals within society.

Keywords: trust, institutions, society, business environment, social capital

INTRODUCTION

The specificity of the economics is reflected in its multidisciplinary nature known as economic imperialism. Using knowledge from different fields (sociology, psychology, law), it is possible to explore in more detail the different social phenomena. Economic culture, as one of the recent scientific fields, gives us an insight into the interlacing of connections and relationships within society. This area, developed on the principles of the institutional economy, makes possible to understand better people and the way everyday decisions are made. On the basis of cultural differences, it is possible to explain the ways of establishing agreements and respecting them.

It is necessary to separate the concept of generalized trust from personal trust. Unlike personal trust, based on knowing a person, generalized trust is wider concept. It includes the level of trust that an individual has toward all the people, including people that do not know (Uslaner, 2002).

Throughout the history, a divergent path of development cannot be explained exclusively on the basis of macroeconomic performance. Since the 1990s, trust as a way of involving people in social life comes to focus of economic research. Until then, it was considered that informal institutions were not relevant in explaining reality. Modeling with the application of quantitative measures was the basic research mechanism. The inclusion of social capital in economic research as a set of norms, trusts and networks whose coordination promotes the efficiency of society (Putnam 1993) has launched many studies on this subject.

Over time, two approaches of observing generalized trust have been developed. According to the first approach, generalized trust is the product of interaction between people and groups within society. The level of trust depends on who and to what extent we are cooperating with (Putnam 2000). For this purpose, it is necessary to distinguish bridging and bonding. Bridging is a kind of social interaction involving people from different environments and with

different backgrounds. The goal of this cooperation is to create trust and bridge the diversity. Bonding is a kind of cooperation between people of the same origin. Belonging to the same group contributes to the strengthening of such relationships.

The second approach is based on the need to involve the state and political institutions in order to analyze generalized trust. The rules of the game, defined by the ruling class, create awareness in people about the environment which they live in. Authoritarian and rigid regimes have failed to associate people by reducing the level of generalized trust (Booth, et al., 1998). Institutions that promote democracy and the strengthening of human and economic freedoms contribute to the creation of general trust. Such is the case of welfare countries that, through social policy, create a sense of belonging to society.

Since the 1990s, the strengthening of the institutional economics led by Douglas Nort introduces a descriptive and historical way of observing phenomena and processes. Every individual, as a social being, interacts with others. The key role is the trust on the basis of which the relationship within the community is being built. Thus, the association of people in the performing of economic activity creates humanity within the capitalist system. Good bases for achieving business success are set by creating a society based on knowledge and personal relationships.

Life within the community shapes the characteristics and behavior of each individual. Getting to know people and spreading acquaintances is the basis for socializing of every individual. Trust as an element of social capital influences the association of people in order to make optimal decisions (Zarić, et al 2017).

From a psychological point of view, the role of parents and teachers is significant in the formation of trust. At an early age, it is formed the consciousness of each individual about the way in which one sees himself and the others. Through growing up and living in different environments, human beings become specific in their characteristics and behavior. Education and working with people through the education system can build trust on the basis of which interpersonal relations are established. Frequent competition and conflicts make progress in this area more difficult.

TRUST AS A COMPONENT ELEMENT OF A MODERN SOCIETY - COMPARATIVE ANALYSIS

Empirical studies conducted in the past provide an insight into the impact of generalized trust on the micro and macro level. Cooperation among people largely depends on the level of trust. Some studies show that those with a higher degree of trust become more active members of society, more tolerant, support minority rights and freedom of speech (Hardin 2001). Trust encourages cooperation that can be productive for the whole society. The lack of interpersonal relationships reduces the number of ideas and options available to each group or organization. Such conditions prevent the development of modern organizations based on professional management (Fukuyama 1995). Trust can also contribute to strengthening democracy and the efficiency of the judiciary. The creation of a trust-based society, supported by institutions, makes a good starting point for further economic development.

All forms of cooperation are based on trust. The key question that arises is: Can an individual achieve success based only on his personal abilities? In liberal systems, such an idea is possible due to clearly defined game rules, which are respected. However, in the transition economies, the final result depends to a greater extent on the level of social capital. Especially personal acquaintances are an important factor of success and long-term contracts. Arrangements should not be concluded only with those we know but based on economic principles. For that purpose, the relationships between generalized trust and business environment indicators were analyzed. It was observed the link between trust gained through interpersonal relations within the community (bonding) and legal and political institutions.

Within this research, the correlation between generalized trust, rule of law and property right index was analyzed. Different hypotheses were tested at a level of significance of 1% ($\alpha = 0.01$). For the purposes of determining the degree of connection between the observed phenomena, the Pearson correlation coefficient was used. This coefficient takes values from -1 to 1 ($-1 \leq r \leq 1$), where a larger deviation from zero indicates a higher degree of correlation. The choice of 2-tailed correlation was chosen for the purpose of determining the interaction between the observed phenomena.

