



# INSTITUTE OF DEVELOPMENT STUDIES KOLKATA

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## *Call for Papers*

Papers are invited for Economic Sociology Conference on the theme **Trust in Transactions** at IDSK on November, **16, 17 and 18, 2015**. Abstract (800-1000 words) of papers focused on the interface between economy and society in contemporary India must be submitted by **July 31, 2015**. The authors of the selected abstracts will be informed by **August 14, 2015**. Full paper is to be submitted by **October 31, 2015**. Please use [ecosocioconf@gmail.com](mailto:ecosocioconf@gmail.com) for all your communications. You may read a sensitizing paper which follows the agenda.

### **Select Themes and Issues**

#### **Conceptualising Trust**

- Trust as Rational Calculation
- Trust as commodity
- Trust as Relational
- Trust as Complexity Reducing Norm

#### **Securing Trust**

- Formal Institutions
- Informal Sanctions

#### **Sites of Trust**

- Large Formal Organizations
- SMEs
- Service and Care Industries
- Self-help Groups
- Domestic Workers and Care Givers
- Consumer Trust

#### **Critical Issues**

- Trust and Surplus Extraction
- Researching Trust

## Trust in Transactions

Prasanta Ray

*Trust* as a foundation of cooperative living antedates economic transactions and pervades all social relationships as well one's relationship with one's own self. There is no site in relationship – institutions, organizations, nation-states – which remain viable without trust and are not adversely affected by distrust. Even *legal contract* between actors, particularly economic actors, is not immune from considerations of trustworthiness. If it is oral in form, its security lies 'in social relations that are close and familiar'<sup>1</sup>, in iterated relationships in fairly closed communities. *Trust*, *contract* and *trustworthy contract* are ways to negotiate with risk and uncertainty which increase with social transformations diversely conceptualized as *From Status to Contract* (Henry Sumner Maine, 1861), *The Great Transformation* (Karl Polanyi, 1944), *Risk Society* (Ulrich Beck, 1986) or *Liquid Modernity* (Zygmunt Bauman, 2000). Given the fact that peoples in a large society do not change in uniform speed and in the same direction, it is conceivable that any populous society can simultaneously privilege/contain (i) ascriptive identity signifying the strength of kinship, and voluntary individual making his/her own choices (ii) traditional economy or moral economy, and market economy dominated by rational calculation (iii) the certain/secure and the risky and (iv) a heavy/solid hardware-focused *modernity* and a light/*liquid* software-based *modernity*.

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<sup>1</sup> This is an example of 'thick' trust. Cook, Karen S A and Gerbasi, Alexandra, 'Trust' in Hedström, Peter and Bearman, Peter (eds.), *The Oxford Handbook of Analytical Sociology*, Oxford University Press, Oxford, 2009, p. 219.

Hence *trust* is a conceptual vantage point from which, among other sets of institutions, economy can be examined. The neo-classical Economics deny space for trust in their ontology of the economy.<sup>2</sup> In the larger history of Economics, ‘the concept of ‘trust’ in economic thought is nothing more than a label used to identify a purely calculative theory of behaviour based on subjective probabilities.’<sup>3</sup> Only those economists, who have a different perception of how economic decisions are made and how coordination of economic activities takes place, have accommodated *trust* in their analytical frames.<sup>4</sup> This is only after developing an alternative conception of bounded rationality<sup>5</sup> which cognises that ‘... not all rules of thumb that agents follow can be reduced to a simple cost-minimising calculus because they might take the form of shared norms. From this more sociological perspective, consideration of the social environment as something more than just the sum of interacting cost-minimisers is a prerequisite to understanding the action of agents in situations of exchange.’<sup>6</sup>

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<sup>2</sup> Furlong, Dominic, ‘The Conceptualization of ‘Trust’ in Economic Thought’, *IDS Working Paper, 1996*, Institute of Development Studies. <https://www.ids.ac.uk/files/Wp35.pdf>

<sup>3</sup> Ibid.

<sup>4</sup> The great divide is between economists who subscribe to Bayesian trust (an entirely calculative process) and those who privilege non-Bayesian trust (trust as a shared norm, hence cannot be reduced to a particular level of subjective probability.’).

