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Address:

Institute of Social Investigations, Faculty of Social Sciences, Daugavpils University, Parades 1, Daugavpils.

Tel. (+371) 65422163 E-mail: viktor.voronov@du.lv

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PREFACE

Victor Voronov

Chairman of the Editorial Board

We are presenting a new issue of our journal which is devoted to some significant and urgent aspects on the agenda of economic sociology. The editorial board rely on the fact that economic sociology today is one of the most advanced branches of studying economy and society. It allows us to understand a social nature of the functioning and development of the economy as well as the role of the latter in modern society. Our common aim is to elaborate a sociological understanding of how economic life is organized, how it is structured socially and how it is reproduced. This aim is being realized in the current issue of the journal in the articles by the authors from different countries and regions.

In the section *“Peculiarities of Transformation of Trust in Different Societies and Institutions”* theoretical and applied approaches to trust as a choice, as rationality, as well as a market discourse are being examined. The article by Y. Veselov examines the process of transformation of trust in the Russian economy and society during two periods of time: 1917–1921 and 1986–1991. The article by A. Kupreychenko is devoted to the dialectic of trust and distrust in contemporary society. The conditions for interaction, functions and significant features of these phenomena as well as peculiarities of their studying and evaluation are observed. The article by O. Kitaitseva and A. Kuchenkova provides a comparative analysis of the level of trust and value orientations of youth in Russia and other eastern European countries, as well as the evaluation of the potential for development of their social capital. The article by V. Davydenko, G. Romashkina, and R. Akhmedzyanova deals with the issue of the decrease in the role of trust within Russian society and business, and the growing mutual distrust within the social-economic activity which is gradually turning into a dominant social norm.

In the section *“Peculiarities of the Processes of Social-Economic Transformations in the Post-Communist Countries”* there is an article which presents an explicit comparative analysis of the processes of social-economic transformations in the post-Communist countries in the 2000s. In the article by P. Tridico it is stated the joining of the former socialist central and eastern European countries to the European Union had a more positive impact on their

social-economic development as compared to the development of the majority of republics of the former Soviet Union.

In the section “***Sociology of Property***” theoretical and applied aspects of a social nature (functions and social outcomes of their implementation) of private property are analysed. E. Tarando, N. Pruyel, and M. Rubtcova in their article claim that the potential of private property has not been exhausted yet but it has the limits of its development which are defined by certain historic social-economic conditions: a stable reproduction of surplus product in the society. However, this condition in the modern society generates a number of social problems (inequality or injustice) which lead to the impossibility for the majority of people to use results of a social progress to the full.

PECULIARITIES OF TRANSFORMATION OF TRUST IN DIFFERENT SOCIETIES AND INSTITUTIONS

Yuri Veselov

*St. Petersburg State University,
Dep. of Economic Sociology*

The Transformation of Trust

Abstract

The article states that a traditional type of trust does not transform automatically into a modern one; a new type of trust emerges alongside the generation of new social classes, market rules and modern structure of consciousness. The old and new types of trust can coexist together but gradually new forms completely expel and transform the old ones. The main aim of the article is to examine the process of transformation of trust in the countries with transition economies, paying special attention to the Russian economy and society.

Keywords: trust, transformation, economy, society.

Introduction

Trust has been for the recent decades in the very focus of social science. Sociologists and psychologists as well as economists and anthropologists contributed to the study of trust as a social phenomenon. However, the problem of changing trust in the history of modern societies is as challenging as it is understudied. In this article I will argue that two types of trust can be found in the history of European societies. The first type deals with closed communities of a familistic character; in its nature this type of trust is closer to the sphere of feelings than a rational construction, I can call it a *traditional type of trust*. The second type of trust regulates the impersonal social relations of the contemporary market societies, it has a rational structure and can be called a *modern type of trust*. In the processes of economic change and market developments the traditional type of trust and morality is disembedding from everyday social life and is shifting to the periphery of the societal structure (the correspondent processes could be much more easily seen in the sphere of religious life) but

nevertheless there is a lot of that type of trust left in modern societies. The new types of morality and trust are far from being the products of obsolete mentality and reminiscences of the past in the modern societies as it was claimed by F. Fukuyama; instead, these new moralities and trust are constantly reproducing in social interactions and economic transactions. Much more, I can totally agree with N. Luhmann who argued that trust is definitely a modern phenomenon with its own social functions produced by the social structures of market societies.

The process of transformation of trust is definitely not the direct transition from trust in the small communities of familistic type to trust as it is reproduced in the social whole of society. That's why I criticized the concept of "radius of trust" by Fukuyama (the idea of concentric circles of trust embracing at first family and small social communities and then enlarging to the social groups like nations or societies) arguing that the traditional trust of community structure is totally different to the nature of the modern societal type of trust (Veselov, 2004: 55). So, the traditional type of trust is not transformed automatically into the modern one; the new type of trust comes together with the generation of the new social classes, market orders and modern structures of mentality. The old and the new types of trust coexist together but step by step the new forms crowd out the old ones.

In this article I plan to look more thoroughly at the process of trust transformation in the transition countries focusing on the Russian economy and society. In the roaring history of the 20th century two drastic transformations in Russian history can be easily seen: the transition № 1 (1917–1921) and transition № 2 (1986–1991). Both of them played a crucial role in the social, political and economic transformation and changed the nature of trust as well as the moral values in general. My idea is to apply the theoretical models worked out in the sociology of trust to the study of trust transformation in the process of 20th century Russian modernization.

The logic and the arguments are as follows:

1. In the beginning of the 20th century Russia hardly can be called a capitalist society, beyond the facade of rapid economic growth and the first spur of industrialization; in its nature, Russian society was undoubtedly a rural society based on traditional values and norms of morality and trust. Moreover, I will reveal the processes of *ruralization* of the urban population and the urban culture in the beginning of the 20th century and the early years of the Soviet era.
2. In the first years of the Soviet power the *anomie* of social norms and values drastically influenced the generation of rational habits of trust but meanwhile

the traditional type of trust somehow survived reproduced by the traditional mentality. The traditional type of trust played its crucial role in the process of the development of the totalitarian regime of 1930s. The early Soviet society was definitely the society of highly developed trust, rapidly institutionalized, but actually it was trust of the traditional type that survived in the autocratic political environment. At the same time, the social life was split into two spheres – public and private ones. The double standards of trust and truth were established to reproduce then the growing general atmosphere of distrust. The next turning point in the history of trust in the 20th century Soviet society was the World War II period and the liberalization campaign which followed in the 1960s. Suddenly the personalized cult of Stalin was ruined destroying the last bastion of the traditional trust based on the charisma of a paternalistic leader. In the 60s and 70s the growing general distrust of the Soviet power as well as its institution lessened to the minimum the level of trust in the soviet society. The total distrust of the state and of the Communist power opened the road to the final breakdown of the Soviet regime in the 90s.

3. During the transition process in the late 1980s and beginning of the 90s for the second time in the history of Russia *anomie* of norms and values has led to the moral chaos and much more growing atmosphere of distrust. The old types of trust of the communist ideology, the Soviet power and planned economy were ruined but the new forms of morality and trust were not yet generated. Thus that growing distrust caused the new wave of criminalization in the society as well as in the market economy. Power and enforcement processes were substituting trust.
4. During the 1990s the economic situation however changed; by no means that way was even and smooth but despite the crisis of events and the temporary steps backward in the economic reforms, the market spread and political democratization started up the reproduction processes of broadening trust. The new dynamics of trust in the contemporary society and economy can be traced in our empirical study in the St. Petersburg region (the research made by Elena Kapustkina, St. Petersburg State University). Actually those processes of transformation of trust and morality were slowly going on, more in the latent form, but changes were not so quick as had been expected before.
5. The comparative analysis of trust in post-socialist countries (we can compare our data and implications with the study of trust in Poland made by Piotr Sztompka) gives a much more optimistic view on the further developments of trust and morality. We can agree with Sztompka's (Sztompka, 2001)

arguments that the East-European countries and Russia now demonstrated in the period of transition a much higher level of trust compared with that in the Western countries. But of course, there is a strong feeling that a lot has to be done to create a full-fledged culture of trust.

In the first part of this article I'll study the transformation of trust in the Soviet society trying to overcome the widespread misunderstandings of the nature of trust in that era. In the second part I'll look at the processes of the transformation of trust during the transition period in the 70s and 80s focusing on the processes of bureaucratization and the substitution of trust by force.

Misunderstanding trust in the Soviet economy and society

There is a widespread belief in the contemporary sociological literature on trust that the Soviet Union, as the clear type of the "empire of evil", was an evident type of low-trust society (or society with generalized distrust). Then the contemporary market reforms renewed the general morality and introduced the high culture of trust. The idea is too good to be true. I argue that the Soviet Union in its better days was a high trust society with dominating traditional trust and familistic moral values. These values were totally ruined during the transition period of the 1980s and 90s. So, the situation with trust in the Soviet society is quite opposite to the *cliche* mentioned above.

My first argument is that the Soviet society cannot be treated as a stable structure, as a monolith, or something frozen into ice. The society was rather very much unstable, constantly changing during the whole period of its 20th century history: from total *anomie* of social norms and values after the revolutionary period of 1917–1921 to the reproduction of traditional trust in the 1920s and early 30s, then from the general distrust and suspicion after the repression of the 1930s to the next wave of growing trust in the late 50s after Stalin's death, and next to the total atmosphere of distrust in 1970s and final moral catastrophe of late 80s and early 90s. In the same time trust changed its nature in the processes of economic reforms from the period of "War Communism" in 1918–1921 to the "NEP" (New Economic Policy), from first five-year plans and industrialization in the 30s to post-war reforms in 1947, from early economic and monetary reforms in the 60s to a period of economic stagnation in the late 70s. Thus, the Soviet society and economy were far from being a stable structure, rather it was a society on the move; as the same time the nature of trust and distrust was constantly changing.

Let us have a closer look at these writings where the idea of low-trust Soviet society was worked out. According to F. Fukuyama we can divide all modern states due to their level of trust into high-trust societies (well developed

economic nations like the USA, Japan, Germany) and low-trust societies (countries like France, Italy, China, post-socialist countries, Russia in their number). This differentiation comes from Fukuyama's concept of trust; he treats it as a pre-modern cultural phenomenon, a sort of social capital based on the ability to achieve spontaneous association, existing in the modern industrial environment. There are countries that managed to use that social resource coming from the past in the creation of business organizations, and these nations now benefit from that resource of generalized trust, while others are able to use trust as a social capital only in a small communities; this type of trust Fukuyama calls "familistic". Leaving aside the classification of nations according to the level of trust by Fukuyama (because it's clear that the nature and origins of trust are different in the USA and Japan, or France and China, no matter the level of trust that existed) I'll cite only the passages concerning Russian society in his book called "Trust". Russian rural society, argues Fukuyama, "does not have a rich associational life outside the state-run *kolhozi* and *sovkhozi* (collectivized state farms), and the Russian peasant family is troubled and weak" (Fukuyama 1995: 337). Actually, in the pre-Revolutionary rural society the communities of peasants, so called "mir", constituted the social basis of the rural society. These communities were far from being weak and troubled, even after the Stolypin reforms started in 1906 when all economic and non-economic possibilities were given to peasants to make them leave the community; nevertheless the majority of the rural population (2/3 of all peasant households) preferred to stay in the community, thus Russian rural society has never been of an individualistic type. The spontaneous association of rural types were broadly spread based on reciprocal collective actions ranging from random mutual assistance to neighborhood associations reproducing the highest level of traditional trust. In the beginning of the 20th century after the Manifesto of October 17 (1905) there were numerous examples and attempts to create different unions and voluntary associations (Mironov 1999: 342). The rural patriarchal type of large family has never been weak either. Instead, the paternalistic mentality was dominating even in urban areas because of the flood of rural migrants to the urban regions (e.g., the relations between the owners of small business in industry or retail trade and their employees copied the patriarchal relations of a large rural family).

As concerning contemporary Russia according to Fukuyama it is truly an individualistic society with little capacity for association and hence a low level of trust, "both private companies and political parties are weak or non-existent in post communist countries like Russia...." while the strongest organization being criminal gangs (Fukuyama 1995: 357, 28). Barbara A. Misztal repeats Fukuyama's idea of low-trust Soviet society but from a different theoretical

background. In her study “Trust in modern societies” she argues that the disintegration of the Soviet system “proved that the weakness of undemocratic states lies in their lack of trust” (Miształ 1996: 5). But how to explain the highest level of trust in the Communist Party and Stalin during the years of repression in the 1930s and World War II?

My concept of changing trust and morality in the history of 20th century Russia is based on the idea that there are at least two periods of drastic transformations of general social values and trust: the first happened during the revolutionary years (1917–1921), transition № 1, the second we witnessed in the late 80s and early 90s (transition № 2). There is no need to make a general comparative analysis of those transitions, but I focus on the processes of transformation of trust produced by those transitions. Let us have a more thorough look at transition № 1.

The Russian empire at the beginning of the 20th century was considered to be one of the great powers, mostly because of its huge territory and population: 22 mln. sq. km and 170 million people (nowadays the Russian Federation has 17 million sq.km and 150 million people). In gross economic terms Russia looked not too bad as well, it ranked fifth (now we are the sixth economy) in world industrial production after the US, Germany, Great Britain and France due to its well developed textile industry as well as heavy industry (coal, steel, pig iron). It was second in petrol production after the US at that time (and unfortunately still is, however following not the US but the Arab oil exporting countries). The emancipation reforms of the 1860s and the new economic policy during the 80-s stimulated the “great spur” of industrial production (so called the first “wave of industrialization”; the second happened in the 1930s), and industrial output increased at an average rate of more than 8 percent, higher than the best rates achieved by the Western countries. Much of the credit for this goes to the railway construction that stimulated the rapid developments of mining and metallurgical centers. The general rates of economic growth were extremely high as well, not less than 7–8% of annual National Income growth during the period 1908–1913. All that made it possible for Marxists (and especially Lenin in his book “The development of capitalism in Russia”, 1903) to claim that Russia had already been transformed into a capitalist country open for the socialist experiments.

Unfortunately beneath that industrial facade lay a giant and totally rural country with obsolete mentality and monarchical regime, traditional norms and values, with more than 2/3 of its labour force engaged in agriculture and producing half of the national income. Per capita income was no more than 1/3 that of US or Great Britain. Productivity, especially in agriculture, was extremely

low because of the primitive technology used (wooden plugs) and scarcity of capital. The majority of the population lived, to say better – survived, in the primitive sphere of basic material needs with minimal relations to the market economy to say nothing about capitalism. The social structure of the society at the end of the 19th century can be described as a pyramid: high classes – 3% at the top; small middle classes – 8%; at the bottom – low classes – 89% (among them: workers – 20%, peasants – 69%).

As usual, the minority of the population (not more than 10%) owned the majority of national welfare and resources giving way to the growth of inequality and social contradictions and contributing to the escalation of revolutionary trends which happened first in 1905 and then in 1917. According to the Census of 1897 the solid 75% of the total population were illiterate, even 55% of the urban population were illiterate too but the majority of those who were considered to be literate could only read. In the rural areas parents deliberately did not allow their children to go to school more than 2 or 3 years in order not to lose paternalistic control over them and to educate them according to the traditional values and social standards.

Concerning the urbanization process the results were tangible but of dubious character. From 1858 to 1897 the ratio of urban population doubled from 8.2 million to 16.8 million people, and doubled next to reach its peak 26.3 million in 1913; in general terms during the period of 1858–1913 the percentage of urban population increased from 10 to 16% (Ryazanov 1998: 143). It's not too much to compare with that of Great Britain 78% or Germany 56% but for Russia the successes of urbanization were more than evident. But the structure of the urban growth was different because that enormous growth happened much more due to the flood of rural migrants than to the growth of the native urban population. During the period of 1858–1897 the percentage of peasants moving to the urban areas increased from 21% to 43%; in the largest cities that rate of rural migrants was much higher and reached 69–70% in St. Petersburg and Moscow. As concerning the new working class it was mostly (up to 80%) recruited from the rural population. B. Mironov called that interesting process as “*ruralization of urban population*” (Mironov 1999: 341), leading to the domination of rural mentality, rural living standards and traditions in the urban areas. Going a little ahead it is worth mentioning that the ruralization process happened for the second time during the early 30s; after 1929 a flood of rural population moved to the central urban regions to avoid the atrocities of the collectivization policy and starvation that followed in many rural areas. So, the rural mentality based on traditionalism and paternalism dominated both in rural and urban areas reproducing correspondent moral values and type of trust.

How to explain the nature of traditionalism and traditional trust in the rural societies? Traditionalism in general is the way in which people look at their future – just in the same way as they look at the past. Thus, to make a future in the same way as a past is the working rule of the traditional mentality. For the first, the image of the future is based on the idea that everything belongs to supernatural forces and depends on the wishes of gods rather than activity of a man. Here arises the form of passivism (opposite to activism) as the model of economic and social behaviour. Hence trust is placed not in oneself and in the individual activity but rather trust is giving credence to external mystical forces. For the second, if the behaviour of an individual corresponds to the rules and norms created by the gods (and institutionalized in the communal social norms) the fate is favourable and the future is bright. There is no need to calculate risk and uncertainty or to use rational choice procedures because fate is predetermined and depends on the balance of goods and evils in your life. What is good and what is bad is prescribed by religion and by orthodox moral values. These values are somehow operationalized in the everyday rules of success or happiness in the rural community: to live one's life according to the traditions and norms established by fathers and grandfathers; not to forget God and try not to be overloaded by too much sin; to have a large family and a lot of children; to live in harmony with neighbours and community and have respect for and from them; if possible not to leave your own native places and to die there in peace according to the orthodox traditions in the atmosphere of a caring family climate.

Hence, the traditional trust is trust in the past, trust in the established tradition, norms and order, and vice versa – distrust in everything new, trust to the family and community (to social wholes but not to the individuals), trust in the dogmas but not to rational ideas. The nature of traditionalism is based on the orthodox moral values and communitarian ethics while the traditional trust is based on trust in God (supernatural forces), and trust in community (as enlarged family).

Now let us look more closely at trust in power established in rural communities. The rural community “mir” consisted of households, in its turn households were represented by large families. Each large family was ruled in autocracy by the oldest man (on the rare occasion by a woman) of the family – patriarch or “bolshak” (literally a “big man” in anthropological terms). The family was integrated by the power of that man who was in charge of everything in his household and represented the interests of the family in the larger communities. The power was absolute and unconditional, legitimized by the tradition and reproduced by strict regulations and control (even physical punishments were widely spread). In the processes of early socialization the external power and control

matters much more than self-regulationism and self-control. The personality of the “big man” or patriarch played a crucial role, and family members trusted not the abstract impersonal or institutionalized power but in the power of that specific person. Thus for rural mentality and traditionalism trust is given not to the institutions but to personalities or institutions represented by these persons. Even God to be trusted should be represented in the image of man with its inherent features and peculiarities, as well as institutions which need first to be subjected to the procedure of anthropomorphism (to be created as a human reality) and then to be trusted in. Paternalism was legitimized ahead of the supremacy and obedience in the families as well as in the community and society, hence a person or a figure – landlord or tsar – was of much importance to be trusted in. Therefore, traditional trust is of personal character and based on paternalistic values.

