Social Trust and Economic Cyclicality

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Nowadays, in the context of a complex fragility that radically transforms the economic habitat, the cyclical evolution of the economy is governed by new rules and constraints that transcend the economic area and increasingly interfere with the sociocultural features of life. The nature of the relationship between social trust and economic dynamics is still little explored and understood, and the research conducted so far is mainly positioned in a macroeconomic perspective, combining quantitative and qualitative approaches that still leave many questions unanswered.

Keywords: trust ; social capital ; turbulence ; economic dynamics ; sustainable development

1. Introduction

Social trust is a core component of social capital. The interest in this subject transcends the area of sociology and extends in many other disciplines such as economics, business and organization studies, psychology, and philosophy. The economy of impermanence and the current complex fragility create a habitat in which human behavior and economic behavior are governed by other rules and constraints in comparison with few decades ago. In this context, the literature provides fragmented answers to questions about the interferences between the socio-cultural dimensions and the economic dimensions of life. This derives from the subjective nature of social trust, whose dimension is difficult to capture through objective indicators. However, the lack of a deep understanding of these influences launches new challenges for theoretical developments and creates the framework for an integrative understanding.

2. Social Trust and Business Cycle in the Context of the Latest Economic Recessions

Beginning with the 50s of the last century, the topic of *trust* holds the attention of psychologists [1] and a gradual transition from the vision of trust in interpersonal relationships to the vision of trust in the performance of organizations takes place. A little later, Rotter proposed a scale for measuring the degree of trust of individuals in various institutions [2]. Around the 1980s, under the influence of the institutional economics, a distinction between trust in people and trust in a system was made by Luhmann [3]. Subsequently, a clearer distinction between interpersonal trust and the trust of individuals in institutions, corporations, banks, etc. is drawn [4]. It is worth noting that after the 1980s, the area of influence exerted by trust on modern society has greatly expanded. Studies by sociologists such as Putnam and Fukuyama have opened new directions in understanding the role of social trust in the economic life and, implicitly, in the economic dynamics.

The dynamics of social groups is an extremely unclear subject, “fuzzy” even, which cannot be captured and described comprehensive enough by econometric models. The Great Depression of 1930s raised major questions for the macroeconomic theory of the time. It questioned the very existence of the Western capitalist system [5]. The theory of economic cycles has embraced since the 1920s the role of the psychological factor in economic behavior, in amplifying or shortens the phases of cycles. The economic downturns of recent decades imposed the need to reconsider the standard approaches, which no longer provide sufficiently well-articulated answers to the new realities and characteristics of business cycles, especially in capitalist economies.

In the first decades of the 20th century, the more or less orderly alternation between good times and worse periods characterized the business environment [6]. The interest in this cyclicality that described the business environment was consistently reflected in a vast body of literature. Nowadays, the deeper interdependence in the world economy, globalization, and technology have become sources of a synchronized fragility that can generate change at any time [7]. This idea entered the horizon of theoretical reflection during the 1960s, mainly through the work of Peter Drucker. The Age of Discontinuity [8] is an exposition of an era of global discontinuity, shaped by transformations in technology, economic policies, industrial structures, economic theory, the knowledge needed to govern and manage, as well as and in economic problems. Later, in The New Realities, Drucker [9] describes a new economic habitat, namely, the transnational world economy, with a concrete existence, but that which is very different from that of the national economies and, at the same time, with a significant influence on them. In this habitat, the accentuated dynamics of change throw economies, especially those that are technologically developed, into a state of progeria and, at the same time, bear an economy described by Toffler [10] as an economy of impermanence or of ephemerality. “. Change accelerates and complexities multiply”, as Toffler notes, anticipating a profound reconfiguration of the economic system [10]. This economic system, the economic system of the third wave, is highly volatile and confusing; is full of risks and tension; and is marked by spasms and convulsions, shortages, and chaotic surpluses of energies and resources of the rapid change of consumers’, workers’, and managers’ attitudes, trade imbalances, and factors [11].

The anticipations of Drucker and Toffler have become true sources of inspiration; words such as chaos and turbulent environment have appeared frequently in the description of the business environment since the 1980s [12][13][14]. Today, more and more opinions are converging on the belief that turbulence, with its obvious consequences in chaos, risk, and uncertainty, has become the new normality in the global business environment [7]. Industries, markets, and companies are facing increased vulnerability, but also an avalanche of opportunities born out of this new normality. Turbulence, Kotler and Caslione note, is the new normality, interrupted by periodic and intermittent outbreaks of prosperity and decline—including prolonged periods of recession/depression [7].

In a book dedicated to the profound changes that have occurred in the business environment specific to the post-crisis context, Kotler and Caslione [7] explore a number of factors whose concerted action has generated a new kind of turbulence that is described by the term chaotics. In what follows, the main chaos- and turbulence-generating factors in the post-crisis business environment are summarized.

Factor F1: The information revolution

The Internet, telecommunications, and digitalization provide almost unlimited access to information/knowledge for all individuals and organizations, which means access to the main resource to compete globally. The Internet, e-commerce, and online communications are for the modern society a technological instrument just as important as the railways for the entire Western civilization since 1830 [13].