<sup>5</sup> Rationality circumscribed by limits to the capacity to receive, store and retrieve information vital for decision making particularly decisions which entail risks.

<sup>6</sup> Furlong, Dominic, ‘The Conceptualization of ‘Trust’ in Economic Thought’. ‘In summary, even if it is accepted that trust is best conceptualised as a particular level of subjective probability with which an agent *ex ante* assesses that another will perform a particular action, the level of subjective probability at which the agent considers engaging in such action, varies according to social context. If social context, however, is to be incorporated into the conceptualisation of trust, it is necessary to go beyond purely calculative notion of trust found in economics and consider the notion of trust as a social norm as is often treated in sociology. Social norms of trusting behaviour cannot always be reduced to a sum of agents who all interact on a purely calculative basis.’

Without invoking the moral argument that trust ensures a just society, some economists point out that ‘trust also makes an important contribution to the economy’ by helping productivity and economic performance improve. Hence it is ‘an important part of the invisible infrastructure, or social capital, of an economy.’<sup>7</sup> Thus the economists, who concede the reality of market imperfections, of scarcity – real or contrived, and of opportunism of economic actors, are prepared to bring back *trust*, particularly social ties/networks that make trust/distrust possible.<sup>8</sup> Those who believe in complete transparency of information and its perfect distribution among individual and institutional protagonists, perfect individual rationality, competitive market, and a totally disembedded economy, are not.<sup>9</sup>

In the same vein, a special interest in trust has developed in recent years among scholars on marketing who share the conception of trust as an element of social capital. They are focussed on net-economy or virtual economy and its relational density.<sup>10</sup> ‘Actually, in the net-economy, the environmental and scientific complexity is transformed into relational density that requires new resources – trust, *in primis* – useful in managing this dimension of complexity.’<sup>11</sup> This

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<sup>7</sup> Casson, Mark and Giusta, Marina Della, ‘The economics of trust’ in Reinhard Bachmann and Akbar Zaheer, *Handbook of Trust Research*, Edgar Elgar Publishing Limited, Cheltenham, UK AND Massachusetts, USA, 2006, p.. 332.

<sup>8</sup> ‘Bringing back’ refers Adam Smith’s *Theory of Moral Sentiments*.

<sup>9</sup> They also find the assertion of its positive contribution in cooperative behaviour in social relationship as ‘over-sold’. See Cook, Karen S A and Gerbasi, Alexandra, ‘Trust’ in Hedström, Peter and Bearman, Peter (eds.), *The Oxford Handbook of Analytical Sociology*, Oxford University Press, Oxford, 2009, pp. 218-241.

<sup>10</sup> Some of them are scholars on market. For example, Castaldo, Sandro, *Trust in Market Relationships*, Edward Elgar, Cheltenham, UK and Northampton, MA, USA, 2007. There are excellent engagements with the issue of research methods for trust research. See Lyon, Fergus, Möllering, Guido and Saunders, Mark N.K. (eds.) *Handbook of Research Methods on Trust*, Edward Elgar Publishing Limited, UK, 2012.

<sup>11</sup> *Ibid.*, p. 4.

perception signals a shift away from the original concept of exchange (exchange as ‘a discrete event, without any temporal references’ and the parties having no identity) to ‘the social dimension in which the economic exchange is embedded.’ *Exchange* is re-defined as *relationship*, and not mere transfer of ownership of a commodity or service. And in this post-Fordist phase, when every exchange is embedded in networks, trust ‘acts as an adhesive (maintaining cohesion) and as a lubricant (enabling the operability) of networks.’<sup>12</sup> Scholars and governance experts believe that ‘a corporate governance system based on trust might be more cost-effective than one built on elaborate controls and procedures’.<sup>13</sup> The acknowledgement of the social context of a transaction – in this engagement, the social context of trust in economic transactions -- conjoins Economics with Sociology. However, if conjoining takes place as a part of economist’s initiative then trust is just ‘a complement to the calculative conceptualisation of trust found in economic discourse’.