The power of community itself was partly of the same character and partly different. If the family was ruled in autocracy, the community, called “mir”, was ruled by the principles of primitive democracy, based on the egalitarianism in the economic and social life (equal distribution and constant redistribution of the community’s land, equal distribution of duties between the members of the community, equal responsibilities and taxes, etc.). Egalitarianism as a principle coexisted with the reciprocal relationships, mutual help considered to be a must between the members of the community. But just in the same manner, like inside families, the power of the community in relation to families and individuals was nonetheless absolute and unconditional, it was a sort of “blind” trust in the patriarchs (later in Soviet times represented by charismatic leaders like Lenin or Stalin) and to community as whole. Freedom as a value was hardly in the first rank on the value scale of rural society, freedom viewed as a contradiction to established order, so it can be either freedom or an order, but not two as one. Freedom was associated with the “freedom from” something, but not the “freedom for”, an example of that “freedom from”: the bold outlaw has nothing left to lose, he is free from societal norms and his fate is predetermined and well known. The revolution lately was considered to be the total, but nevertheless, temporary destruction of an order. Later the order must be re-established and those pleaded guilty would be inevitably made an example. That is why the rank or value of an order taken in the frameworks of traditional mentality is much higher than the value of freedom, that is why trust in order is much higher than trust in freedom. It helps to explain why the majority of population (actually rural population) sacrificed the freedoms gained during the revolution in the favour of values of power and order. In that way, people trusted in the idea of strong autocratic power and the leader who personally embodied and represented that idea.

Labour ethics and moral attitude to wealth in the traditional mentality were far from being sufficient for the needs of a growing capitalist economy. In the orthodox tradition wealth was treated as an immoral phenomenon, like an evil, that eclipses the soul of a man from God, the wealthy man cannot hear God's voice. In the rural areas people still believed that money can bring power and fame but wealth does not give a life of ease to a man, vice versa it brings more troubles and fears. To be rich or to be poor depends not on your personal activity but on the will of God so it is necessary patiently to accept your own fate. Wealth is immoral in general terms according to the traditional mentality because mostly it comes from and at the expense of others and infringes the principles of justice. The labour ethics of the rural communities is based on the concept of moderate labour, everyone has to work (only physical work – work of a body not of a mind – considered to be a genuine work, e.g. to read a book was not considered to be work, much more it was treated as leisure) to earn the subsistence. But overwork was considered also to be a sin as soon as it comes from greed and jealousy, and from *superbia*. It is allowed to do the work only if there is a need for it, so peasants (and later working classes, the former rural migrants) worked only in order to satisfy their primitive needs but not to get profit or to accumulate wealth. That is why the total yearly working hours of Russian peasants was much less if compared with their western neighbours. In 1913 Russian peasants had 140 days a year left for days-off and vacations to compare with that of 68 in the USA; if one compared the American slaves and Russian serfs in the beginning of the 19th century the latter worked 2.6 times less (1350 hours a year in Russia instead of 3065–3965 hours in the USA) (Mironov 1999 (2): 311).

As concerning the capital assets and land ownership peasants believed that the land belongs to God and everybody has a right to cultivate it. Those who cultivate it have the rights on it, only for those who work are given the moral rights to own the land, that is why land naturally belongs to peasants. Thus the land was considered not to be the object of legal property rights but the object of labour, the whole land (including that of landlord) as peasants believed in the late 19th century, belongs to the rural communities and should be equally distributed among the communities and among their members. The very complicated mechanism of communal redistribution has been constantly used to ensure justice in the use of land. Thus trust in equal distribution, and parity in general, constituted then the basic belief in the early Soviet times.

Therefore, private property was hardly considered to be the honest acquisition especially if the land ownership issues were considered. The same logic of justice was applied lately by workers to their industrial enterprises, they wholeheartedly believed that the plants and factories belonged to those who

work but not to those who manage in spite of the legally instituted property rights. The ideas of working councils – “soviets” – at the industrial enterprises in any case were the genuine products of the traditional mentality and trust. The soviets in fact were the products of spontaneous associations of workers and peasants but not the results of the deliberate policy by Bolsheviks. That is why the ideas of the Communist propaganda based on the naive principles of justice and equal distribution corresponded to or even coincided with the traditional values and mentality of rural classes that migrated to the urban areas.

As concerning the relations to the other social classes, traditional mentality is based on the idea of hegemony of labour classes. At the beginning peasants considered themselves to be the real core of the society, all other classes live at the expense of agriculture, so peasants truly believed themselves to be the economic centre, being dissatisfied with the industrial economic policy as well as the remuneration and respect they actually were given at that time. Later the working classes continued that idea of hegemony supported by the official ideology in the soviet times. The danger of hegemony claims was in the division of the society into “we-group” and “they-group” which led after the revolution to the “red” as well as “white” terror based on the total denial of the interest of the other groups and on the physical liquidation of the other classes.

The mentality of rural classes did not allow them to comprehend the modern economic institutions, and the majority of population of pre-Revolutionary Russia did not accept monetary terms of economy. Only after the 1905 events and Stolypin’s reforms peasants began to use credits and loans from banks; however they totally rejected the idea of a commercial rate of interest, they could give or take a loan to or from their neighbours but free of charge, without commission, because the mutual help valued much more than the interested help. The traditional mentality was based on the concept of fair price and rejected the principles of profit. The market constituted a tangible reality of their economic life nevertheless did not constitute the frameworks of mentality – market mentality. The ideas of competition, of making money, of contracts, of careers were against the tradition. Going a little ahead, it is an evident paradox but it was the soviet planned (non-market) economy that introduced market mentality and rational calculation into the everyday practice of the people.

Thus the economy as a whole in the beginning of the 20th century was divided into two sectors: the biggest one was based on traditional economic values and on the community as a basic economic institution; the smallest but most efficient one was based on modern capitalist values and market mentality. Trust in the traditional or familistic type dominated over the modern trust of market societies.

Moving further to the soviet times let us sum up our preliminary arguments on the traditional trust and economic values. Traditional trust in its nature is a sort of habit, a non-rational attitude to the world and to the other people based on unconditional beliefs. The basic features of the traditional trust are: trust in supernatural forces regulating the whole life of an individual and society and hence unconditional trust in dogmas no matter of what character and distrust to rational logic (in the early soviet times the religious dogmas were substituted by the communist ones but it did not prevent people from blindly believing them); trust in the past and distrust in the future, everything new (no matter technical innovations or ideas) treated with suspicion and mostly rejected; trust in the community, in the social whole, in collective values and distrust in individuals or individual values (in the soviet times this type of trust expressed itself in the form of trust in the Soviet state and Communist party); trust in order sustained by strong power and distrust in freedom as something breaking down the order, power in its nature is of a paternalistic character with personalized trust to the leader (in the early Soviet times trust in the Tsar was substituted by the trust in the Communist party leaders). In an economic sense trust was expressed by trust in external forces or institutions (state and its economic institutions) and distrust in individual activity, trust in traditional techniques of economic activity and distrust in modern techniques, trust in the values of obligatory but non-intensive labour and egalitarian distribution, trust in collective economic actions and distrust in personal economic activity.

In the beginning of the 20th century Russia, despite economic success in industrialization was still predominantly a rural society – a society of high trust of traditional character. But the Russian – Japanese war and revolutionary events of 1905, then successive Stolypin's reforms aimed at the destruction of communitarian economic values, and then the World War I – all these events and processes began to erode the traditional moral values and trust. The economic situation at that time was far from being stable, the enormous overpopulation in the rural areas and the lowest efficiency in agriculture led to the poverty and growing discontent among the peasants. They saw the abundance of landlords' land and sought for the easiest way to solve the problem – just to expropriate it. It was a myth because the total area of communities' land was more than three times larger than the total area of landlords' land. The revolution of 1917 proved that idea – it really happened that the expropriation and distribution of landlord's land did not prevent that dangerous process of rural overpopulation. Nevertheless, peasants according to their traditional economic values saw only one source to increase economic efficiency – the enlargement of communities' land at the expense of landlords and began to act in 1905. These militant actions

reciprocally brought a reaction and forced government to use corresponding methods of managing the situation. The claims of rural communities were broadly supported by the workers (actually, a lot of them were recent rural migrants, the ties with the communities were still strong and were of constant character, according to the law of 1861 the worker even if he lived in the city was officially affiliated to the rural family and community, even paying taxes over there, visiting his rural relatives during vocations and celebrations). In 1906 Stolypin tried to find out a way to improve the rural policy and give more land to peasants. The idea was to grant to peasants legal rights and actual possibilities to get out from the community and start up the agricultural economy based on the individual farmer's households like in the USA. Vast territories in the Siberian regions were given to those who wished to begin a new life on the new land, and until 1914 3.3 million people migrated to the Siberia regions while the national budget paid for their traveling expenses and granted them a small loan (150 roubles). But the lack of state support, scarce financial resources and insufficient credits did not allow these new farmers to benefit from the resettlement, and approximately half a million came back to their native places (Feydorov 2001: 264). Nevertheless, 1/4 of the peasant population left the communities mostly to get the rights of private property on land and to start up their own independent farmer's households, and of course some of them migrated later to the urban areas. Stolypin planned to reconstruct agriculture and transform the community life as the social basis of peasants' order in a period of not less than 20 years. But the beginning of the World War and his tragic death in 1911 (he was assassinated by a terrorist during a show in the Kiev Opera House) stopped that process.

The internal policy during the events of 1905 and especially the shooting of the peaceful demonstration to the Tsar on November 9 undermined partly the trust of the labour classes in the monarchy and personally in the figure of Nikolai the Second who became more and more unpopular; people just did not want to believe him and his government any more. The growth of trade unionism and the working movement contributed to the broadening revolutionary process. The new forms of power as workers' or peasants' councils suddenly came into being. The World War which started in 1914 led the Russian empire directly to the full-fledged economic, political, social and national crises. During the war 1/4 of the male population was conscripted and mobilized to the army, the national economy and especially agriculture lacked the working force and hence its productivity decreased (up to 20% of total production of grain, 1/3 of sugar production, food-cards were introduced everywhere), the needs of the army hardly were satisfied in a full scale and in 1916 the tsarist government (not

Bolsheviks as widely acknowledged) introduced compulsory requisitions – the grain in kind be taken from every rural household for the needs of the army. Due to the galloping inflation, prices for basic food-stuffs increased 4–5 times. In 1915 the fuel crises captured Moscow, and St. Petersburg was renamed at that time of anti-German hysteria into Petrograd. The war campaign was in general unlucky for Russia – Poland, Lithuania and the western part of Ukraine were lost in warfare, more than 2 million people died and many more were wounded. The goals of the war were unclear and uncertain, most of the soldiers and peasants wondered whether they really needed the southern territories to fight for them. Thus the society as a whole, all social classes – working class, soldiers and peasants, political elite and land aristocracy – all of them, no matter upper or lower classes, were disappointed with the tsarist government and its unwise policy. The total distrust of Tsar Nikolai personally and to the tsarism as an institution laid the foundation for the revolutionary events in 1917 and the first bastion of traditionalism and traditional trust – tsarism – was ruined. The significance of the person of figurehead however was as yet untouched (to be totally destroyed 40 years later in the attacks on Stalin’s cult) but for the first time the innovation – the intention to accept the new, the new order or way of life – took over the tradition. In fact, the Revolution meant the implementation of the traditional value of “freedom from” but not “freedom for”, but the process of the deconstruction of traditional trust had already begun.

After the February Revolution of 1917 the Provisional government turned Russia into the rank of the most democratic countries in the world, one part of the traditional trust – trust in the tsar – was destroyed but trust in the new forms of power like parliament or local authorities had not yet come into being. From that point the transformation of social morality began in the peasants’ world as well. The old traditional norms and communal values began to lose power but the new ones had not yet come, thus the moral environment of social actions corresponded to the situation E. Durkheim called *anomie*. A lot of people had taken part in the war campaign (not less than 25% of the male population), they learned how to use weapons, they saw the atrocities of the war and they were far from being peaceful. The value of human life drastically decreased, that people were ready to use enforcement in each and every situation. Thus the traditional trust and morality was displaced by force, solidarity between upper and lower classes was substituted by growing suspicion and distrust. But nevertheless, trust in God, trust in community, trust in external social power still dominated in the social mind only to be totally destroyed after the soviet times.

The Provisional Government did a lot to make the situation more stable and certain, but unfortunately, it did not manage to create a high atmosphere of

trust in its program mostly because of the military policy (refusal to somehow stop the war) and because of the growing economic crisis. Actually its inability to work out strong and clear policy led the country to total catastrophe. That is why it was not a tremendous effort for Bolsheviks to take power in October 1917. The political power was given to the Soviets where Bolsheviks played a key role and immediately the new regime declared peace to soldiers (on the base of pre-war status quo), land to peasants (the private property on the land was declared illegal), and freedom to nations (giving them rights for self-determination). The idea was great but nevertheless all above-mentioned slogans were only declarations, meanwhile that sort of policy was supported by the majority of the population. The army sincerely supported the cessation of war, and the majority of soldiers, former peasants, deserted immediately their divisions and moved to their native places in order to take an active part in the redistribution of the land. However, their rush was accompanied by the growth of plunder and the use of force, and the moral degradation continued. During 1918 big business – large enterprises in the heavy industry – was nationalized giving for workers all possibilities to introduce different forms of control over the production and distribution processes, but workers by themselves had only a slight idea how to organize the technological process and how to manage the enterprise. The efficiency of the production decreased in time so the new government had to send commissars to somehow organize the technological process of production. In the rural areas the power of redistribution took in their hands so called “Combed” – councils of the poor – these organizations voluntary distributed the land and soon were dismissed even by Bolsheviks because of the unfair and inequitable activities (to be revived soon in the collectivization period).

Despite the measures taken by Bolsheviks, the economic crisis was deep and strong, and soon however the Bolshevik economic program became inevitably the compulsory one. It was called “War Communism” as a peculiar policy to somehow organize the chaos in economic and social life. According to that policy the exchange market and money were abandoned as unnecessary elements of the economy. Actually, those measures led to the blossoming black market, to the establishment of informal economics and barter exchange. The Civil War which started in 1918 continued the nightmares of the World War and the Revolution; in its nature it was the war of mentalities, between those who looked for the past and those who looked for the future while both parties taking part in the conflict using the immoral methods like “red terror” or “white terror”. The majority of the rural population was in between those two ideologies, and at the beginning the peasants were neutral, but as soon as they saw how the white army introduced the old regime on the occupied territories the rural population

voted for Bolsheviks despite their cruel methods of economic policy. Peasants believed that somehow their ownership of the land declared by Bolsheviks would be safeguarded and thus supported the Red Army. Furthermore, peasants believed that dictatorship of the proletariat declared by the Bolsheviks was based on the union with peasants and the declared war with bourgeoisie classes is much more on their side. The moral values of the red army and the white army were of the same character, force was used in both camps, hence, the morality of survival substituted the Christian moral values.

The World War, Revolutions and the Civil War changed overwhelmingly the social structure and the moral values of Russian society. From 1914 to 1921 20 million people perished, more than 2 million emigrated to foreign countries, 7 million children lost their parents and homes. The sweeping changes mostly affected the urban population, as there was a large migration of urban population to more rich rural areas (the population of Petrograd decreased twofold), so the new unexpected wave of ruralisation happened, and the total number of industrial workers decreased for 5–6 times, and in 1921 the number of industrial proletariat did not exceed 1 million people. These processes of drastic changes contributed greatly to the transformation of mentality, and for the first time in the history of Russia, the peasants' population, and hence majority of people, voted against the tradition, against the old regime and supported the new power and new regime. Thus some foundations of traditionalism partly were destroyed, partly were reconstructed, and people rejected their trust of the tsar and their trust of the old regime and voted for the new one. However the patriarchal trust in the charismatic leader still dominated, and the figure of the tsar was substituted first by Lenin, and some years later by Stalin. People trusted not only their ideas but also to them as founding fathers of the new society, and the level of trust in that figure increased and solidarity between labour classes became stronger too. It was the very beginning of the transformation of traditional trust into the new forms, then to be totally reconstructed in the late 30s. But the old forms of trust were more than alive, the rural society was still based on the community basis and paternalism, and despite the new changes the community played in the early period of the Soviet Russia a much more important role than in the pre-Revolutionary times. Just before the collectivization in 1927 not less than 90% of the peasants' land belonging to the rural communities (Ryazanov 1998: 336). There was a wide and deep gap between peasants and the other population. M. Gorky mentioned in 1922 that the rural population did not trust only those who came from the cities and towns to help, but they totally distrusted or treated with suspicion a city as an institution; they considered it to be a complicated

organization of tricky people living at the expense of peasants and producing a lot of goods completely useless for them.

Nonetheless, peasants trusting Bolsheviks in their political program did not trust their economic program at all. The compulsory economic program, the destroyed markets and monetary means finally caused the great catastrophe – famine in 1921 when 5 million people died. To somehow help that situation Bolsheviks and especially Lenin launched the new economic policy called “NEP” oriented on the restoration of market economy. The special tax in kind – “prod-nalog” – replaced the compulsory requisitions, allowing peasants to sell their surpluses at free market prices. Peasants believed that policy and as a result in 1926 the total production of crops reached its peak to be comparable with that of 1914. The work of industrial enterprises became organized with the help of monetary and financial terms. However, Lenin called NEP as a step backward in order to go forward, the commanding heights were in the hands of Bolsheviks, the heavy industry and communications still belonged to the state. During the NEP period not only economic freedoms were given to people, but some features of general democratization were clearly seen. The most important was the broad tendency in the democratization of education. The level of literacy in the tsarist Russia was extremely low but from the early revolutionary period the deconstruction of the traditional mentality was expressed in the unexpected interest in education. That national move was supported by the Bolshevik government, and from 1919 the wide range of professional schools for workers and peasants were opened mostly on a part time schedule. By 1930 the level of literacy increased from 33% to 63% according to the statistics (but the notion of literacy in itself was different to that of western countries, as only reading skills were taken into account to say nothing about writing).

The next phenomenon of the democratization was revealed in the more freedom given to women, and from that time in Russian history women for the first time got equal rights to take part in economic activity and earned enough to live independently. Step by step in the urban areas the traditional large families based on paternalism gave their place to the small nuclear families, and as a result the number of divorces tripled during the 20s.

One of the most interesting as well as under-studied was the phenomenon of rapid bureaucratization of economic and social life in the 20s, the former workers and peasants, poorly educated, suddenly became the persons who decided, and the number of new bureaucrats despite several official campaigns against the bureaucratization tripled. The new bureaucrats tried to learn the fundamentals of office management but caught only the formal rules of the game, not the nature of bureaucratic procedures, and without correspondent context the general

efficiency of bureaucracy was extremely low. The principles of status, hierarchy, subordination, place-hunting were learned by heart by those new “managers”, and not surprisingly their work was accompanied by corruption, heavy drinking and incompetence. Thus the rules of formal rationality were fighting against traditional mentality and trust but rural roots were all too clear in the late 20s.