There were observed countries with different degrees of development and different geographical position. Different cultures and value systems were also included. In addition to the Balkan countries, the developed market economies were analyzed in order to obtain a wider picture of the need for trust. The indicators of rule of law and property right index are most often used in the analysis of the business environment. An additional advantage is that these data are available and mutually comparable. The rule of law is a significant indicator, not only of existence, but also of the application of the law. It is based on observation of how the legal framework works in each country. The property rights protection index shows the degree to which owners are guaranteed the right to property. As such, it is

significant for the inflow of foreign capital, the development of entrepreneurship and the private sector. Thus, formal and informal institutions are included. Generalized trust is an integral part of informal institutions that are rooted in society. On the other hand, the rule of law and property rights represent the constituents of formal institutions shaped in laws and legal regulations. Unlike formal, informal institutions require a long period of time to change. According to the estimation, 100 years period is necessary to pass so that informal institutions can be completely transformed (Jutting, 2003). The following tables give an insight into the amounts of these indicators for the countries observed and the values of the Pearson correlation coefficient.

Table no.1: Generalized trust

Country	Generalized trust
Serbia	8,1%
Croatia	20%
Macedonia	19%
Bulgaria	18%
Greece	22%
Slovenia	16,7%
Italy	31%
Germany	48,1%
Netherlands	66,1%

Source: European Value Survey (2008), World Value Survey (2010-2014), Zarić, et al (2017)

Table no.2: Rule of law index

Country	Rule of law index
Serbia	0,5
Croatia	0,61
Macedonia	0,53
Bulgaria	0,53
Greece	0,6
Slovenia	0,67
Italy	0,65
Germany	0,83
Netherlands	0,85

Source: World Justice Project (WJP) 2017-2018

Table no.3: Property rights index

Country	Property rights index
Serbia	4,044
Croatia	4,754
Macedonia	4,655
Bulgaria	4,813
Greece	5,389
Slovenia	5,994
Italy	5,979
Germany	7,959
Netherlands	8,296

Source: Property Right Alliance 2017

Table no.4: Pearson Correlation coefficient

N=9	Generalized trust	Rule of Law	Property right index
Generalized trust	1	0,915**	0,936**
Rule of Law	0,915**	1	0,982**
Property right index	0,936**	0,982**	1

Source: Own calculation

** denotes significance at level 0,01(2-tailed)

Hypotheses on the impact of generalized trust on the values of the observed indices were tested.

First, the hypothesis H1 analyzes the positive influence of generalized trust on the rule of law. With the value of the Pearson correlation coefficient of 0.915, this hypothesis is confirmed. A high degree of interpersonal trust contributes to trust in state authorities. There are favorable conditions for work of state authorities that is not restricted with informal institutions. A high level of generalized trust contributes to the implementation of laws with lower transaction costs and contributes to their efficiency.

Furthermore, the hypothesis H2 analyzes positive influence of generalized trust on property rights. The hypothesis was confirmed with the value of the 0.90 of the Pearson correlation coefficient. Trust contributes to association of people with a goal of making joint arrangements. Compliance with the contract and the application of the agreement in practice is encouraged by the existence of generalized trust. Under such conditions, a business climate is favorable for the development of entrepreneurship and the private sector.

The H3 hypothesis analyzes the positive relationship between property right and rule of law index. A very positive correlation is noticed at the level of 0.982. The connectivity of these indicators suggests the need for a legal framework that guarantees property rights of each individual. The application of laws and the protection of property rights contribute to the need for bonding between people with a goal of achieving profit.

This analysis shows a high degree of positive correlation between the observed indicators. In all cases, the Pearson correlation coefficient value is above 0.915. Such results suggest the need to overcome cultural differences and barriers in order to create favorable conditions for the further development of the economy.

CONCLUSION

Trust as a public good should be accessible to everyone, precisely because of its positive external effects on the whole society. Countries with a higher level of generalized trust will be more willing to take risks in order to create better living and business conditions. Very important explanation of generalized trust is given by Offe (Offe, 1999). Offe explains that the preconditions for successful social coordination are in the perceptions and expectations of agents (people) to cooperate. A bad behavior (causing damage) to another agent (person) is not expected, i.e. cooperation (and assistance) is expected if the other agent is able to help. Properly, Offe insists on the view that cooperation is the basis for successful coordination, depending on the degree of cooperation in society, or generalized trust. Trusting the intentions of others, we create an atmosphere of mutual trust. Especially in the conditions of modern technologies, learning and involving everyone in social processes should be a priority in education. Losing confidence is also a consequence of people's independence and the setting of personal priorities in front of the goals of the group or society.

Networking creates a favorable institutional infrastructure for further implementation of reforms and the development of the economy. A divergent path of development can be attributed to the differences in the mentality of people formed within the institutional environment. Countries like Germany and the Netherlands have institutions on market grounds that promote democracy and reinforce generalized trust. This is supported by high values of generalized trust, rule of law and property right index. On the other hand, the countries of the Balkan Peninsula meet with insufficiently reformed institutions. The longevity of the transition period and dissatisfaction with the existing conditions have contributed to the creation of a low level of generalized trust and the inefficiency of the legal framework. Clearly defined game rules and respecting the nations' specificities is a possible way of enhancing interpersonal relationships and creating mutual trust.

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APENDIX

Table A1 Sources and descriptions

Source	Variable	Description
EVS (2008) WVS (2010-2014) Zarić et al. (2017)	Generalized trust	Share of population answering yes on a question „ Do you think that most people can be trusted?“
WJP (2017-2018)	Rule of law	Measure between 0-1. Higher value means stronger efficiency in implementing laws
Property Right Alliance (2017)	Property rights index	A rating of property right on a scale 0-10. Higher values indicate more protection of property rights