What if a sociologist proposes to examine trust? In Sociology *trust* is perceived as *relational trust*, trust developed from and sustained by relationships.<sup>14</sup> This directs our attention away from individual dispositions to trust to the relationships which germinate and keep alive trust.<sup>15</sup> So the difference in emphases in Economics (*trust* as rational calculation) and in Sociology (*trust* as

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<sup>12</sup> Ibid. p. 21. ‘Indeed, if the coordination mechanism between firm and markets is essentially represented by *price* in the Smithian firm, and by the *plan* in the Fordist firm, in the ‘network-based firm’ trust becomes the main link.’

<sup>13</sup> Larcker, David F and Tayan, Brian, ‘Trust: The Unwritten Contract in Corporate Governance’, *Stanford Closer Look Series: Topics, Issues, and Controversies in Corporate Governance and Leadership*, 2013.

<sup>14</sup> This is an aspect of trust – distinctive by itself – related to its cognitive, emotional and behavioural aspects.

<sup>15</sup> This is basically Bourdieusian thinking. Frederiksen, Morten, ‘Relational trust: Outline of a Bourdieusian theory of interpersonal trust’, *Journal of Trust Research*, Vol. 4, No. 2, 167–192, 2014. <http://dx.doi.org/10.1080/21515581.2014.966829>

See also, Bourdieu, Pierre, *The Social Structures of the Economy*, trans. by Chris Turner, Polity, Cambridge, UK, 2005.

relational) is evident.<sup>16</sup> In all fairness and in continuation of the hint given above about some economists' preparedness to accommodate *trust*, though with studied reservations, we may give examples of works with titles like '*Behind the Market Stage: Where Real Societies Exist*'.<sup>17</sup> Sociologists are obviously more forthright in directing attention to institutions beyond the marketplace.<sup>18</sup> *Embedded, Behind and Beyond* are, as if, cartographic sites where economic transactions take place and the issue of trust becomes critical.

Thus: 'From a sociological perspective, trust must be conceived as a property of *collective* units (ongoing dyads, groups, and collectivities, that is, moral communities of different demographic dimensions), not of isolated individuals. Being a collective attribute, trust is applicable to the relations among people rather than to their psychological states taken individually. Therefore, we may say that trust exists in a social system insofar as *the members of that system act according to and are secure in the expected futures constituted by the presence of each other or their symbolic representations*.'<sup>19</sup> Obviously, sociologists bring in the collective dimension by asserting that the bases on which trust rests are social. Reciprocity and intersubjectivity, in which the individuals qua individuals are not sufficient, stand out as the distinctive mark of the sociological conception of trust. Cognitive familiarity, emotional bond between the trusting and the trusted, and behavioural displays of trust together point to the sociality of trust ties.<sup>20</sup> Some social scientists take a special care to point out

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<sup>16</sup> It is needless to be emphatic that Sociology's interest in trust is broad-based rather than Economists' interest in market transactions; or, its interest in trust in economic relationships is a derivative of its foundational ideas on trust as such.

<sup>17</sup> Platteau, Jean-Philippe, 'Behind the Market Stage: Where Real Societies Exist, Part I – The Role of Public and Private Order Institutions', and 'Behind the Market Stage: Where Real Societies Exist, II – The Role of Moral Norms', *Journal of Development Studies*, vol.30, no. 3, 1994, pp. 533-577 and pp. 753-817.

<sup>18</sup> Friedland, Roger and Robertson, A.F, *Beyond the Market Place: Rethinking Economy and Society*, Aldine De Gruyter, New York, 1990.

<sup>19</sup> Lewis, J. David and Weigert, Andrew, 'Trust as a Social Reality', *Social Forces* Vol. 63:4, June 1985, p. 968.