The NEP period and the correspondent market developments did not turn Russia into a modern industrial nation. The output increased in both industry and agriculture and by 1927 the pre-war levels of output had been substantially regained. However, the country was still predominantly rural in its character and mentality. According to the Census of 1926 the population of USSR ranked 148 million people, the social structure was represented by following groups: workers – 10.8 %, peasants – 73.0 %, other classes (petite bourgeoisie, unemployed, craftsmen, etc.) – 16.2% (Sokolov 1999: 154). Stalin and his clique clearly saw that the socialist policy would fail if there would be a strong basis of the traditional, and hence non socialist, elements left untouched in the rural country. Those huge masses of population actually were totally independent from the state and could impact somehow the long term policy of communists; for example, there were only 2.5% of communists among rural inhabitants. So to keep things going like this meant a hidden catch to Stalin, a latent danger was very close to the soviet regime.

Thus the concept of industrialization and collectivization came into being to modernize the predominantly rural country. The idea of “socialist industrialization” was based on the development of a planned state economy under the strict control of planning commissions, on the technological reconstruction of heavy industry and forced accumulation of capital for these means. At the same time the policy of market economy restrictions considered to be the part of socialist industrialization policy as well, but actually it stimulated nothing towards the shift from the official to black market only. The first five-year plan launched in 1929 declared a goal to turn Russia into an industrial state, and it goes without saying that the targets of that plan had not been fulfilled in 4 and 1/4 years as it was reported as well that the general industrialization goal was not achieved even until 1945–1950. But the important changes nevertheless took place, the annual growth of Gross Domestic Product exceeded 5%, but industrial rates were even higher – up to 17% and in fact not due to the statistical cosmetics, these rates could be valid because as usual the highest growth rates were to be achieved in the construction period. Besides that the USSR benefited from the Great Depression in the West and new technologies were bought over there at the relatively low prices (one of the most interesting example was the construction of the Gorky automobile plant by Ford in Nizhny Novgorod). In

1933 the government inaugurated the Second five-year plan, the emphasis supposed to be given to the production of consumer goods, but the policy of forced industrialization continued, and an extraordinary proportion of the resources was devoted to capital goods (the average 30% of the National Income and up to 45% in 1932) (Sokolov 1999:183). Because of the lack of foreign loans the industrialization was held at the expense of the export revenues (timber and grain as the first items) and at the expense of production of consumer goods and their consumption. Nevertheless, the enormous amount of the new working places were created especially at the construction sites in the east of the country, attracting more and more rural inhabitants.

The forced industrialization program was accompanied by the “collectivization” program, the idea being to establish larger economic units (“kolhozi”) than households, to somehow make them use modern technologies and techniques in agriculture and to put into life a sort of demand for those economic sectors of the heavy industries. But the plot was to change the social structure in the rural areas and make the rural population more dependent on and engaged in the communist policy. Despite some positive trends like the state supplied machinery (“MTS”) the total output of agricultural production decreased in times under the collectivization era. For the second time in the history of post-revolutionary Russia the poorest strata in the villages and their organizations (“Combed”) came into power, and the expropriations and requisitions turned into the working tools of that policy. Those not willing to enter the Kolhoz – collective farm – were exiled (about 2 million people). Actually it made many rural inhabitants leave their houses and to move to the urban areas, and in 1931 alone not less than 4 million people left their native places. The former close members of small communities left their natural social environment, moving to the new social spaces. They took from their past a habit of short *distanciation* between an individual and a social whole. Thus, the social patterns of the community were embedded into the social space of the society reproducing close and immediate ties between society and its members, and hence reproducing a milieu to autocracy and totalitarianism. Finally, in 1939 the share of the urban population increased dramatically to 33% with no facilities prepared for that flood of migrants as usual. A majority of rural migrants moved to the most attractive cities like Moscow and Leningrad despite the different preventive measures like the passport systems and compulsory registrations. In fact peasants had no possibility to move freely inside the country because they just had no possibilities to get passports, but the new channels of migration had been invented (Red Army or industrial construction sites recruitment or application to educational programs were among them).

In 1932 due to that tragic collectivization policy from 3 to 10 million peasants died from starvation, meanwhile the soviet export of grain was constantly rising to get funding for the industrialization programs. So, Stalin's first assault on the village was more than "successful", the social substance of rural life was destroyed, some people so called "kulak" – the richest and more economically active part of rural population – were exiled, some people moved to the urban areas, those left were built into the new system of agricultural production without correspondent internal stimuli to work efficiently like in the soviet industrial economy. Not surprisingly by 1932 the output of agricultural production decreased rapidly and ranked 73% of that in 1928. Meanwhile the official propaganda declared the mythical success and false achievements. Thus the double standards of truth were introduced, public and private information became totally different. The soviet constitution of 1936 declared all democratic rights for citizens but only the insane could claim for that freedom. Nevertheless the communist propaganda was quite efficient, and mostly people for the first time captured by the sources of mass communications (like newspapers and especially radio) believed in the myths or were ready to believe. Most of the new soviet people were ready to accept the new rules of the game and reciprocated the standards established by the Communist power. In that way the trust in power was reproduced and internalized by the population.

In 1934 the leader of the Leningrad communist organization S. Kirov was assassinated by a terrorist. This event triggered the wave of massive repression launched by Stalin. In 1936 131 thousand people were under arrest but in 1937 that figure increased to approximately 1 million people. The atmosphere of hidden fears and suspicions blossomed in the late 30s fed by the army of NKVD informators contributing to the official terror. The delation and blackmailing were among the strategies of career making, those place-hunters from the new bureaucracy just recruited from workers and peasants used all means in their fighting for the place in "nomenclature" – the list of names to be appointed to the posts. In fact because of massive terror applied to the ruling elite as well as to the common people the career opportunities were numerous, which is why the large number of young party members were appointed to positions in the economy at the age of 30–33. The more the social trust melted the more institutionalized trust as the public loyalty to power grew. The familistic trust among family members in that atmosphere of public suspicion became increasingly strong but even inside small communities the erosion of trust was evident.

Thus terror and fear as well as propaganda (based on the state monopoly on the mass media) were the sources of trust in the 30s substituting traditional trust. The radius of paternalistic trust was broadened, the whole "society-commu-

nity” was treated by the former rural population as a large family with a father (communist leader) and sons (soviet citizens), with power and obedience, with external and internal enemies of the family to be found out and punished. The autocracy or totalitarianism seemed to the majority of the people as something natural and judicial. The social life in the 30s much more copied the social matrix of pre-Revolutionary society, the nature of traditional order kept untouched but the form of traditionalism changed drastically. Even the orthodox church was subordinated to the state somehow supporting the regime. People trusted in that “society-community” and its attributes playing the new rules of the game established by the regime. Stalin deliberately used the new forms of paternalism (in his speech in the very beginning of the World War II he referred to people not officially as “comrades” but as “brothers and sisters”) to reproduce his personal cult to make people trust him as a founding father as well as the protector and judge. Meanwhile power did not trust people, for example, and from the very beginning of the war campaign the order was given to the inhabitants of Moscow to pass their personal radio sets to local authorities to strengthen the informational monopoly of the state.

The beginning of changes

During the Great Patriotic War (note the paternalistic tendency even in the official title of the war) the trust of people to power and in Stalin however strengthened from the beginning. The reason is that suddenly the myth of the external enemy became a truth and people were fighting against the enemies together with government, suddenly the false propaganda changed into truth – the newspapers and the radio were giving people more or less true information concerning warfare, and the moral climate changed too, and the nation lived as one feeling the common pain and empathy because the tragedy was great – during the war every family was somehow touched by the events. Nobody doubted in Stalin’s iron will and his wish to win the victory in the war.

But the situation drastically changed however after the victory in 1945. More than 26 million people perished during the period 1941–1945 (while Stalin mentioned only 7 million), demographic disparities remained a total catastrophe; – among those 26 million 20 million were male population, in 1959 for 1000 women 633 men were left. More than 7 million people were to be repatriated from Germany to their native places. Industrial regions lay in ruins, 30% of pre-war national wealth being destroyed, 28 million people were left homeless (Hosking 2000: 283). Nevertheless, the soviet people survived and passed through all hardships of warfare and the post-war period. But the mentality as well as the morality changed drastically too, people who won the war

became more independent, during the war they had to make decisions independently, they trusted in each other much more – to the brothers in arms – than to the power to say nothing about NKVD officers, they believed in their personal deeds in the national campaign. Many soldiers for the first time in their lives travelled abroad and witnessed high living standards of the occupied western territories – from Norway to Austria. People were not satisfied with their own life no matter living standards or political freedoms, and they were not afraid of criticizing powers and discussing more or less openly the drawbacks of the regime. As soon as the internal and external enemies had been defeated people expected a better life, the move to a more liberal society with no constant repression and suspicion left. The former officers of the Red Army considered themselves to be the social elite of the soviet society and mistrusted the officers of the NKVD, much more than earlier former workers and peasants seeking for something new searching their own identity.

Thus from that turning point the social solidarity in the soviet society became more organic leading to the transformation of the traditional order and traditional trust, and the slow steps of the late modernization were ready to be revealed and consequences were clear. For the first, the Revolution of 1917 changed drastically the nature of trust, second, the Second World War played a crucial role. Not surprisingly after Stalin's death in 1953 the society as well as communist party leaders accused the totalitarian regime and much more important – Stalin personally. The naive paternalism had vanished and truth about the repression of the 30s and the personal role of Stalin became clear, in one moment absolute good turned into absolute evil, the absolute trust turned into absolute distrust. The second bastion of the traditional trust, the trust in the charismatic leader, was broken down never again to be revived in 20th century Russian history. The figure of Lenin was still untouched waiting for the total disrobe in the 80s.

So, what forms of traditional trust kept on working? The trust in God transformed into the trust in Marxism-Leninism (Communism as a religion) was partly destroyed, trust in monarchy transformed into trust in charismatic communist leader (Lenin-Stalin) was totally dismantled. The only part of traditional trust that was left, was trust in the soviet state as a social community – the former trust in rural community “mir”. Nevertheless, the successive history of the soviet society from the 50s to the 80s was a history of growing distrust of the state.

In 1946–1947 due to the obsolete agricultural policy based on the compulsory work in the state run farms, not less than 2 million people died from starvation and 100 million were somehow touched by the famine. At the same time the food supply to the occupied eastern part of Berlin was excellent, the

food-cards for Germans steadily exceeded the level of 1944 to show the advantages of the soviet power. At the same time the Soviet Union exported 2.5 million tons of grain to the West. The tax burden in 1950 for rural population became much heavier, in total the tax level was increased 2.5 times, and in 1952 even the revenues from gathering berries and mushrooms were subjected to the taxation. Many more people preferred to work hard on their small parcels of land or in the gardens; the parcels covered not more than 1 % of the total area meanwhile the half of the vegetable production and 2/3 of meat, potatoes and milk production came from that economic activity. The next wave of rural migrants flooded the cities and towns where the living standards were hardly much higher. But the one phenomenon in the rural mentality of those years was quite new – the older people did not wish their children to stay any longer in their native places, they stimulated children to continue education to find the legal and efficient strategy to become urban citizens. As a result only 10% of the school graduates stayed along with their parents in the rural areas contributing to that process of rural depopulation. (The final wave of rural migrants started in 1974 when the peasants at least were given the right to get passports and hence to change freely their place of living).

The post-war educational wave was something interesting, to say it was great is to say nothing, the number of students in those times exceeded that of Europe and Asia taken together, and in 1949–1950 the compulsory 7 year secondary education was introduced. The number of students in the higher education system increased from 1.25 million in 1950–1951 to 2.4 million in 1960–1961, and next to 3.6 million in 1964–1965. The ratio of those in the national economy with a higher education certificate increased from 1.3% in 1939, to 3.3% in 1959, 6.5% in 1970, 10% in 1979, and with secondary education level correspondingly – 11%, 40%, 58.8%, 70.5%. (Hosking 2000: 390). That flow of educated people totally changed the social structure of the soviet society as well as dominating mentality. The rational thinking laid down by the formal education transformed drastically the traditional attitudes to the identity, to the social community, to the state and powers. According to the Census of 1939 more than half of people reported to trust in God, in the beginning of the 60s that number decreased to 10–15% in urban regions and to 20–25% in rural regions according to sociological data (Arkhipova 2001: 210). Trust in the soviet power due to that rational thinking and education began to erode. The first anti-soviet campaigns came from the universities and academic institutes supported by the intellectual elite. The first impulse was given by Khrushchev's speech at the 20th Congress of the Communist Party where he criticized the Stalin cult. The second impulse came from the events in Poland, Hungary and Yugoslavia. The clear anti-Stalinist

policy of Tito in Yugoslavia which started up in 1948 suddenly revealed the alternative ways of socialist policy. The rational attitude to power substituted the blind trust and people tried to find out the alternatives. The young historian Krasnopevtsev from Moscow University, a leader of the Comsomol organization disenchanted in the Communist party policy, established a secret association to study the genuine history of the Communist Party instead of the false official history. In 1957 the members of that association organized some actions among workers appealing for strikes and trials over those persons in charge of the repression (and Khrushchev himself in their number). The same attempts were taken by the young student Trophimov in Leningrad who claimed for the rehabilitation of Bukharin and his policy, accused the Soviet occupation of Hungary and appealed for the restoration of the genuine role of soviets as working councils at the industrial enterprises. It goes without saying that both of these young revolutionaries were jailed. However it clearly symbolized the beginning of the process called later as “desacralisation of power” and a new growing distrust of the policy of the Communist regime. It was the first seed of moral fighting with totalitarianism continued later by the famous Soviet dissidents like academician physicist Andrej Sakharov and writer, former school teacher, Alexander Solzhenitsin.

Khrushchev tried to liberalize the society as well as the economy. The great success was reached in social welfare, the military expenditures in the late 50s were cut drastically, the real income of industrial workers during the decade of the 60s increased to 40%, the social security programs were organized, the housing policy took priority, for the first time after the 30s the Soviet people had a chance to get out from communal dwellings, and the policy of building societies (cooperatives in construction of houses) was officially supported. But in general the economic reforms by Khrushchev were not supported by the people and even by his command. He tried to somehow decentralize the economy to make more effective the horizontal ties between enterprises, however the vertical ties were broken down but horizontal were not yet established. The command system in the economy was partly destroyed giving place to creeping marketization of the economy and even planning agents (a peculiar profession like “*tolkach*” was invented to use connection and corruption to get rent from the planning system). Thus market principles ruled even in the planned economy, and hence trust in the planning system eroded. In 1954 Khrushchev announced the start of the “*virgin land*” program – to cultivate a huge territory of arid land in Kazakhstan and increase the productivity of national agriculture; due to his unwise policy, few market elements still left in agriculture were eliminated. He did not wish to listen to those who argued about the inevitable erosion of the

soil in such territories, instead he continued experimenting with non traditional crops like maize and soon all the attempts to somehow push forward agriculture without market failed, much more strengthening his personal unpopularity.

After the deposition of Khrushchev in 1964 the young and active Brezhnev at that time launched a range of economic reforms to give more autonomy to industrial enterprises officially introducing some market elements in the system of national economy planning. According to Kosygin (prime-minister at that time) profit was declared to be the main indicator in the state planning system in order somehow to get away from planning in kind and shift to monetary means. The idea was to make economic units to be oriented on the market demand and produce only these goods to meet the social needs and then to improve the poor quality of the industrial goods. Nevertheless the productivity was declining and quality did not improve, and it became more and more clear that the system should be dismantled and part-measures could not change the economic situation. In the early 70s the world oil crisis helped Brezhnev to maintain his economic power but in the 80s the Soviet economy came across with full-fledged economic and political crisis. The black market and shadow economy blossomed in the 70s, and by the middle 80s more than 15 million people were engaged in these activities. The official moral structure of soviet society was completely destroyed, people did not trust official policy, did not trust religion (however some splashes of the growth of the religion values were seen in the 70s and especially late 80s but it did not change the situation in general), and did not trust propaganda and state owned sources of information. The last elements of social trust to power were lost in the late 70s which is why the functional substitutes of trust appeared. The first one Sztompka called as “externalization of trust”. It means that the local institutions, things, products are considered to be bad (all goods made in the Soviet Union considered to be bad by definition) and all foreign goods are considered to be good. Thus, distant targets of trust – western society and economy, western culture and politics – were idealized. The second functional substitute of trust deals with the “internalization of trust”. It means that social trust shifts more or less to the sphere of private from the public one. People can trust only members of their families or their friends or colleagues in the small closed groups. All public sphere was out of reach for social trust, thus familistic values, and immoral familism, were at the top in the 70s. The immoral familism was reproduced at that time by the corruption from the top to the bottom. Bribes and gifts gave people some sort of personal control over hostile public institutions of state character. Favouritism flourished at that time as well, and social norms were replaced by the net of personal relations. The third functional substitute was disactivism or passivism. People did not trust themselves; they just did not

believe it was possible to change the situation, that prevented from actions no matter of what character or in what sphere. That is why strong alcohol consumption increased in times in the 70s stimulating Gorbachev some years later to declare a so-called anti-alcohol campaign. Thus the social enthusiasm being the essential feature of the soviet society of 30s or post-war period was substituted by the social passivism.

The breakup of the moral structure in the 70s led to the growth of criminal gangs, the only utilitarian motives of the social behaviour and monetary means were taken seriously, thus cynicism constituted the basic feature of that society – people were ready to use any type of means to reach their goals. Therefore, soviet society in the 70s was an immoral one with the general social distrust atmosphere dominating.

The false official propaganda was disrobed in the time of Gorbachev's early reform, according to the proclaimed "glasnost" policy the state gave up its monopoly on the mass media. As soon as the monopoly on truth was lost the double standards of truth – one for the private use, and the second for the official one – became unnecessary. The first significant steps to democracy and new morality were made nevertheless leading to the total breakup of the Soviet state and the power of the Communist Party. During the short-term *coup d'état* in August 1991 the majority of people supported market reforms and voted for the new policy of Russia. The history of the Soviet Union was over, like its predecessor – the Russian Empire – the Soviet Union and its 20th century history served as a starting place for the new Russia, more different than ever.

Conclusion

Summing up the ideas of trust and morality transformation in the Soviet history I'll underline in brief the social consequences of the Soviet period of the history of Russia and the changing attitudes to trust and morality. The traditional society inherited from pre-Revolutionary times was more or less transformed into the modern one, from rural society with absolute monarchy to the industrial state with rational bureaucracy. Traditional trust based on trust in the Tsar (being a sort of paternalistic trust) was transformed into impersonal trust in the democratic institutions (presidency, parliament, legal institutions like independent judges and courts). That process is far from being completed (many people still do not trust the institution of presidency but more to this or that figure of president, for example, they trust Putin or Medvedev) but the transformation by all means has already began.