Factor F2: Disruptive innovations

The technological developments of the last two and a half centuries have ensured a clear dominance of the West over other civilizations as they have led to increased productivity and economic growth, as well as increasing funds invested in research, education, continuous innovation, and other similar features of modern society. The term disruptive technology was coined by Bower and Christensen in a paper published in the Harvard Business Review [15]. Later, Christensen and Raynor replaced the term disruptive technology with disruptive innovation [16]. The idea per se is not an absolute novelty because eight decades ago Schumpeter [17][18] discussed the radical innovations and “creative disruption” that new technologies bring.

Factor F3: Ascension of the “rest of the world”

The financial crises of the 2000s actually accentuated a process that started about two decades earlier, namely, the redistribution of power in the global economy, as China, the new industrialized countries of Asia, and the wealthy countries of the Middle East began to assert themselves as emerging economies. The BRICS group of countries tended to improve its relative position in the global economy, especially after 2010, when China became the world’s second largest economy, which could mean a loss of power/influence held by the United States and Europe. The phrase “ascension of the rest of the world” belongs to Zakaria [19], who shows that, after a century of the United States dominating the global economy, China and other emerging powers are already a distinct pole of economic power.

Factor F4: Hyper-competition

Disruptive innovations, IT, the knowledge revolution, and the new “actors” in different markets together generate new driving forces of globalization and lead to an unprecedented increase in competition between large multinational corporations in different markets. In addition, smaller companies in Western economies and the so-called “latecomer” firms in the global economy, which can produce some goods/services at lower cost conditions, develop internationalization strategies and capture market segments traditionally held by large corporations [20].

Factor F5: The environment

Over the last four decades, more and more pressure has been exerted on all categories of companies so that each one can define a certain code of conduct, especially with regard to environmental protection, consumer protection, and the use of certain categories of technologies. Such pressures have been and are being exercised by international bodies, governments, the media, as well as by the public in Western countries. International conventions, as well as the legislation enforced by the national governments regarding the protection of the environment and the need to use green technologies [21][22][23], obviously create constraints and opportunities for companies.

Factor F6: Customer ability

As the Internet, social networks, and e-commerce expand, consumers around the world have many sources of information, documentation, and choice about certain goods or services. Consumers can already make precise demands on a particular product and choose among different variants of distribution, which requires transparency and ethical behavior of companies.

Factor F7: Sovereign funds and other current factors

According to Kotler and Caslione [7], funds from China, Singapore, Abu Dhabi, and Kuwait reached assets of about USD 4 billion in 2008, investing in corporations listed on Wall Street or major stock exchanges in Europe. The huge liquidities available to these investments funds and their aggressive strategy over the past decades have led to some fears from Western governments as countries are struggling to protect certain industries or strategic sectors. “Other current factors” include the emergence of social crises generated by various factors and with influence at global, regional, national, or local levels; factors such as military conflicts such as those in Syria; political conflicts; international terrorism; cyber warfare; pandemics such as the current one; etc.

The last decades have been marked by a visible tendency towards risk diversification and a significant increase in the destructive potential of risks, which has led some analysts to advance the paradigm of a “risk society” [24][25]; they appreciate that in advanced modernity the production of wealth is systematically accompanied by a “production” of risks. The most recent report of the World Economic Forum on Global Risks [26] shows that vulnerable societies aggravate macroeconomic risk factors. Concern for inequality is at the root of social unrest on almost all continents, although it may have different sources, such as corruption, failure to comply with laws, or rising prices for basic goods and services. However, on average, inequality at a global level has decreased, yet at the national level, inequalities have increased, especially in developed countries, wherein they have sometimes reached historical levels.

These trends, accompanied by the increasingly discussed idea of growth limits [27][28][29], have asked many questions about the idea of prosperity as a continuous expansion of material well-being. Beliefs that seemed unreal a few decades ago are now subject to analysis from other perspectives. The old paradigms seem to have exhausted the possibilities of answering the questions raised by new contexts. Tim Jackson [30] launched a fundamental question in the landscape of sustainability issues, namely, what does prosperity mean in a world modeled by social and ecological limits? He points out that modern Western society was in a social crisis long before the 2008 economic crisis broke out, a crisis manifested, inter alia, by the disintegration of communities and a loss of social trust. One of the conclusions reached is that mainspring of prosperity is the sense of belonging and trust in the community; prosperity transcends the material dimension, integrating the strengths of social relations and trust.

The specificities of the global business environment, previously described as chaotics, transform the mechanisms and factors of propagation of shocks in the economy, among which are manifested the socio-cultural components that include social trust.

As Stiglitz remarked, referring to the 2007 crisis, it ”sprang from a catastrophic collapse in confidence” and ”the crisis in trust extends beyond banks. In the global context, there is a dwindling confidence in US policy makers” [31].

In this context, the sustainable development strategies developed by countries require trust, support and participation of millions of people. Any sustainable development scenario must take into account more and more the economic valences of the social dimension of life, implicitly of social trust, and their influences on the patterns of evolution of business organizations, but also of national economies.

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