<sup>20</sup> *Ibid.*, pp. p70-72.

that trust – relational trust – emanates from iterated thick relationships which generate knowledge about trustworthiness of individuals and institutions, though these are not the only source of information.<sup>21</sup> Needless to point out that much of the impetus for such a line of thinking came from the ‘embeddedness thesis.’<sup>22</sup> This interrogates a conception of economy distinguished by ‘large numbers of price-taking anonymous buyers and sellers supplied with perfect information ... function(ing) without any prolonged human or social contact between the parties.’<sup>23</sup> The embeddedness thesis helps us explain both trust and malfeasance. In fact, it takes the argument forward indicating that trust is necessary even among those who are engaged in malfeasance: ‘honor among thieves.’<sup>24</sup>

Taking Bourdieusian insights<sup>25</sup>, it is further argued that apart from but along with ‘the subjective intentions and institutional conditions’ trust is subjected to continuous re-constitution ‘in a relational process involving both agents and the situations and relationships in which they engage each other.’<sup>26</sup> *Interest* plays a critical role in this re-constitution, and in some cases, decomposition of, trust. Russell Hardin points out that ‘a clear, fairly well defined interest at stake in the continuation of the relationship’ is the ‘minimal core’ in a relationship of trust. He elaborates on his proposition that ‘trust as encapsulated interest’ thus: ‘I trust you because I think it is in your interest to attend to my interests in the relevant

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<sup>21</sup> Hardin, Russell, ‘Street-level Epistemology of Trust’, *Analyse and Kritik*, No. 14, 1992, pp. 152-176.

<sup>22</sup> Granovetter, Mark, ‘Economic Action and Social Structure: The Problem of Embeddedness’, *American Journal of Sociology*, vol. 91, issue 3, 1985, pp481-510.

<sup>23</sup> Ibid. Quoting Albert Hirschman, p. 484.

<sup>24</sup> Ibid., p. 492.

<sup>25</sup> Bourdieu, Pierre, *The Social Structures of the Economy*, Trans. Chris Turner, Polity Press, Cambridge, UK, 2005. Also, Swedberg, Richard, ‘The Economic Sociologies of Pierre Bourdieu’, *Cultural Sociology*, vol. 5, issue 1, 2010, DOI 10.1177/I7499755I03897I2

<sup>26</sup> Frederiksen, Morten, ‘Relational trust: Outline of a Bourdieusian theory of interpersonal trust’, *Journal of Trust Research*, Vol. 4, No. 2, 2014, pp. 167–192, <http://dx.doi.org/10.1080/21515581.2014.966829>

matter. This is not it is not merely to say that you and I have the same interests. Rather, it is to say that you have an interest in attending to *my* interests because, typically, you want our relationship to continue. At a minimum you want our relationship to continue because it is economically beneficial to you ...In richer cases, you may want our relationship to continue and not to be damaged by your failure to fulfil my trust because you value the relationship for many reasons, including non-material reasons.<sup>27</sup>

The contemporary interest in *trust* is interdisciplinary – naturally because trust or its absence is important for all kinds of relationships which constitute the social framework within which only every economy operates.<sup>28</sup> This proposed conference is intended to be a bi-disciplinary engagement not only on *trust/distrust in economic transactions* but also on *trust/distrust in interdisciplinary transactions*.<sup>29</sup>

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<sup>27</sup> Hardin, Russell, *Trust and Trustworthiness*, Russell Sage Foundation Series in Trust, vol. 4, 2002, p. 4.

<sup>28</sup> Good examples of contemporary interdisciplinary interest are the volumes in the Russell Sage Foundation Series in Trust (1907). The volume 4 is *Trust and Trustworthiness* (2002) by Russell Hardin

<sup>29</sup> Inter-disciplinary transactions have seldom been smooth given disciplinary ego. An account of disciplinary indifference and animosity is in Richard Swedberg's *Economics and Sociology*, Princeton University Press, 1990. On a similar trajectory are: Bardhan, Pranab and Srinivasan, T.N (eds.), *Conversations between Economists and Anthropologists: Methodological Issues in Measuring Economic Change in Rural India*, Oxford University Press, New Delhi, 1989; Hariss, John, *Contextualising the Commons: a note on the study of culture, power and institutions*, LSE Research Online Conference Paper, <http://eprints.lse.c.uk/archive/00000485>, November, 2005; Bardhan, Pranab (co-edited with Isha Roy), *The Contested Commons: Conversations between Economists and Anthropologists*, Blackwell Publishers, 2008.