The changes in the social and demographical structures of the society are all very clear. The rural society with more than 80% of people engaged in pri-

mitive agriculture was transformed into urban industrial society (in 1959 the percentage of rural population was still 52.1% but in 1970 – 43.7%, in 1979 – 37.7%, in 1989 – 34.2% (Statistical yearbook 1989: 18)). The traditional type of large rural family was substituted by the nuclear family. As concerning the social structure the proportion of the working class increased from 10% to 80% in 1989, social mobility increased rapidly especially in the 20s and the 30s to more be stabilized in the 60s and the 70s with education being the most significant channel of mobility. The tremendous success has been reached during the soviet history in the educational sphere, illiteracy has been done away with. The secularization process reached its peak during the Soviet period, and the social function of orthodox religion and its institutions is even less meaningful compared with that of western nations. Hence the moral system based on religious values and norms substituted by the artificial Communist morality was never taken seriously. Actually, the moral system has been somehow transformed to the universal system of utilitarianism and hedonism especially in the late 60s and 70s. The immoral double standards of truth during the era of “glasnost” in the late 80s were broken down together with the state monopoly on mass media opening the way to the more or less adequate media based on the principles of pluralism. The traditional mentality has been transformed systematically into the modern rationalized mentality and rational trust. The social mind became open to accept universal modern values and norms thus the way to the market society and correspondent trust and morality has been laid down.

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Alla Kupreychenko

*National Research University –
Higher School of Economics, Dep. of Psychology*

Dialectics of Social Trust and Distrust

Abstract

The article deals with the issues of a demarcation of the signs and causes of trust and distrust on the basis of theoretical-empirical analysis, their positive and negative functions are determined, as well as the research into main reasons for the emergence of ambivalence, i.e. the concurrent existence of trust and distrust towards other people as well as social institutions in the conditions of contemporary society, is carried out.

Keywords: trust, distrust, factors, contemporary society.

Introduction

Trust – as the cornerstone of the existence of human society, self-organisation and social partnership, mutual aid and cooperation – has been attracting the close attention of researchers for many decades already. Interest in researching social trust is stimulated by changes in the political and socio-economic order of a significant part of the world, crisis processes in the economy, and globalisation and anti-globalisation tendencies. So far, the “trust deficit” that formed in Russian society toward the middle of the 1990s has been felt in many spheres, especially the economic, political, and social. This phenomenon is an obstacle on the path toward the formation of a full-fledged civil society. An *effective society (civil)* is a society where civic organisations and the state act as partners, where the functioning of social institutions is the result of the interaction of all interested parties, where the social responsibility of business and any citizen is supported, where an atmosphere of mature relations of trust prevails, not one of blind faith or fear. In this society, partnership relations prevail over paternalistic ones, while a dynamic balance between trust and distrust, based on knowledge and identity, prevails over patriarchal, clan-based, naïve and emotional trust/distrust.

A host of studies in recent years has been devoted to the urgent problems of researching trust, in particular the types and kinds, the dynamics, the social-psychological functions, and the consequences and effects of trust, and its interrelation with the various phenomena in the life activity of an individual and a group (Antonenko 2004; Veselov 2004; Dunkin 2000; Zhuravlev, Sumarokova 1998; Zhuravleva 2004; Kupreychenko 2008, 2011; Minina 2004; Skripkina 2000; Sasaki, Davydenko, Latov, Romashkin 2009; Shihirev 1998; Schrader 2004; Bachmann, Zaheer 2006; Fukuyama 1995; Hardin 2004; Kramer 1999; Luhmann 1979; Seligman 1997; Shaw 1997; Sztompka 1998; Yamagishi, et al, 1998; Yamagishi, Yamagishi 1994; Yoshino, Rangan 1995 et al).

In recent years, researchers have also begun to show an interest in distrust as a relatively independent phenomenon (Eremicheva, Simpura 1999; Kupreychenko 2006, 2008; Minina 2004; Kupreychenko, Tabharova 2007, 2008; Cook 1998; Govier 1994; Hardin 2004; Kramer 1999; Lewicki, McAllister, Bies 1998; Macedo 2000; Markova, Gillespie 2007; Mishler, Rose 1997; Montpetit 2003; Moody 2010; Sztompka 1998; Kramer, Cook 2004; Worchel 1979; Zadeh, Khoshalhan 2011 et al).

Interest in researching distrust stems from the fact that differences, and often contradictions in objectives and values and in the norms and rules of behaviour as well, are characteristic of real social interaction. Not infrequently, interaction takes place in conditions of high uncertainty, in the absence of regimentation and of the possibility of oversight. In such conditions, a balance between the levels of trust and distrust becomes an ever more promising form of mutual relations. Such tendencies in social life determine the high relevance of *joint analysis of trust and distrust* as relatively independent phenomena, fulfilling specific functions in the regulation of the life activity of an individual and a group. It was just this joint analysis that acted as the **objective** of our research. In the course of a theoretical-empirical analysis, we are going to carry out a demarcation of the signs and the causes of trust and distrust and determine their positive and negative functions, as well as carrying out an analysis of the fundamental reasons for the emergence of ambivalence – *i.e.* the concurrent existence of trust and distrust of other people, as well as of social institutions.

The positive and negative effects of trust and distrust

The majority of modern-day authors share a point of view about the positive significance of a high level of trust for the interaction of various subjects. To researchers, the “minuses” of distrust are likewise obvious. Distrust not only leads to an increase in transaction costs connected with the need for guarantees

and oversight, but likewise restricts communications and complicates the transfer of information, thereby complicating and dragging out decision-making processes.

In the majority of modern-day works on the problem of trust, the advantages of relations of trust are justified and the negative consequences of distrust are noted. However, there exists a series of special studies dedicated to analysing the negative consequences for relations and the efficiency of joint activity that high trust entails, and the positive impact on relations of moderate distrust (Lewicki, McAllister, Bies 1998; McAllister 1997, Kramer, Cook 2004). A series of the works mentioned contains a deep analysis of the researchers' notions about the consequences of an unequivocally high level of trust and the advantages of an optimal correlation between trust and distrust. Basing ourselves on the results of our own empirical research, we shall add to this analysis with notions about the positive role of a balance of trust and distrust in regulating relations.

High and unequivocal trust can lead to a whole series of negative consequences. In the opinion of the majority of authors, the principal minus of relations of trust is *abuse of trust*. This can occur in the form of breach of trust, when a partner's openness and vulnerability are used to gain advantage. In this case, the trust will be irrevocably lost; however, the gain can be extremely significant. It is perfectly likely that the person who has not justified the trust would not have been capable of attaining it by way of negotiations or in the course of honest struggle. Another variant of abuse of trust, one that is not connected with deceit, but is a manipulation, is possible as well. Thus, by threatening a loss of trust, one can attain various concessions and additional benefits from a partner as proofs of friendship and devotion.

It is imperative to likewise note the "minuses" of trust for the person whom others are intending to trust as well. He may not have the desire to act as an object of trust. First, because the trust assumes a responsibility that he is not prepared to take on. Second, the reduction in psychological distance does not allow him to maximise his own gain from the interaction. In the event that the person feels himself capable of winning in conditions of rivalry in an absence of trust, *i.e.* he has, in his own opinion, high chances of success in a competitive situation, then he is more limited in the choice of ways and means of influence in conditions of trust. Inasmuch as, having applied force, cunning, or intimidation in relation to a person who trusts him, he will turn out to be a betrayer, a swindler. But this is unacceptable for the majority of people, who strive to maintain their self-respect. The imposition of trust in order to reduce uncertainty and to ensure one's own security is a manipulative method: "See, *I trust you*, and this means *you have got to ...*". It can be said that *the stronger partner loses in conditions of trust*. Therefore, far from everybody is ready to accept a high level of trust

imposed by other participants in interaction. If the manipulation of trust is mutual, then such “pseudo-trust” can be a dangerous game. Characteristic of it is the readiness of each party to strike an unexpected blow in the conditions of periodic demonstration of openness that a *game of trust* inevitably assumes. Sooner or later, one of the parties is going to make use of this unprotectedness, and the outcome is going to depend on who manages to be the first to strike the blow.

For the sake of fairness, it is imperative to note that the *game of distrust* as well is fraught with no fewer negative consequences. This game consists of a demonstration of unreadiness to trust a partner who is interested in earning it. The partner is forced to constantly demonstrate his good intentions, reliability, predictability, and so on. At the same time, the position of the initiator of the game of “I do not trust him” is more advantageous – inasmuch as it allows the initiator to be demanding and impatient, as well as not to observe social norms in relation to the partner.

Yet another unpleasant outcome of a high level of trust is, the fact that an *absence of oversight and competition has a relaxing effect on the interacting parties*. A partner’s errors and omissions in conditions of excessive trust remain unnoticed, prospective opportunities unrealised, existing potential undiscovered (Lewicki, McAllister, Bies 1998). In such a manner, too high a level of trust reduces the efficiency of activity, even if the parties have the best of intentions.

When there is a high level of trust, there likewise arise situations when the suspicious behaviour of the other person is brushed aside or interpreted in a positive light. This can serve as a justification of the efforts that have been put into the formation of the trust. We consider that one of the social-psychological functions of trust – the reproduction of social-psychological personal space – can likewise be realised in such a manner. It is imperative to sometimes “close one’s eyes” to a partner’s unseemly behaviour in order to preserve close relations.

Acting as a defence against such negative consequences of excessive and unequivocal trust are *trust limiters*, as well as a *dynamic balance of trust and distrust*. It is not by chance that the question of analysing the effectiveness, functionality, and usefulness of distrust is raised by a series of researchers. In the majority of works, what is being spoken of is *institutional distrust*, i.e. the rules and norms embodied in formal and informal institutional codes (Lewicki, McAllister, Bies 1998; Luhmann 1979). These norms limit the free exchange of information and other resources between interacting subjects and prescribe procedures for mutual oversight and reporting, as well as sanctions in the event of violation of these norms.

Depersonalisation of distrust allows a sufficiently high level of trust and morale and a comfortable psychological atmosphere to be maintained in an

organisation. This is possible because the carrying out of institutionalised oversight and reporting procedures are not perceived of as suspiciousness and surveillance, but is appraised as the voluntary and valid observance of the norms of corporate culture.

Yet another important advantage of a balance of trust and distrust in relations can be noted. Having become the norm of interaction with associates, an optimal correlation between trust and distrust expands the circle of people, organisations, and social groups with which a subject can enter into contact, and whose assistance he can make use of.

Ambivalence of trust and distrust

Yet another question that elicits the interest of modern-day researchers is analysis of the conditions under which the co-existence of trust and distrust is possible in social relations.

In conditions where complexity, uncertainty, and role conflicts are common, where interpersonal relations are formed gradually and are multi-faceted by nature, there exists a high potential for *one-time intensification of trust and distrust* (Lewicki, McAllister, Bies 1998).

What is being spoken of is the multi-dimensionality of relations, brought about by a confluence of different spheres of the partners' life activity: civic, business, friendship, family, and so on. Thus, for example, partners in business may be connected by bonds of friendship or kinship; at the same time, they may possess similar or contradictory world-view positions, political convictions, religious conventions, predilections in the area of leisure pursuits, and so on. Their statuses and the social roles they play in each of these spheres of life are going to differ. On the athletic field, the head of an organisation may switch roles with his subordinate – the captain of an amateur team.

We are convinced that trust and distrust can manifest themselves and co-exist in the same aspects of relations between people. In particular, acting as a cause may be the presence of contradictory qualities in the person being appraised. Thus, a partner's high competence (which creates confidence that he will be able to handle a task) may act as a basis for trust in business relations, while other peculiarities of his personality, for example disorganisation (which is going to lead to deadlines not being met) may act as a basis for just as high distrust.

Besides that, it was established in the course of our empirical research that there exist qualities of an individual that may elicit both trust and distrust at the same time. First and foremost, these are such personality traits as: strength, activeness, boldness, and optimism, as well as weakness, difference of interests,

hyper-responsibility, and the like. One of the explanations for this may be an assertion about how strength, activeness, boldness, and so on may bring significant benefit in cooperation. These same traits become dangerous if they are possessed by a potential adversary. Analogously, a partner's weakness in interaction reduces trust in him, because it may reflect negatively on the results of the joint activity. At the same time, it likewise holds back distrust, because it is a guarantee of no danger.

The incongruity between the psychological gain from justification of trust and the psychological loss in the event that one's worst fears come to fruition is yet another reason for the ambivalence of trust and distrust. Thus, optimistic expectations about the results of the realisation of a joint business project may be based on a literately worked out business plan (the basis for high trust). In real life, they are accompanied by fears not only that the project will drag out or will bring less income than expected (low trust), but likewise the fear that compromising information about his personal life will have a negative impact on the company's image (the basis for low trust). One can likewise have a fear that one's partner will turn out to be connected with the criminal world (a basis for high distrust). This threatens heavier consequences – loss of one's business, and perhaps even of one's life.

Yet another reason for ambivalence in the attitude toward one and the same person are connected with the psychological peculiarities of the truster. Thus, cases of the emergence of "multiple reality", connected with a patient's inability to accept that one and the same person can bring pleasure and cause frustration, have been described in clinical practice (Kafka, 1989). In such cases, the images of real people may "bifurcate"; in so doing, one part may elicit positive feelings and the other – negative ones. Sometimes these images may correspond to various sub-personalities of the perceiving person or to his various states. This multiplicity of sub-personalities and psychological spaces both of the subject of trust and of his partner, in our opinion, can also give rise to an ambivalence of trust and distrust in relations.

There exists yet another reason for an intensification of distrust concurrently with a rise in trust. The fact is that with an increase in the partners' openness, the risks connected with it (the possible negative consequences of defrauding the trust) grow. Indeed, the closer that partners in interaction are socially and physically, the more vulnerable they are to one another. A high appraisal of the risks arising as a result of the openness of a subject and a partner in interaction may lead to a rise in distrust. In such relations, distrust, in contrast with trust, often does not have objective foundations, because it is not corroborated by any negative facts. Such unjustified distrust is rather typical of highly significant

relations and depends little on evidence of a partner's reliability. As has already been noted above, only guarantees of security will help to reduce distrust.

For example, the following methods are not infrequently used in clan communities: restriction of partners' access to full information about one another ("the less you know, the sounder you sleep"), or, on the contrary, the existence of common secrets ("joined at the hip"). Strict interdependence and mutual responsibility between the partners ("covering each other's backside") also reduces distrust. Only psychological closeness – the existence of a common worldview or system of values, as well as mutual acceptance, respect, and so on – can act as a more reliable guarantee. Truly deep relations are the only restrictor of distrust that is effective in full measure in the most significant spheres of a subject's life activity. A commonality of objectives and interests, a good knowledge of the partner, and confidence in his high morality create the conditions for overcoming ambivalence in relations and forming high trust against a background of low distrust. However, this type of relations of absolute and complete trust is not often encountered in real life, and, besides that, may have not only positive consequences, but negative ones as well, for example in the event of abuse of trust.

The relationship between trust and distrust

Some grounds for distinguishing between their content and origin are proposed in the works of the Russian historian and social psychologist Porshnev (1965, 1972). Understanding trust as a predisposition toward suggestion and dependence on another, Porshnev notes that "dependence" (suggestion) is more primary than the "internal world" of a loner". In his opinion, distrust is an attitude that forms a person's internal world. Psychological independence is achieved by resisting dependence. In such a manner, the ability not to trust, along with the ability to trust is ontogenetically and phylogenetically one of the most ancient of formations.

Such a view, in our opinion, is capable of expanding the notions about the formation of basic trust at the early stages of ontogenesis that had been laid down by Erikson and have become traditional (Erikson 1950). One can express the hypothesis that basic trust (a sense of unity and identity with one's mother, of the comfort and safety of one's surrounding environment) is what a child enters the world with. Continuing Porshnev's analogy, it ought to be assumed that it is more primary than the sense of independence. At the foundation of basic distrust lies the self-preservation instinct, which determines the avoidance of unpleasant factors in the milieu and forms a child's awareness of his boundaries and the need to protect them. Basic distrust – the sense that the surrounding

world is not devoid of danger – emerges at the early stages of ontogenesis as a natural consequence of the basic trust with which a child comes into the world.

In such a manner, the skills of trusting and distrusting the world in a certain proportion are formed at the initial stage of the development of the personality. A balanced mix of the ability to be open to the world and be closed, when it is needed – is what, in our opinion, is true autonomy. I.e. precisely that new growth that is formed at the first stage of the psycho-social development of the personality, called “the cornerstone of a personality’s viability”. Among other elements, a person’s autonomy includes the awareness by him of the boundaries of his own “I”, his psychological space and the boundaries of the surrounding world. Fears connected with the intrusion of surrounding people within these boundaries, as well as fears connected with the violation by the subject of the boundaries of the surrounding world and of other people, is the foundation of distrust. Acting as the foundation of trust are expectations of usefulness (kind and fair treatment) from those to whom the individual opens the boundaries of his own psychological space or those whose boundaries he violates.

Analysis of the origin of trust and distrust brings us directly to an examination of the functions that these phenomena perform in the life of a subject. A separate paragraph in a special work is dedicated to their detailed analysis (Kupreychenko, 2008). But here we shall merely note that trust and distrust fulfil a series of similar functions – they regulate relations with the surrounding world, reproduce a person’s social-psychological space, and other things. At the same time, one can identify functions that are specific to trust and distrust. Thanks to trust, a subject enters into interaction with the world, and knows and transforms it and himself. In such a manner, it is precisely trust that creates the conditions for a subject’s *interaction* with the surrounding world. But distrust promotes the *isolation and self-preservation* of a subject and his psychological space. In this is manifest its protective function. Consequently, yet another characteristic capable of distinguishing between trust and distrust is “orientation at interaction – orientation at isolation and self-preservation”.

In our opinion, trust represents positive expectations far from all the time. When we trust a person, we accept from him not only positive appraisals of our own behaviour, but negative ones too, as well as behaviours that are unpleasant for us, but fair (for example, punishment). Undeserved praise is capable of shaking trust to a greater degree than is an unpleasant but justified reprimand. In its turn, good as well, coming from a person whom we do not trust, becomes a basis for even greater suspicions. Especially if we did nothing to deserve such good treatment. There exist wise maxims that reveal the true significance of this “benefit”: “The only free cheese is in a mousetrap”, “Beware of Greeks

bearing gifts". In such a manner, one can identify the features that allow trust and distrust to be distinguished more reliably than positive and negative expectations do. Acting as such, in our opinion, are expectation of benefit (a feature of trust), including in the form of admonition, restriction, or punishment and expectation of harm (a feature of distrust), including, also in the form of undeserved reward, flattery, helpfulness, and so on.

It can be seen that there are conative, cognitive, and emotional formations among the principal factors of trust-distrust. This allows for trust and distrust to be regarded as an attitude with its traditional structure that includes the enumerated components.

Trust includes interest in and respect for the object or partner; a notion of the needs that can be satisfied as the result of interaction with him; emotions from anticipating the partner's satisfaction with them and his positive emotional appraisal; relaxation and an unconditional readiness to manifest good will in relation to him, as well as to perform certain actions conducive to successful interaction. In its turn, **distrust** includes the following basic elements: a conscious awareness of risks; a feeling of danger and fear in combination with negative emotional appraisals of the partner and of the possible results of interaction; vigilance and tension, as well as a readiness to cease contact, to respond to aggression, or to manifest anticipatory proactive animosity – to inflict a "preventive strike".

It is important to note that the content and the degree of apprehensions (distrust), as a rule, are not equivalent to the content and the level of hopes (trust). It is known that the satisfaction of winning is always lower than the aggravation of losing. This phenomenon has been sufficiently well researched and can be explained by the fact that we lose something that already belongs to us – something that is "ours", while we acquire something that is not yet included in this understanding. Therefore, quantitatively equivalent acquisitions and losses have different psychological significance. However, yet another important aspect exists in relations of trust and distrust. What we lose, oftentimes, is not even by objective appraisals the equivalent of what we are counting on acquiring as the result of interaction – the item of trust is non-equivalent to the item of distrust.

What has been said can be clarified with the following example. Thus, for many people, the arguments in favour of marriage are expectations of understanding, love, comfort, and so on (a characteristic of high trust). For other people, expectations of the enumerated values in family life are not high, and this does not elicit particular worry in them (medium or low trust). However, if a marriage turns out to be unsuccessful, the losses will turn out to be more significant. Faith in people, hope for the future, a social circle, social status,

and material benefits may turn out to have been lost. A subject who gives thought to this far ahead of time experiences high distrust. One who barely thinks about this at all experiences low distrust. These peculiarities of trust and distrust allow one to look in a new way at the problem of the ways and the methods of forming relations of trust. As follows from what has been said, to fight distrust, increasing the weightiness of the advantages and benefits that a subject can acquire as the result of trust (self-disclosure), presents itself as useless. Only some guarantees can reduce distrust (a marriage contract, retaining separate circles of contacts, and so on). In exactly the same way, discounting tickets or enhancing the level of comfort of airliners are not capable of reducing distrust in air transport.

In such a manner, high trust signifies the expectation of a significant benefit; low trust – not-high expectations. High distrust manifests itself in the form of fears of greater losses. Low distrust is characterised by unexpressed apprehensions. In so doing, *acquisitions from justification of trust and losses as the result of confirmation of distrust, in the majority of cases, are not equivalent, be it qualitatively, or quantitatively, or, all the more so, psychologically.* If expectations of trust do not prove to be true, nothing horrible is going to happen. But if expectations of distrust prove to be true, then, having stepped onto a dangerous partner's own "territory", we may lose something highly significant.

One can imagine the problem of trust-distrust figuratively as "the dilemma of the mouse before the mousetrap". In the event that trust is justified, it gets a piece of cheese, but in the event of confirmation of distrust, it loses its life. Acting as the item of trust is the piece of cheese, the item of distrust (the stake) – life. Increasing the weight of the cheese will elevate trust, but only rust on the mousetrap or something of the kind can reduce distrust.

Empirical research on the factors of trust and distrust

The assumptions voiced above about the relationship of trust and distrust are without a doubt in need of verification. A certain corroboration of them was obtained by us in the course of empirical research into the phenomena of trust and distrust of other people (Kupreychenko, Tabharova 2007, 2008). 310 people participated in the study. At the first stage, 165 people took part in it – predominantly psychology students getting a first and second higher education aged 20 to 35, (65% women, 35% men). The sample for the second stage of the study – 145 top-tier managers, entrepreneurs, and rank-and-file employees of organisations (43% managers, 57% rank-and-file employees). Of these: 45% men, 55% women.

The gathering of empirical data was carried out in the course of the conducting of focus groups and a survey. Content-analysis, factor analysis, and

analysis of differences were used for processing the data. The proprietary questionnaire proposed to appraise the significance for trust and distrust of each descriptor from an expansive list. This list of 97 descriptors had been formed at the first stage of the study. We designated the descriptors that were the most significant from the point of view of our respondents as criteria of trust and distrust.

An asymmetry in the criteria of trust and distrust was established in the course of a frequency analysis. High appraisals of a partner's strength, activeness, boldness, and optimism act as especially significant criteria of trust for the overwhelming number of the participants in the study. But their antonyms (weakness, passivity, timidity, and pessimism) are not criteria of distrust for the majority of the respondents. Along with this, there do exist symmetrical criteria of trust and distrust: morality – amorality, reliability – unreliability, openness – secretiveness, intellect – stupidity, independence – dependence, no propensity for conflict – propensity for conflict.

The results of the frequency analysis were checked in the course of the factor analysis. Analysed separately were the factor structures of trust and distrust toward three categories of people: a stranger, an acquaintance, and a close person. These results were analysed in special works. Here we shall only pause on an analysis of the factors of trust and distrust in business relations toward close people. On the whole, the factor structures of trust and distrust have much in common. At the same time, a series of factors specific to each of them has been singled out.

The greatest percentage of the variance is explained by the **“Boldness, charm, activeness, strength”** (“Faith in the power of good”) factor. The given factor exerts an influence on how significant those indicators of the person being appraised that are basic (common) personality traits – ones of activeness, strength, boldness, and optimism – are for the forming of trust or distrust. The set of these indicators corresponds to a description of a personality that acts as the embodiment of the “forces of good”. From all appearances, the significance of the enumerated indicators as criteria of trust and distrust is determined by the subject's general orientation to trust (“basic trust” or “faith in people”), as well as by other more general factors of a person's attitude toward surrounding people. It is our belief that this factor is connected to a high degree with the individual's motivation (the desire to enter into interaction and the value of a positive outcome to the latter), as well as with the individual's social competence (confidence in his ability to build relations of trust with surrounding people in the presence of good will).

The attitude toward human qualities that are polar in their modality to the variables of the “Faith in the power of good” factor is formed by a separate factor, which characterises an individual’s attitude toward weakness and dependence – **“Weakness, passivity and dependence”**.

Data about how unity and identity with a partner in interaction is the most significant criterion of trust were corroborated as the result of a frequency analysis. Likewise singled out at the given stage was the **“Presence of spiritual community and similar life position”** factor, which explains the greatest percentage of the variance in relation to acquaintances. Significant factor weights were singled out among the variables reflecting a unity of world-view and behaviour among the interacting subjects. For the category of strangers, characterisation data do not lend themselves to appraisal (and were not appraised by the study participants), but in relations with close people, though, they are especially significant as a criterion of trust for the overwhelming majority of respondents. It is precisely for this reason that the percentage of the explainable variance in the “Presence of a close life position” factor is significantly lower in relation to a close person than to an acquaintance.

It is important to trace just how significant the respondents’ attitude is to the absence of unity and the presence of contradictions with the person being appraised. The peculiarities of the attitude toward a person who has interests, life goals, and a perception of the world that are other and contradictory in directionality manifest themselves under the influence of the **“Dissimilarity of interests”** factor on distrust of all three categories of people and on trust of strangers and acquaintances.

For trusting a close person, such a factor as **“Reliability, support, and likeability”** is significant. It is perfectly obvious that help in affairs and in life, responsibility in relationships, and support are important foundations for trusting another person. Correspondingly, the **“Amorality and unreliability”** factor is significant for distrusting a close person.

As to an individual’s expectation of confrontation and rivalry on the part of another person, it manifests itself in the **“Competitiveness and animosity”** factor. In such a manner, animosity, competitiveness, and a propensity for conflict intensify an individual’s distrust of other people. The influence of this factor on trust is not as univalent for various subjects – there are those for whom these characteristics reduce trust, and there are those who are not sensitive to them.

Of special interest are two more factors: **“External features of an unfortunate person”** and **“External features of an ‘outsider’ person”**. As the frequency analysis showed, our respondents do indeed differ in what significance

they ascribe to membership in another social group (ethnic, confessional, economic, demographic, and so on), and likewise to features of social and spiritual misfortune. Those who ascribe much significance to these characteristics as criteria for trust and distrust connect them, as a rule, with the irresponsibility, unfairness, and animosity of the other person, the presence in him of life goals that are in contradiction to their own. In this is manifested the wary attitude of the given respondents toward an “outsider”. We assume that the significance of the given characteristics for making a decision on trust or distrust is determined by the factor of “*basic distrust*” – *an individual’s generally wary attitude toward the world and other people*.

Yet another group of factors – the factors of attitude toward ease and difficulty of communication, as well as difficulty of interaction – is “**Predictability**”, “**Unpredictability**”, and “**Difficulty of communication**”. It is not important to the individual what the difficulties that arise in interaction or communication are connected with – whether they are determined by peculiarities of intellect, temperament, or self-regulation, or perhaps by social-group membership, amorality and difference of interests.

The last factor, which has received the name “**Assurance**”, characterises the attitude toward someone who relies upon himself and is a person of principle. The influence of this factor can be traced only in distrust toward a close person. Perhaps this is connected with the fact that close people are the only category we are capable of trusting “blindly”, *i.e.* without sufficient grounds and guarantees for this. In connection with this, the risk of deception and disenchantment is great. Only the person’s confidence in himself (trust in himself) acts as a guarantee. The peculiarities of the respondents’ attitude toward a person who highly trusts himself is what determine, in our opinion, the variance explainable by the given factor.

In such a manner, singled out in the course of the frequency and factor analysis were the principal criteria that comprise the “essence” of trust – reliability, predictability, morality, and so on, which can be considered *direct criteria of trust*. Besides them, there exists a whole series of characteristics that play a significant role in the regulation of relations of trust, but which are *indirect indicators of trust*.

Acting as such indicators first and foremost are: openness, politeness, stability, and so on. It is not by chance that “openness” is interconnected with the principal components of trust – reliability, predictability, and likeability.

The singled out factors of trust can provisionally be divided into two large groups: factors having to do with appraising the positive prospects of a potential interaction as a whole (interestedness in trust, the value of trust, and prediction

of the result of trust), as well as factors having to do with predicting the successfulness of building relations of trust (prediction of the possibility and the ease/difficulty of the process of building trust). The latter are subdivided into factors having to do with subjective traits (appraisal of one's own abilities and opportunities to build relations of trust), the partner's traits (his readiness), and, finally, characteristics of the process of inter-personal or inter-group interaction itself (difference of interests and positions, the influence of social stereotypes, and so on). Analogously, factors of distrust too are likewise divided into: factors having to do with appraising the negative consequences of interaction (risks of openness), as well as factors having to do with predicting the successfulness of protection from them (prediction of the possibility and the ease/difficulty of protection). Traits, both of the subjects himself and the partner in interaction, and of the conditions and the process of interaction, are likewise significant for distrust.

It is important that some of the singled out factors correspond with the model of basic trust and distrust proposed above. These, in particular, are the factors having to do with faith in the power of good and with the attitude toward a partner's morality and amorality, as well as the factors having to do with a wary attitude toward the external features of an unfortunate person or an "outsider" (an incomprehensible one or an unknown one).

Descriptors of trust and distrust in social institutions

The second stage of our research is an analysis of the descriptors of trust and distrust in social institutions. As noted above, the level of trust and distrust in social institutions is an important indicator of the state of society. Despite the fact that there have been a significant number of contemporary studies on the problem of trust in social institutions, there has been no differentiated analysis of trust and distrust, and the ambivalence towards it has not been researched. The main objective of this stage of our study is to find descriptors of trust and distrust that are universal for various social institutions.

The authors of various studies have used their own conceptual models for the structure of trust. R.B. Shaw highlights the following key imperatives of trust in organizations: the *impact* of activity, *decency* of mutual relations, and *concern* for people (Shaw 2000). Maintaining the proper trust in organizations requires a balance of these imperatives, even if they are in conflict with one another. R.C. Mayer and J.G. Davis described the three main components of employee trust in their managers: integrity – "the company leaders aim to be fair"; benevolence – "the company leaders sincerely aim to understand what workers need"; and *ability* – "the company leaders are good at their jobs" (Mayer,

Davis 1999). These factors are the most significant meaningful components of any type of social trust.

E.M. Whitener et al highlight five conditions necessary for building trust: 1) consistency and integrity; 2) honesty; 3) distribution and delegation of control; 4) communication (accuracy, ability to explain, openness); and 5) caring and participation (Whitener 1998). Other researchers studying the conditions under which people are likely to be trusting of their managers showed that the following characteristics are important: honesty, motives, consistency of behavior, openness, integrity, functional competence, interpersonal competence, and judgment (Gabarro 1978). J. Butler also found that the assessment of working capacity, competency, consistency, lawfulness, honesty, loyalty, openness, full trust, fulfilling promises and sensibility impact employees' judgment of trust in their managers (Butler 1991). In these approaches, in addition to content foundation of trust (performance, decency, concern), there are formal-dynamic foundations related to the predictable behavior, openness and perceptivity of the object of trust, i.e. factors that facilitate or impede communication, inevitably affecting the formation of trust.

This is supported by research on the influence of non-mandatory implementation of organizational rules and procedures on trust in managers (Brockner et al, 1996, 1997). The rules and procedures are important not only because they convey information about requirements and goals of the organization's activities, but also because the necessary compliance with them is assessed by employees as procedural competency of the management. The data showed that procedures that are fair from the staff's point of view tend to increased trust. Not following the procedure and unfair rules correlate with a low level of trust (Brockner et al, 1996, 1997). The research of economic psychologists highlights that the foundation of law-abiding tax behavior is a function of a perception that the tax authorities are fair (Hartner et al, 2008, 2010). The descriptors of procedural justice for the tax authorities' activities are as follows: tax office decisions are fair; rules and methods used in tax inspections are the same for all taxpayers; decisions made by tax inspectors are fair according to their own line of behavior [return code]; decisions made by the tax office are based mainly on fact, and not opinion; if a decision made by the tax authorities is inaccurate or unsuccessful, it can be changed. In its turn, *interaccional justice* is assessed using the following factors: the tax authorities treat me with respect; tax officers treat me with kindness and respect; tax officers take me seriously; tax officers treat me without prejudice; I receive respectful advice from tax officers.

The above-listed characteristics are similar to the descriptors of trust and form the basis of such components as reliability, unity and predictability, among

others. However, these are not sufficient, as they do not account for the complexity of the structure and organization of any social institution. For example, healthcare is made up of several levels, from the highest – the Health Ministry – to the lowest – a specific medical professional. Accordingly, trust and distrust in every level of the hierarchy will be different. Thus, interaction with the social institution and its representatives takes place simultaneously on several levels: interpersonal and inter-group; intra- and inter-organizational; personalized and impersonalized. In addition, trust in institutions is often defined in relation to its legal and regulatory base, its material and technical resources and various types of technology.

Thus, the fact that trust/distrust in social institutions encompasses its relationship with various hierarchical levels and structural blocks must be taken into account:

- A system of rules and regulations for the functioning of the institution.
- Various hierarchical levels within the institution.
- Organizations that carry out the institution's activities.
- Groups of people that create and/or regulate the activities of the institution, and implement and supervise its functioning.
- Material and technical resources and technology of the institution, etc.

Each of these structural blocks of any social institution can be assessed on a five-point scale:

- Reliable, high-quality fulfillment of its function (Reliability)
- Shared goals and values with the subject (Unity).
- Predictable (Predictability).
- Elicits a positive emotion (Affability).
- Understandable benefits of maintaining trust (Calculation).

In the above description of the structural model of trust/distrust, it was noted that in as far as the subject is an active participant in interactions with social institutions, an important component trust/distrust is the *status of the subject of trust and its position in relation to the institution*. It matters whether this subject is an organizer, leader or simple administrator in the institution or a consumer of its services. The activities of the institutions might conflict with the interests of a specific subject and be seen as a threat (real or imaginary). The threat is imaginary when dealing with irrational fears and prejudices, and real when the subject performs an illegal or antisocial behavior. Therefore, the following are indicators of subjective determinants of trust/distrust in social institutions:

- *Inclusion* of the subject in the institutions activities (the level and type of participation in its activities, including professionally, voluntarily, or as an opponent, etc.).

- *Awareness* of the institution's work.
- *Experience interacting* with the institution and *modality of evaluation* of the results.
- Subjective evaluation of the institutions *importance* in the life of the subject (including the positive and negative modality).
- The subjects *perception*, e.g. of its *ability to influence* the institution's activities.

This approach allows for the differentiated study of categories of people that have various relationships with the institution. These can be separated as follows:

- People who are professionally associated with the institution from the consumers of its services.
- People for whom the institution plays an insignificant role in their lives from those whose lives are significantly affected by the institution's activities (positively or negatively).
- People that work directly with the institution from those who know about it second-hand from other people or the media.
- People detached from society from those actively involved in social processes.

It is worth reminding that another component of trust/distrust in social and socio-technical systems is trust/distrust in the *conditions of a system's functioning* (Kupreychenko 2012a). We have already established the need to consider the influence of environmental conditions on building trust, as favorable and unfavorable conditions have the opposite facts on the state of the subject and its willingness to cooperate and general trust/distrust of the outside world.

All of this complicates the study of trust and distrust in social institutions, as it means a large number of variables need to be measured. Of course, the set of specific indicators for each empirical study is defined by its objectives, and any other characteristics can be omitted. However, excessive simplification inevitably leads to mistakes when interpreting the results.

The novelty of the suggested approach and the methodological instrumentation upon which it is based allows researchers to evaluate the level of trust in an institution. Thus, for each institution, the share of high-trusting and low-trusting, high-distrusting and low-distrusting people can be defined, as well as the ambivalence of respondents. A fundamentally new feature is the possibility for empirical research to identify the ambivalence of trust and distrust. As noted earlier, any object of trust can pose a certain level of threat that is not directly related to the fulfillment of its functions. In this case, along with trust (positive expectations of the effectiveness of interaction) there is distrust (the threat of

unexpected unpleasantness). Focus groups and expert interviews have helped identify the main descriptors of distrust as it relates to interacting with social institutions and their various components.

The research shows that there is a **universal set of predictors of distrust** for a variety of institutions: government authorities, mass media, education, healthcare, etc. They are:

- Discrepancy between the rules and regulations of the institution with contemporary demands.
- Inhumane principals of the institution's activities.
- Professional incompetency.
- Low-quality material and technical equipment.
- Inadequate technology (e.g. bureaucratic red tape – several papers and permits; poor organization – lines, stuffiness, lack of waiting areas, inconvenient working hours, etc.).
- Slow work of the staff.
- Reluctance of the staff to fulfill their duties (indifference or even refusal to help).
- Concealment by the staff of important information or even providing false information.
- Extortion.
- Physical violence and/or psychological pressure from the institution's staff.
- Invasion of privacy.
- Rudeness, impudence, unfriendliness of the institution's staff.

An analysis shows that some of these characteristics of the activities of an institution's organizations and employees can be classified as *descriptors of low trust* (danger of low-quality results of interaction), while others are *descriptors of distrust* (threat of the infringement of individual rights, causing harm to property, health and dignity).

In practice, it is not only important to establish the level of trust or distrust in social institutions, but also to identify ways to build trust. Focus groups and expert surveys were conducted aimed at identifying *measures to increase trust and reduce distrust* in a variety of social institutions. The focus groups named the following **measures to increase trust and overcome distrust** in social institutions:

- Informing citizens of the principles and rules of social institutions and supporting their social significance.
- Giving citizens the ability to influence the activities of social institutions.
- Supporting and promoting a responsible attitude between citizens and the activities of institutions.

- Improving the rules and regulations of institutions.
- Better organizing the staff's work and improving the technology used by the institution.
- Making the work of the staff and the institution more efficient.
- Increasing the level of professionalism of the staff.
- Paying attention to morality of the institution's representatives.
- Strengthening government control over the activities of the staff and the institution.
- Providing security guarantees for the health and personal freedom of citizens.
- Making the activities of the institution and its employees more open and transparent to public organizations and citizens.
- Using an individual approach for every citizen.
- Providing real opportunities to challenge and request a review of decisions made by employees of the institution.
- Building personal experience of cooperation between citizens and the institution.
- Demonstrating a common purpose between the social institution and citizens.
- Building a positive image of social institutions.

The list of proposed ideas includes measures to improve the structure, organization and quality of an institution's activities and its informational support, as well as measures to build a more positive image of it and improve transparency. The importance of any measure varies depending on the group and category of respondents, which makes it possible to develop a set of measures to improve trust that is differentiated for each target group.

The merit of the proposed approach is that it allows us to evaluate not only the formal-dynamic aspect of trust/distrust in social institutions (level, trends, etc.), but also its content (components, quality indicators, etc.). Our recent studies devoted to a qualitative analysis of trust showed that the variety, diversity and multi-functionality of different types of trust/distrust raise important questions about their modality and qualitative characteristics (Kupreychenko, 2012b). Firstly, what type of trust exactly are we evaluating with the question about trust in "people in general"? And secondly, what type of trust or relationship between trust and distrust is optimal for a particular community at its current stage of development, and for modern Russian society in particular? In practical terms, this means that different types of trust are prevalent in different categories of modern Russia's population. Some (business, humanistic, or "mature" – based on experience of interacting in socially conscious groups of citizens) are more

progressive than others (“blind” or “clandestine” trust) and are more closely aligned with the expectations and needs of society. Thus, it is important to evaluate not only the level of social trust, but also to build a kind of “map” of the prevalence of various types of trust/distrust, i.e. divide the population into various categories based on the “quality” of trust.

Overall, the above approach allows us to assess the level of development of civil society in which the population and the government are partners, the functioning of social institutions is the result of cooperation of all interested parties, and where there is a mature relationship of trust, and not blind faith or fear. Building this type of society should lead to a transition from paternalism to partnership; from passivity to cooperation; from indifference to interest; from ignorance to competence; from unrealistic expectations to a willingness to make a contribution; from disbelief and fear, or blind faith, to genuine trust. The program includes indicators of all of the above-mentioned states of social consciousness. The research reveals an ambivalent attitude toward social institutions in which positive expectations (trust) mix with fears (distrust). The practical significance of the data can be obtained via an analysis of what prevents people from trusting, and what would help build trust and reduce distrust.

Conclusions

1. Trust and distrust are relatively autonomous phenomena that have similar and differing characteristics: signs, conditions, criteria and functions in regulating a subject’s life. The main functions of trust are social awareness and exchange. The main functions of distrust are self-preservation and isolation.

The conditions under which trust and distrust can exist simultaneously in relation to the same object and appear as ambivalence in an evaluation include: first, multi-dimensionality, an associated inclusiveness simultaneously in various aspects of life, as well as the dynamic nature of relationships between people; second, the presence of contradictory qualities in a partner in the interaction; third, contradictory relationships between the subject and several personality traits of the person being assessed (strength, activity, weakness, etc.); fourth, a high level of subjectivity in assessing the risks associated with being open and trusting; fifth, various foundations for trust and distrust; and sixth, the plurality of sub-personalities and psychology for the subject of trust and its partner. Moreover, gains from the justification of trust and losses as a result of confirmed distrust, in most cases, are *not equivalent quantitatively, qualitatively, or even psychologically*. Thus, a theoretical analysis of the conditions of the simultaneous presence of trust

and distrust confirmed the need to analyze them together, as ambivalence of trust and distrust is characteristic of most types and forms of social relationships.

2. The assumptions about the relationship of trust and distrust in the course of empirical research were confirmed. An asymmetry in the criteria of trust and distrust was established in the course of a frequency analysis. The results of the frequency analysis were checked in the course of the factor analysis. The singled-out factors of trust can provisionally be divided into two large groups: factors having to do with appraising the positive prospects of a potential interaction as a whole (interestedness in trust, the value of trust, and prediction of the result of trust), as well as factors having to do with predicting the successfulness of building relations of trust (prediction of the possibility and the ease/difficulty of the process of building trust). The latter are subdivided into factors having to do with subjective traits (appraisal of one's own abilities and opportunities to build relations of trust), the partner's traits (his readiness), and, finally, characteristics of the process of inter-personal or inter-group interaction itself (difference of interests and positions, the influence of social stereotypes, and so on). Analogously, factors of distrust too are likewise divided into: factors having to do with appraising the negative consequences of interaction (risks of openness), as well as factors having to do with predicting the successfulness of protection from them (prediction of the possibility and the ease/difficulty of protection). Traits, both of the subjects himself and the partner in interaction, and of the conditions and the process of interaction, are likewise significant for distrust.
3. A program has been designed to study trust and distrust in social institutions that makes it possible to evaluate the level and relationship of trust/distrust in social institutions among various groups and categories of the population, as well as their dynamics. It also allows us to separate the population into categories by "quality" of trust/distrust (blind or naïve, clandestine, mature, etc.). Thus, the tools make it possible to study trust both quantitatively and qualitatively: its types, foundations, factors that hinder its growth and reduce distrust. The research may point to an ambivalence toward social institutions, whereby positive expectations (trust) mix with threats (distrust). Distrust is assessed as agreement with the fact that the system can have certain dangers related directly to the fulfillment of its function. The data should correlate with such characteristics of the subject of trust as *inclusion* in the activities of the institution (level and type of participation in its activities, including professionally or voluntarily), *awareness* of its activities, the *presence of*

experience interacting, the modality for evaluating its results, a subjective assessment of the importance of a social institution (including positive and negative modalities), and the perception of one's own ability to influence its activities. Based on the data received, concrete recommendations can be made for developing measures aimed at building mature civic trust among various categories of the population.

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Olga Kitaitseva, Anna Kuchenkova
Russian State University for the Humanities,
Dep. of Applied Sociology

Social and Interpersonal Trust in the Context of Value Orientations of Young people in Russia and Eastern Europe

Abstract

The purpose of our study is a comparison of the level of trust and values of youth in Russia and other East European countries, and measuring the potential of the development of their social capital.

The empirical data are based on the cross-national study, conducting by Szczecin University (the survey of students in Russia, Poland, Ukraine, Lithuania, Czech Republic; 2010). Based on a comparison of the levels of general, interpersonal trust and prevailing value orientations of youth in Russia and other East European countries, we find an interconnection between value orientations and the level of trust in these countries. In countries with a higher level of trust youth is more individualistic than in societies, in which the circle of trust is limited to their family and close relatives.

Keywords: interpersonal trust, general social trust, value orientations.

Introduction

Trust penetrates various aspects of social life and provides a sense of confidence in the honesty, integrity, and adequacy of the person you are communicating with, the success of which in today's "risk society" is provided by a mutual understanding, as well as mutual obligations, benefits and interests. In a modern society, the level of trust is regarded as one of the pillars of social capital, which plays a key role in the stable development of society. Research shows that the levels of social and interpersonal trust in different countries differ significantly, depending on the level of development of the cultures of trust in these countries. These figures are especially relevant for the countries

of Eastern Europe, which have undergone significant economic and political changes in the recent decades. The world development trends formed in the late twentieth century caused the devaluation of many old, and the rapid rise of many new values and needs.

The younger generation of Eastern European countries has grown up in different, new social and economic conditions. The important indicators of the adaptation of young people to the new realities are their value orientations and attitudes, as well as the level of interpersonal trust in the immediate surroundings (family, friends), and towards most strangers. In this context, *the aim of our research* is actualized, and includes comparing the levels of trust and dominant value orientations of young people in Russia and other European countries and identifying the values that support or hinder the development of the culture of trust.

Many studies are aimed at the investigation of trust issues, in which many different aspects of this phenomenon are covered. One of the main directions of this research is theoretical in nature and is related to the definition of trust, distinguishing its types, functions. (Shtompka 2012; Uslaner 2002; Alekseeva 2008). Another trend in the research of trust is connected with the identification of determinants that determine the height of the level of confidence indicators, at both group and individual levels. A lot of data has been gathered regarding this issue: the interrelation of the level of trust to the economic development of the country (Fukayama 1995; Knack and Keefer 1997; Putnam 1993), the development of democratic institutions (Inglehart 1997), income inequality (Uslaner 2002) and others have been established. Regarding the determinants of trust at the individual level, it was found that a higher level of trust is common for people with higher levels of income and education, and a lower level of trust is common for the unemployed, divorced, and minorities who are discriminated against. (Bj, rnskov, 2006). In addition, it can be argued that a high level of trust is supported by the involvement of the individual in broad social networks, daily communication with family, friends, colleagues, active citizenship and participation in the activities of various organizations (Delhey, et al. 2011; Veld, et al. 2009).

Our contribution to the study of the problems of trust includes several aspects. Studies aimed at the identification of the determinants of high levels of trust and the consequences of its distribution, have touched upon various aspects of life of the individual and of society, but the question of the correlation between trust level and value orientations has remained unanswered. Many years of research by R. Inglehart, Schwartz, and Hofstede have shown that modern societies differ greatly in the prevalence of certain value orientations, while the

levels of trust in the countries vary greatly as well. If we accept the thesis of V. Rukavishnikov that interpersonal trust is a “universal moral *value*”, we meet with the need to study the relationship between the level of trust and the values that are dominant in society. Our study is devoted to this issue. An equally important feature is addressing the study of attitudes and the level of trust not of the population of Eastern Europe as a whole, but only the younger generation that has grown up in the new socio-economic conditions, and in the next decade will be the foundation of society.

In international comparative studies there is a division of European countries into four groups: the post-socialist countries of Eastern Europe, the Mediterranean, Scandinavia and Western Europe. This division is often backed up not only by the territorial proximity of countries, but the similarity of attitudes of people within each group, as well as significant differences between the groups. In our study, we consider only the countries of Eastern Europe, which allows us to draw attention to the internal heterogeneity of the group and to compare the countries by the level of trust and the dominant value orientations of young people.

As an **empirical basis** for the study we used the results of an international comparative study, organized by the University of Szczecin (a survey of students from Russia, Poland, Ukraine, Lithuania, and the Czech Republic)¹. The total number of respondents is 5118 people. The survey was conducted in February-May 2010.

Personal trust: two levels of measurement

While different qualifications of trust exist, they are often based on the definition of the various recipients of trust. For example, P. Sztompka offers an analytical framework of trust and it includes the following types (Sztompka 1991): personal (virtual and contact trust); categorical (trust in the representatives of different age, sex, race and education), positional (trust in social roles), group (trust in a particular group), institutional (trust in social roles); commercial (trust in companies, manufacturers of goods); system (trust in social systems, rules and regulations). In our study we are only looking at interpersonal trust, which is in turn divided into “general public trust” and “special interpersonal trust” Such distinction has been officially recognized in sociological research.

¹ The survey was conducted in the framework of the research project “Social trust: between theory and practice”, supported by a grant from the Polish Committee for Scientific Research, implemented in 2009–2012 under the direction of Doctor of Sociology O.N. Kozlovoy, author of the survey instrument – Associate Albert Terelyak.

(Rukavishnikov 2008, Alekseev 2008, Delhey, et al. 2011). “The general public trust” (or “generalized”) is understood as an ideological tendency to trust strangers, of which the individual has no prior information that allows him to predict the consequences of a relationship with them (“virtual trust” in the terminology of P. Sztompka). “Special interpersonal trust” is defined by the individual’s trust towards his inner circle, family members and relatives (“contact trust” in the terminology P. Sztompka).

Comparing these two types of trust, A. Alekseeva highlights their distinctive features (Alekseeva 2008): generalized trust is regarded as a phenomenon of the macro-level, reflecting the culture of public trust and interpersonal trust as a more “flexible” phenomenon that depends on situational factors and expressing trust either in a similar situation, or a toward a specific counterparty. Generalized trust is treated as an ideological attitude that reflects the positive outlook on the world, the main source of which is the ontological experience gained by the individual in the process of primary socialization, which is not related to specific situations of interaction, the subject and the object of trust, while these elements are integral to interpersonal trust.

To measure generalized and interpersonal trust several different indicators are used (for more details see Kertman 2006, Rukavishnikov 2008). In our study, the level of generalized trust for each respondent was assessed as the average value of the responses to the following statements: “In general, people can be trusted”, “Distrust of people is a bad quality”, “It is better to be suspicious than to trust people”, “In relation to people it is better to be cautious and not to trust them too much”. For the last two negative statements, responses were previously encoded so that the maximum code for all four statements corresponds to the maximum level of confidence.

The level of interpersonal trust was assessed as the average value of the following responses: “I have never been (would never be) tempted to check the relationships of my partner”, “I have never been (would never be) tempted to check the relationships of my partner, in spite of his (her) behavior”, “Normally, I assume that the other people could not get along with me”, “Complete trust in the relationship between a man and a woman usually ends in the cheating of one of the partners” The last two statements were also preliminarily encoded.

The levels of general and interpersonal trust of Russian and other Eastern European youth covered in the study differ. However, as a general rule, the average level of interpersonal trust is higher than the average level of general trust.

Such correlation of the two levels of trust is characteristic specifically to societies that are undergoing transformational processes.

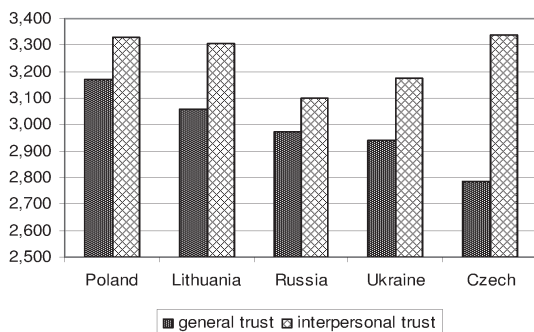


Fig. 1 The level of general and interpersonal trust by country²

The youth of Poland and Lithuania show a high level of interpersonal trust and the highest level of general public trust. Russia and Ukraine show an intermediate, medium level of general trust, while the level of interpersonal trust in these countries is the lowest.

The magnitude of general trust here can be considered one of the fundamental factors that determine the economic growth in society. The level of trust, defined as “expectation occurring in the community that other members will behave more or less predictably, fairly and with attention to the needs of others, in accordance with some general rules” (Fukuyama 1995, P. 52), determines the formation rate of social capital and affects the economic development of society. In this regard, the difference between the two pairs of countries (Poland and Lithuania, on the one hand, and Russia and Ukraine, on the other) reflects the considerable success of the first pair on the path of market and democratic reforms. Compared to these countries, there is a somewhat surprisingly low level of trust in the Czech Republic, which, however, demonstrates the highest level of interpersonal trust of all the countries. This can possibly be explained by the specifics of the post transformational development of the country, as well as the specific processes of socialization of the young generation.

If interpersonal trust arises in situations of “face-to-face” interaction, generalized trust, being formed under the influence of norms and values of the

² According to analysis of variances, a statistically significant difference (at the 0.01 level) between the mean levels of total social confidence doesn't exist between Russia and Ukraine, Russia and Latvia. For the remaining pairs of countries, the difference in the level of this type of trust is significant. With regard to interpersonal trust, the average level for this index was not significantly different in Russia and Ukraine, Ukraine and Lithuania, Lithuania, Poland and the Czech Republic.

society, is an indicator of the culture of trust in the said society. Such a perspective allows us to consider social trust in the light of the values and attitudes shared by the majority of society. Next, we turn to a comparative analysis of the value orientations of young people in Eastern European countries and the relationship between these orientations and interpersonal trust.

Value orientations of young people

Value orientation of people in different countries of the world today are subject to ongoing international monitoring, they allow us to see how the full range of the world's economic and political changes which affects the fundamental values of different societies, and to explore the ability of cultures to modernize.

In our study, by individual values we understand a person's beliefs in the importance for him personally of an object or phenomenon, an indifference to some fact or aspect of reality.

To compare the prevalence of certain value orientations among young Eastern Europeans, a transformation of the original data was required. Initially, the database demonstrated the individual marks assigned by the respondents to a list of 25 different values, which were based on their personal beliefs and experience. Using factor analysis, these values were grouped into six enlarged blocks (values of the second level of integration), the resulting model explained 54.5% of the total dispersion.³

The first factor is individualism and self-expression, which includes the following initial values (first-level): independent decision making, independence, individualism, the search for new and exciting things, the opportunity to develop one's own interests, creative work, the opportunity for self-improvement, the freedom to satisfy one's own wishes.

The second factor – self-assertion – is made up of a special sense of being irreplaceable at work, professionalism, the importance of work which provides good opportunities for career growth, the authority to organize work, to manage and control others, the importance of being respected, as well as the importance of fighting for one's own correctness and not allowing others to deceive you (politicians, leaders, etc.).

The third factor – the family – stability, prosperity, secures financial situation in the family, an emotional bond with their families, a sense of being needed. This represents the traditional way of life, feeling protected, having close, trusted people you can rely on, no matter what occurs at work and in society.

³ Factor analysis, method principal components with the rotation method "Varimax".

The fourth factor – helping others – includes the ability to spread important social values (kindness, justice, knowledge, etc.) and the ability to help people.

The fifth factor – infantilism – consists of high importance of values such as peace of mind, lack of commitment, minimum effort to achieve goals, the existence of the least possible number of situations in which one needs to make difficult decisions. This value orientation is the opposite of individualism, self-reliance and self-expression.

The sixth factor – hedonism – focuses on having fun alone and with others.

The results of the factor analysis helped us group the original questionnaire (first-level values) into units of values (of the second level). Further the comparison of countries was carried out using these units (individualism, self-affirmation, family, helping others, infantilism, hedonism).

The average values of the six factors identified by factor analysis can be used to compare the values of young people from different countries. However, the resulting model based on these results would explain a little more than 50% of the total dispersion. In this regard, it was decided instead to use the values of the factors of a special index, calculated as the average weighted variables in each of the factors (Schwartz Method: Schwartz 1997).

First, the average of all the variables included in each of the blocks was calculated for each respondent. Since when answering the questionnaire respondents tend to choose the same position of the scale, an offset appears. To get rid of this effect, the average scores were normalized: the average mark which the respondent assigned to all the values listed in the questionnaire was subtracted. As a result, a number that reflects how this or that value orientation (individualism, family, hedonism, etc.) is important to the respondent in relation to the importance of all values on average was obtained for each respondent. Then we calculated the average values of these indexes across countries.

As a result, the final indexes (individualism, self-affirmation, family, helping others, infantilism, hedonism) ***reflect the priority of a value compared to all the values in general for all respondents from the same country.***

The value orientation of the respondents from different countries was represented in the form of value profiles constructed from the values of the indices described above. (See fig. 2) *If the index value is greater than zero, then this value is more important than all the values of the average, and vice versa, if the index is less than zero, then the value is less important than all the values on average.*

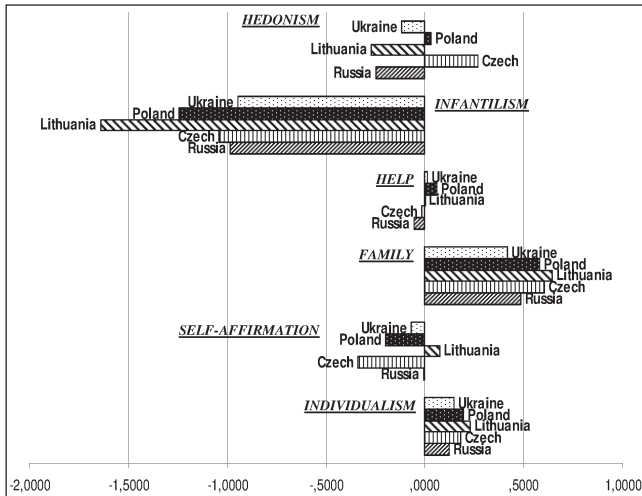


Fig. 2. Value profiles by country

The young people of post-socialist countries consider the most significant value in relation to all the others is the family well-being and stability, as well as emotional intimacy with relatives. The highest value of the index for this value exists in Lithuania, the Czech Republic, and Poland, however it is lower in the Ukraine and Russia. For these post-socialist countries, the process of adaptation to the new social realities turned out to be rather difficult and complex. The danger of an ideological vacuum in which the society ended up as a result of the transition, was seriously underestimated during the reforms. In this situation, the inner circle (family and friends) proved to be the most resistant to the adverse factors that were brought about by the transformational processes. A necessary level of mutual trust and understanding was maintained.

In second place for relevance and importance for the youth of most of the countries is individualism, including independence, freedom in making decisions and taking responsibility for them. As in the case with family values, the value of individualism is more supported in Lithuania, the Czech Republic, Poland, and to a lesser degree – in Russia and Ukraine. It must be stressed that the value of individualism is one of the most important values in modern society. The prevalence of this particular value among others, testifies to the success of the ongoing changes in the society, the formation of creative people that are able to successfully adapt to and understand the technologically developed and dynamic Western civilization.

The general consensus of indifference in the answers of respondents from different countries can be noted respecting infantilism. This value is the least significant in relation to all others in all countries.

In respect to hedonism, the responses of students from different countries varied significantly. The wish to have a good time with their friends is more important for the young Czech, Polish and less – Lithuanian, Russian and Ukrainian young people. Hedonism, as a component of individualistic values (though negative) is weaker expressed in the Russians and Ukrainians than in most other Europeans.

The attitudes towards the value of self-assertion differed – it is more important for the youth of Lithuania, less important for Russians, and even less important in the Czech Republic, Poland and Ukraine.

Regarding the value of helping others small, subtle differences in the responses of the youth from different countries can be seen. For all respondents this value has an average, medium level of importance in relation to all the values in general.

Summarizing the comparative analysis of the value orientations of Eastern youth, it should be noted that the most important pair of values for respondents in all countries is: individualism, self-expression, on the one hand, and family well-being and stability of the other. The dominance of this pair of values is a manifestation of an antinomy (Toshchenko 2010), which is characteristic of the normative value system of a society that is undergoing a transformation. A preference for the traditional way of life, preservation of the family, the need for security, in close, trusted people is combined with a high importance of individualistic values. The rejection of the communist ideology and the formation of the institutions of a market economy led to the actualization of the values of self-affirmation and hedonism, which are most clearly opposed to the values of civic responsibility and helping others. The priority of self-interest caused serious damage to altruistic, solidarity values (Yasin 2003).

Next, we turn to the relationship between value orientations and levels of generalized and interpersonal trust.

The correlation of the level of trust and value orientations

The process of building a culture of trust is of an ongoing nature, evolving from the past through the present into the future (Sztompka 2012, S. 297). On the one hand, this process is influenced by various macro-social conditions, and on the other a culture of trust is the result of a “climate” and atmosphere of trust in society, which in turn are made up of individual actions and attitudes of people.

The following features of people, to a greater or less extent contribute to the spread of the culture of trust: “overall activity and a sense of readiness for action, rather than inaction; optimism, rather than pessimism; focus on the future, rather than the present; high demands and the desire for success, rather than low needs and a focus on adaptation; innovation, rather than conformism.” (Sztompka 2012, S. 306). Moreover, in order for the described “syndrome” of individualism to be beneficial to the formation of a culture of trust, it must be common, typical in the society. Thus, the level of trust in society is not only connected with the terms of the extended social context, but also with individual characteristics and attitudes of people. Next, we consider the relationship between dominant value orientations in a society and the level of trust, general as well as interpersonal.

First, let’s consider how the value orientations of young people from different countries are related to the level of “**general social trust**”. Let’s start with the values of individualism, independence and family stability and well-being, as they are most important to students in most countries. These values are the most important for the representatives of Lithuania and Poland, and it is in these countries that we can see the highest level of the general social trust. The opposite situation exists for the youth of Russia and Ukraine. For them, the considered pair of values is also dominant in relation to the other values, but in comparison with students from Poland and Lithuania, the importance of individualism and family well-being is much lower. Respectively, the level of the developed level of trust among the Russian and Ukrainian young people is significantly lower. Thus, for these four countries we can observe a definite relationship between the level of trust and the importance of family and individualistic values. The Czech Republic differs from this trend. Students in this country show a low level of overall social trust while at the same time individualistic and family values are fairly important to them.

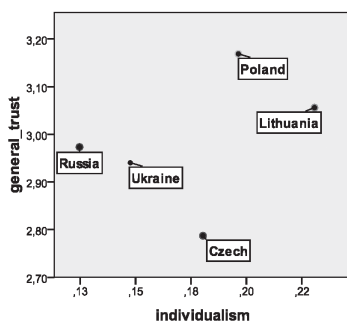


Fig. 3. General trust and Individualism

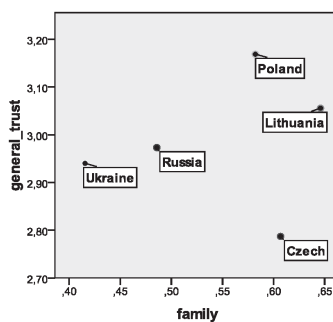


Fig. 4. General trust and family

Let's move on to the next pair of values: self-assertion and helping others.

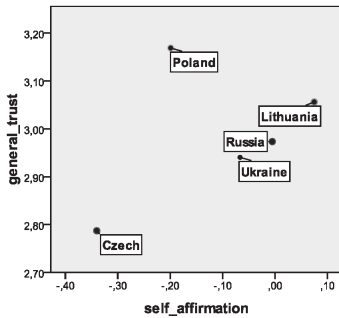


Fig. 5. General trust and self-affirmation

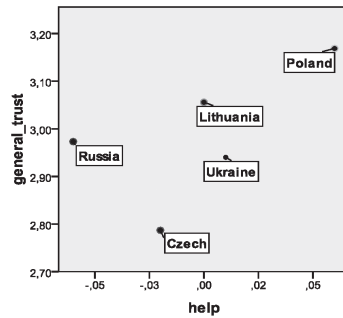


Fig. 6. General trust and help

Self-assertion, respect of others and power over others is more important for the young people of Lithuania, Russia and Ukraine. At the same time a medium level of overall social trust is noted in these countries. The Czech Republic has low scores in both of these categories. At the same time, in Poland, where there is the highest level of trust among all the countries, the importance of the value of self-assertion is medium when compared to the other countries.

As in the case with the value of self-affirmation, the relationship between the value of helping people and the level of trust is ambiguous. For Poland, Lithuania, Ukraine, and the Czech Republic it is fair to draw the following connection: in countries with a high degree of importance the value of helping others, the level of general social trust is higher. However, Russia does not fit into this trend: while the importance of helping others is at a very low level, the level of trust is almost the same as in Ukraine and Lithuania.

Regarding the last pair of values (infantilism and hedonism) we can see that for the students of two countries (Lithuania and Poland), these values are of low importance, while they have the highest level of general social trust. For the remaining three countries, the situation is reversed: they demonstrate the highest level of importance aspiring for a good time and having a lack of responsibility, the level of general social trust in these countries, however, is lower.

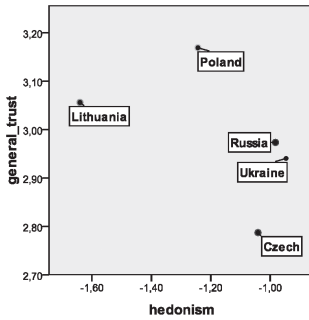


Fig. 7. General trust and hedonism

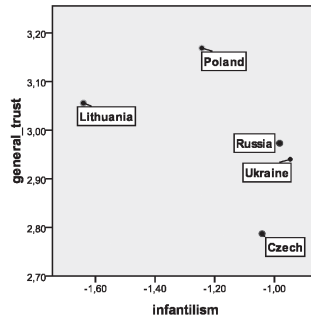


Fig. 8. General trust and infantilism

Next, we will consider how the value orientations are related to the “special interpersonal trust”.

At the group level, family and individualistic values are linked to the level of “special interpersonal trust.” In Poland, Lithuania and the Czech Republic the considered values are ahead of all others on the level of importance, and these countries demonstrate the highest level of interpersonal trust. Compared to these countries, in Russia and Ukraine independence, autonomy and family stability are less important, and the level of interpersonal trust is significantly lower (the lowest of all the countries represented in the study).

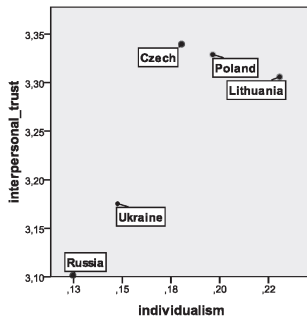


Fig. 9. Interpersonal trust and individualism

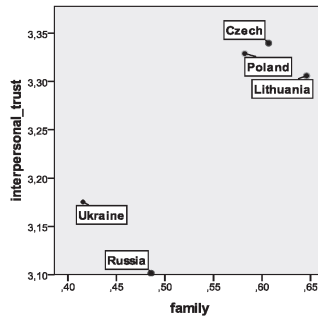


Fig. 10. Interpersonal trust and family

Such values as self-assertion, hedonism and infantilism at the country level are not correlated with the level of interpersonal trust.

Thus, in countries with a high level of importance of these values, the level of interpersonal trust can be high as well as low.

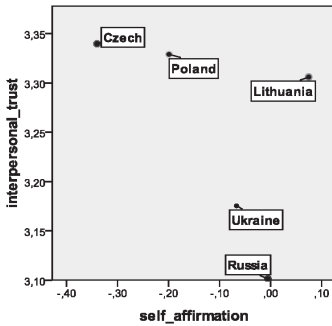


Fig. 11. Interpersonal trust and self affirmation

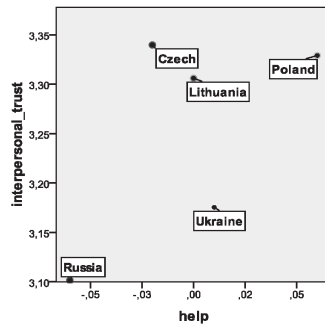


Fig. 12. Interpersonal trust and help

For example, a high degree of importance of self-assertion was recorded for students from Lithuania, Ukraine and Russia, while in the latter two countries, the level of interpersonal trust is very low, while it is high in Lithuania.

A similar situation exists with the values of infantilism: they are important for the respondents from the Czech Republic, Poland, Ukraine and Russia. However, in the first two countries, the level of interpersonal trust is much higher than in the last two.

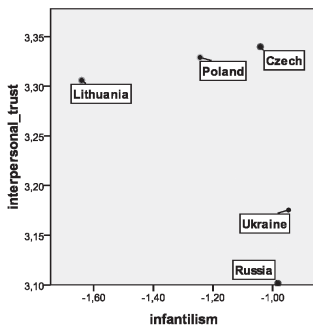


Fig. 13. Interpersonal trust and infantilism

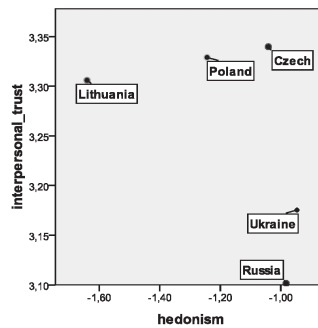


Fig. 14. Interpersonal trust and hedonism

The relationship between the degree of prevalence of certain value orientations of young people in Eastern European countries and the level of social and interpersonal trust can only be traced for one pair of values: “individualism” and “family stability.” Countries in which these value orientations are more common among college students, demonstrate a higher level

of trust. A greater or lesser importance of the other values (self-assertion, hedonism, infantilism) appeared to be unrelated to the level of trust among the students of these countries. Thus, on the group level, a tendency of young people towards the importance of individualistic and family values, is correlated to the two levels of trust: general social and interpersonal. For most of the considered parameters, the closest were the positions of young people from Russia and Ukraine, on the one hand, and Poland and Lithuania (sometimes the Czech Republic) on the other hand.

Conclusion

Economic and social developments in modern post-socialist governments have changed the living conditions of people, as well as their understanding of the society that they live in and have generated significant changes in the complex representations of social reality. Under these conditions, the level of trust in society could not have stayed unaffected. Since trust is the basis of interaction between individuals, defining their orientation in the new social space, the value orientations of young formed during the last two decades is of particular importance for the evaluation of these changes. They are interested in living in a constantly changing world, they are not afraid of competition, which makes them work hard, as well as fight for their rights and interests. It is noteworthy that in the Eastern European countries mentioned in our study, the configuration of value orientations of the younger generation shows fundamental differences. The values of individualism, which are based on the belief in yourself, perseverance, and self-confidence are becoming more common. These, in turn, are the individual determinants of trust, the character traits that contribute to the spread of the “individual syndrome” of trust (Sztompka 2012, S. 306). The result is the formation of a new type of person that is capable of innovation and creativity, which is in demand in the man-made, dynamic, ever-changing modern civilization. At the same time, a high level of importance of family stability and prosperity is maintained. As shown by P. Sztompka (Sztompka 2012, S. 314), it is this particular value that acts as the basis for creating an atmosphere of trust in society, promoting a culture of trust, even among the less affluent and educated population, compensating for the lack of economic resources.

The adaptation process of post-socialist countries to new social conditions takes place at different speeds and with different degrees of success. Countries of the former Warsaw Pact and the Baltic countries (Poland, Czech Republic, Lithuania), becoming part of a European political and economic system had some advantages that allowed them to build more social potential to surpass

the former Soviet Union countries (Russia and Ukraine) in the levels of social and interpersonal trust. According to P. Sztompka (Sztompka 1991), the gradual elimination of the fundamental factors of distrust in countries that have become part of the “European family”, was aided by the preservation of traditional values such as family support, communication with close and reliable people. In addition, a more intense growth of GDP and GNI, compared to Ukraine and Russia, in post-socialist countries of Eastern Europe that are part of the EU, has allowed a significant economic progress, a new quality and standard of living, as well as the successful establishment of the market and private property, which has become the reason for achieving a greater efficiency of social transformation in these countries. As a consequence, in these societies, the process of transformation of value priorities, in particular the spread of values of individualism is faster. An important consequence of these processes is the achievement of a high level of social and interpersonal trust, an increase of personal and social capital, as well as the spread and strengthening of the culture of trust.

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**Vladimir Davydenko, Gulnara Romashkina,
Ruzilya Akhmedzyanova**

*The Institute of Finance and Economics of
Tyumen State University*

The Theory of Incomplete Contracts and Practices of Distrust in Russian Entrepreneurship

Abstract

The development of socio-economic and political events in Russia leads to the fact that the issues of trust which is understood, in simplistic terms, as expectations of contract / fair / honest behaviour of others towards us is extremely relevant. Public opinion polls indicate the growing mutual distrust gradually turning into the dominant social norm (Akhmedzyanova, Davydenko 2013; Davydenko, Romachkin 2010; Davydenko, Romashkina 2010; Sasaki, Davydenko, Romachkin 2009; Sasaki, Davydenko, Latov, Latova, Romachkin 2009; Sasaki, Davydenko, Latov, Romashkina 2010; Sasaki, Davydenko, Latov, Romachkin 2010; Sasaki, Davydenko, Romashkina, Voronov 2013; Gambetta 1993; Radaev 2003). Contemporary social life is increasingly characterized by a high degree of uncertainty and lack of control over the future, but the freedom of human action is moving into the context of its indeterminacy. As practice shows trust must always be there where there is no control over future events, and they depend on the actions of others. In the modern theory and practice of business the special emphasis has been put on understanding trust in terms of long-term relationships of actors, effective forecasting of profitability for each other of their purpose, value and personal mutual orientations.

Keywords: trust, distrust, incomplete contracts, business, Russia.

Introduction

The theoretical basis and the novelty of this research on trust are based on the concept conjunction of the theory of incomplete contracts (incomplete contracts) and theory of social trust (social trust).

The theory of incomplete contracts (which is an acute topic of ongoing debate) argues that the high level of trust helps individuals and businesses to reduce the threat of opportunism (the essence of which is expressed in the human desire to realize their selfish interests, accompanied by manifestations of deceit and deception), to solve the problem of uncertainty and reduce the costs of monitoring and control (Bremzen, Guriev 2005; Guriev, Tsyvinski 2013; Guriev, Tsyvinski 2009; Williamson 1996; Shastitko 2001; Shastitko 2003; Nooteboom, Berger, Noorderhaven 1997; Ostrom 1998; Ostrom 2000).

In any society, human relationships and interaction cannot be written on paper, or stipulated in contracts which are understood as sets of rules that define mutual expectations of counterparties based on fulfillment of promises which is provided by one or another enforcement mechanisms. The enforcement mechanism involves the creation of (expected) costs for the offenders of the contract. There is no “perfect contract”. Even the most detailed contract cannot provide all nuances because complex agreements may contain hundreds or thousands of parameters. Conditions for the future, which cannot be accurately predicted, are formulated in any contract. Since it is impossible to stipulate every detail on paper, then, according to the logic of the theory of incomplete contracts, capitalism (as well as any market society) cannot exist at all without trust. Everybody is constantly examining everything using methods of dealing with opportunistic behaviour. The most frequently mentioned preventive measures against opportunism include: the use of theories of adverse selection (adverse selection), subjective (moral) risk (moral hazard), and the redundancy of mutual trust (redundancy of mutual trust). Opportunistic behavior may occur at the stage of concluding the contract (ex ante) – in the context of adverse selection (adverse selection), as well as at the stage of its implementation (ex post) – in the context of bad faith of moral hazard (moral hazard). When one party of the contract knows about its subject matter more than the other (as happens almost always and everywhere) – it automatically creates conditions for adverse selection (adverse selection). A problem of moral (subjective) risk (moral hazard), or danger of bad faith arises as a result of changes in the behaviour of the parties under the contract (for example, the borrower took out a loan for one goal, but uses the borrowed funds for another, or the borrower provided the lender with incorrect (false) data for assessing the solvency of the borrower). The concept of excess mutual trust explains the situation among players which can lead to substantial mutual losses as trustful agents either do not invest in the detection and punishment of partners cheating their trust, or are unable to protect themselves from the actions of untrustworthy players. This situation exists due to the fact that players do not have trustworthy obligations (Kornai 2003, Lascaux 2003, Wil-

liamson 1996, Dembe, Boden 2000). The position of the American Professor Robert Hardin is of special interest. He believes it is necessary to start not from trust, but of what he calls “liberal distrust”. Trust cannot be squandered (Hardin 2001). And furthermore, to move from distrust to trust, distrust needs to be fixed. It is necessary to say: “I do not trust. Guarantees are needed” (Auzan 2012). Therefore the theory of incomplete contracts insists on the need for “observed, although not verifiable variables”, variables that are known to both parties, but which cannot be written into the contract.

At the same time a developed relationship of trust can maintain a free flow of information in the process of acquiring new knowledge, as in this case, the partners feel less vulnerable to the dangers of mutual opportunism (Inkpen 2000: 1028). It is believed that high trust encourages frequent and meaningful exchanges of information, prevents unnecessary spending on protection against opportunism and promotes harmonization of different interests of members of interactions. Unfortunately, these theoretical statements are at odds with the real cases from the scope of the actual contractual relationship. Sometimes trust is either neutral in relation to the level of transaction costs, or even increases them. If the development of a relationship of trust accompanied by a reduction of transaction costs, the corresponding result is achieved not due to the trust itself, but due to the dual action of related to it institutions, such as the high reputation of agents, previously undertaken mutual obligations, contractual guarantees, the threat of collective sanctions, or contractual clauses.

Availability of observable, but not verifiable variables leads to a non-trivial role of contract renegotiation (renegotiation), allowing us to analyze the role of tools that influence the outcome of negotiations on a new contract, including property rights, which are important (Bremzen, Guriev 2005: 57). Typically, the contract states that in situations not covered by this contract, the parties settle differences in accordance with national legislation. But then there is a very serious problem with the legal practice in Russia, where the courts are falsifying cases, law enforcement authorities instead of protecting the law, are engaged in racketeering (for example, the case of “Kirovlesa”); when the judge does not require any solid evidence of a crime and is ready to reject all offers of defense to provide evidence. In Europe there are courts that are trusted: in Germany, France, the UK. Even the Cypriot court that judges under the English law, is trusted by everybody – Russian businessmen, Russian oligarchs, and Russian companies. In accordance with the Anglo-Saxon tradition of law, the residual rights of control is the definition of property rights. The owner makes decisions related to the use of the asset under the restrictions recorded in the contract and in international and national laws. Since the owner acts in its own

interests, a different distribution of residual control rights (property rights) significantly affects the allocation of resources, production decisions, efficiency and real trust to counterpartents within the system of market transactions (Bremzen, Guriev 2005: 57).

In Russia there has emerged a new type of economic behaviour – corrupt behavior which is typical of the most powerful groups – squeezing bribes (rent-shirking behaviour). Post-contract opportunism also appears in the form of blackmail or extortion within the context of specificity of resources (Shastitko 2001: 82). A new ideology, implemented by the Prosecutor General of the Russian Federation and his deputies, consists in the fact that bribes are determined by demand and that entrepreneurs offer bribes themselves (Auzan 2012). In fact, it is far from true, as it is evidenced in the practical part of this report.

The theory of social trust which we refer to as the second pillar of our conjugate concept describes a phenomenon that is not confined to personal characteristics, but belongs to public life in general. We can speak about trust as a sociological concept if it is considered taking into account social norms and expectations that are rooted [embedded] in the social community. Trust “is understood sociologically” when it “is embedded in social institutions, social stratification, and social changes” (Wuthnow 2004: 151–152). The most important, if not crucial, determinant of social trust is public fractionalization (social fractionalization) – the division of society into groups according to the level of inequality of distribution of power, income and social statuses related to them (Bjørnskov 2008: 271). In this case, the system trust reflects “a special type of public reputation stipulated by well-considered personal interests which, in their turn, are dictated by public institutions, social norms and political measures, forming the citizens’ rational motivation to mutual trust” (Bjørnskov 2008: 272). If we speak about the modern Russian business environment, and we want to understand the real logic of business success, we, paying attention to the main flow (mainstream) of sociological theory, must acknowledge the role of functioning trust implemented in basic social practices specific to the business in one or another country (Endreß 2000). In the modern theory there is a problem of the context element of trust, especially in the effects of social distance which reflect the behaviour in various games of trust (various trust games), when trust is considered taking into account the social norms and expectations of the actors, whose lines of conduct are embedded in this community; functioning trust implemented in basic social practices, is the foundation of business in any country. In real-life business situations functioning trust is treated as a “result of the history of interactions” and as “a mode of relations”, especially in situations of so-called “unconditional trust”. Establishing a relationship of trust in the group

implies a boundary between those who comply with the rules and norms of reciprocity, and those who refuse to follow them; participation in community connected by mutual trust can be maintained by complex rituals that help to strengthen the players' faith in the fact that other group members still deserve their trust (Ostrom 2000: 149); and when many individuals use the norm of reciprocity in a situation of social dilemmas, the reputation of players becomes the most valuable asset which supports and justifies the trust relationship. "The most reliable individuals" who fairly trust the other players – and they themselves gain the reputation of trustworthy agents, so they can be engaged in mutually productive social exchanges (Ostrom 1998: 12). Agents who trust each other without this supporting institution of reputation, would be unable to distinguish the possible violators of trust among the mass of partners, and as a result of deceit of trust they would bear the burden of transaction costs.

In social theory there are the following types (species) of trust identified: trust in the treaty itself: each party keeps with its agreements (both written and oral); trust in the competence of the partner: expectation that the partner is fairly competent to meet his obligations; trust in the goodwill of the partner: the mutual expectations of the parties of the possibility to do more than it is formally specified. Problems of distrust are solved in different ways: changing players' preferences; signing of an explicit contract (it must be protected by a third party, and it may be concluded in the form of either control with stimulation or punishment); the use of an implicit social contract (mechanisms and institutions of reputation; self-implemented agreement); the use of repeated interactions (there is an initial partnership, and then parties choose a strategy advocated by another player at the appropriate stage; cooperation continues as long as one of the participants will not give up on the game).

Some empirical evidence and pitfalls of mistrust. During the first half of 2013 due to the rise in insurance premiums (the official version), as well as the ongoing "informal control" over business by siloviki (it is more precise to speak about "real Nakat" by siloviki on business) more than 400,000 individual entrepreneurs left the market in Russia, and it is predicted that before the end of 2013 about 600,000 entrepreneurs will go into the shade or out of business. In such harsh conditions these facts make senseless any social theory of trust or distrust. Small as well as medium-sized businesses in our country have always been considered as "speculative", hence a "light trough" for those who are "more powerful to lash out at it". It is obvious that small as well as medium-sized businesses are under a constant tutelage by the Russian authorities, the question on the agenda is the question of what to do so that small and medium-sized enterprises have more money – but only borrowed money. And it is a

remarkable and ideologically consistent approach of the Russian state – do not to give entrepreneurs the opportunity to make money themselves but to contribute to the growth of the debt burden for this “restless segment of society” ... “If you assume that small and medium-sized business suddenly begin to prosper by working hard, what can we expect from them in the future? Yes, when they acquire financial strength, they are able to feel their civil and political power, and they will require a kind of “social contract” with the authorities. No, let them first try to execute contracts with the banks, and we shall see from the top and laugh. Well, we shall also impose more taxes, just in case” (Comments on the state and business 2013: 15).

What is business? This is when the money is borrowed for the idea, and this idea is realized with the help of the money, profits are made, out of which the debt is deducted. The goal of any business is to make profit. If a business makes a loss, then it is not a business, but a bankruptcy. If the borrowed money is available fairly cheaply, but a businessman has no optimism and not anything that will bring high profits, the businessman will not borrow money from banks. Businessman is a private person. He personally takes the responsibility for his decisions, he invests money, efforts, time, his capital and he wants to make some money. If he sees that he does not make any money, he loses trust, and he hides his business.

Conclusions

1. A market economy presupposes the existence of a constitutional state as a priority and source in which trust is one of the most important resources. Therefore, the question about the relationship between business and Russian justice is a question of our future. This is the key point which determines whether we progress or fall into an even greater retardation than we are today.
2. The Russian government has destroyed the trust in the court and the law enforcement authorities, as a result in today’s Russia it is not profitable to invest in development, because, it is quite possible that the results of the investment will belong to others. The main violator of the rules of fair play in Russia is, of course, the government itself, the state itself.
3. Today the entire Russian economy – not just the small and medium-sized business is moving to a zero point (Comments on the state and business 2013), because private capital is really neglected. For experts the reasons for the slowdown in the Russian economy are obvious: a sharp decline in private business investment because of the continuing deterioration of the investment climate. Private capital is either strongly “roofed” by well-known

representatives of the government, or it is in a kind of criminal, maleficent, or illegal form. Although it looks private, but, in fact, they are government officials and bureaucrats laundering the money. The peculiar feature of an investor or businessman is that he is not falling for cheating, and therefore he “quietly votes with his feet”.

4. Russia fell into the “trap of distrust” – a condition when the systematic distrust of people towards each other creates distrust to a decentralized market, as well as to the state which “roofs” it. In our over-regulated and corrupt country there is no sense to invest in human and social capital because the principles of ethics do not work in this economy, and only corrupt businessmen succeed. In today’s Russia it is more profitable to build business on bribes and privileges from the state (including the protection from competition) (Guriev, Tsyvinski 2009).
5. Russia is doomed to a miserable existence until there appears a real demand for young entrepreneurs in new industries, who will determine the face of Russian and global economy in the future.

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PECULIARITIES OF THE PROCESSES OF SOCIAL-ECONOMIC TRANSFORMATIONS IN THE POST-COMMUNIST COUNTRIES

Pasquale Tridico

Roma Tre University, Dep. of Economics

The Enlargement of the European Union to Eastern Europe: Ten Years After

Abstract

This paper deals with the process which brought about ten countries, former communist economies, of Central and Eastern Europe (CEEC) to join the European Union (EU) between 2004 and 2007.

Recession was severe both in CEEC and in the Former Soviet Republics (FSR) after the fall of the Berlin Wall in 1989 and the dissolution of the USSR in 1991. The transformation was very deep, both from an economic and political perspective. However, I argue, during the transformation and the economic recovery CEEC were favored by EU conditionality and membership, while FSR were not interested by this process. Very likely, EU membership was the crucial factor, which influenced transition in CEEC, and which determined better performance. Moreover, political transition (concerning civil rights, political liberties, and traditional liberal values) was more successful in CEEC than in FSR. In this respect, the role played by the EU, was crucial for New Member States.

Keywords: EU enlargement; transition; institutions; convergence.

1. The Transition in CEEC: from the initial systemic recession to the current financial crisis

For most of CEEC the process of transition was identified with the access to the EU. Hence transition and access, for those economies were (and to some extent still are) two faces of the same coin. As stated by Kornai (2006), the transformation of CEEC has been unique. On the one hand it took place peace-

fully and was an astonishingly fast process towards a western mode of development. On the other hand it was characterised by deep economic troubles. It is a process which involves successes and failures that varies considerably if we consider all transition countries (Holscher and Gabrisch 2006).

More generally, transition economies differ significantly in terms of economic performance although the economic policies advised by international organizations and implemented by national authorities are quite similar. These countries differ with regard to centralised planning, initial conditions and institutional framework. The economic structures (productive specialization, labour division, technologies, output and so forth) were diverse, as were rules, aims and planning in spite of common membership of the communist block (Falcetti *et al.* 2000).

Economists' views on transformation policies have been quite controversial and diverse (Sachs 1991; Kolodko and Nuti 1997; Åslund 2001). During the 1990s, the debate among economists on the type of transformation and on mistakes of policy-makers was very intense. Briefly, some economists criticised the timing of implementation, others criticised the intensity of policies and others the need and the appropriateness. This set of policies delivered important economic shocks, provoking a huge fluctuation in exchange rates which generated effects that were greater than expected.

In many countries (Poland, the Czech Republic and most of the former USSR), the transformation recipe was implemented through a shock therapy strategy. In others (Hungary, Slovenia) a more gradual approach was adopted. Nevertheless, the aim in both cases, was to introduce a market economy and to reduce or eliminate the role of the State in the economy. It is important to stress that countries that adopted a gradual program of macroeconomic stabilization such as Hungary and Slovenia achieved similar results to those in Poland and the Czech Republic, which implemented a shock therapy program. By contrast Russia and Bulgaria, which also implemented a shock therapy program, had very negative performances. Moreover, it has to be said that if it is true that Poland's performances were the best among transition economies, it is also true that "...Poland did not completely implement shock therapy". Although prices in Poland were liberalised, most of its large SOEs have yet to be privatised" (Lin 2005: 241)¹.

It is widely acknowledged that despite some measurement problems that could have occurred during the transformation from a planned to a market economy, such as the existence of an informal economy, statistical problems,

¹ The same opinion is shared by the World Bank (1996), Dabrowski (2001), Balcerowicz (1993).

coherence of the accounting system and so forth (see Nuti 1999; Åslund 2001), the great transformation was concurrent with a huge recession (Kornai 1994; Svejnar 2002). In the CEEC at the beginning of the 1990s the cumulative recession was from 20% to 40% of GDP whereas in the former Soviet Republics it was even worse and GDP fell in some cases by 60% (Transition Report 2001). At the same time, economic recovery was faster and more consistent in CEEC (except for Bulgaria and Romania) than in CIS (the Commonwealth of Independent States – mostly former USSR). The reasons for different performances probably lie in the diverse initial conditions, different policies and institutions and the mistakes of policy-makers (Gomulka 1995; Falcetti *et al.* 2000; Nuti 2001; De Vincenti 2002).

After ten years of transition, taking a starting point in 1989², only a few States reached or exceeded the 1989 level of GDP (Poland, Hungary, Slovakia and Slovenia). After 15 years, the Czech Republic, Estonia and Albania joined this club. Among the CIS the situation was severe, and all former Soviet Republics, in 2004, were still below the 1989 GDP level, apart from Uzbekistan, Belarus and Turkmenistan. The reason for such an exception has to be found in the fact that these three countries are basically still planned economies and never started a true transition process; therefore they did not undergo a transformation recession as experienced by all the other transition economies. After 20 years of transition, the situation in most former communist countries did not stabilize. Moreover, the current economic crisis shows how vulnerable transition economies are with respect to external shocks, with few exceptions. I will not explore in detail the current economic crisis. However, it has to be said that the twentieth anniversary of the fall of the Berlin Wall, in 2009, brought about in almost all Transition Economies (TEs), a similar slump of the one in 1989–90. Reasons for the current recession are very different. As the figure below shows, the Baltic States, which are open and small economies (which could be classified as liberal Capitalist economies), are the most hit by the current recession, with a slump in the GDP of around 12–15%. The extreme export-led model and the uncontrolled openness to FDI seem to be the major causes for this huge slump (Myant and Drahoukupil, 2010). Turkmenistan and Uzbekistan, which on the contrary could be classified as State Capitalist economies, have high GDP rates of growth. Other countries such as Poland (1.3%) which have a sort of Corporate Capitalist model, similar to the one in place in Germany, managed the recession relatively better. Average rate of recession in TEs in 2009 was – 5.2%.

² Indeed, in most former Soviet Republics, a transition process did not start before the dissolution of the Soviet Empire in 1991.

In 1990, the first year of transition and integration in the world economy for almost all TEs, recession was about – 4.6% (Tridico 2007).

Rodrik (2008) claims that integration in the global economy can be positive and negative, depending on institutions and governance that the country is able to put forward when opening to the world economy. Weak domestic policies and institutions would increase the political vulnerability level with negative consequences on the economic volatility of a country. Hence when opening to the world economy, a country would need appropriate institutions of conflict management, international governance, trade strategies and policies, specialization, and state support. This would help to cope with external shocks and crises (Rodrik 2008).

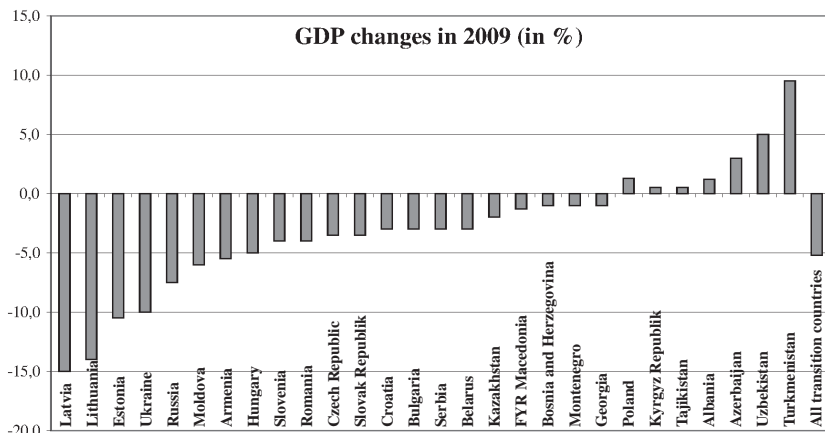


Fig. 1. GDP growth in 2009

Source: EBRD 2009.

The average GDP level in 2008 at 117 (with 1989=100) was approximately the 1989 level considering all the TEs together. However, the current economic crisis hit all TEs dramatically, and at the end of 2009, their GDP levels were lower than in 2008. Consecutively the average level is lower than 117. Many countries, such as Russia, Ukraine, Georgia, Kyrgyzstan, Moldova and Tajikistan among CIS, and Serbia, Bosnia & Herzegovina, Lithuania and Latvia, among CEEC, also in 2008 had a GDP level still below the one of 1989 (with Croatia, Montenegro, Romania and Bulgaria just around 100). In 2014, after 25 years of transition, the situation looks a bit different: only three countries among CIS are still below the GDP level of 1989: Ukraine, Georgia and Moldova. While

among CEEC Latvia, Croatia, Serbia, Bosnia & Herzegovina are below 100, while Lithuania and Montenegro are just above it. Among NMS only Latvia is still below the level of GDP that it had in 1989.

Table 1

Levels of real GDP in 2014, in 2008, and in 2004 (1989=100)

CEEC and Balkans	Level 2004	Level 2008	Level 2014	(\$ GDP per capita 2008	CIS	Level 2004	Level 2008	Level 2014	(\$ GDP per capita 2008
Slovenia	120	136,5	124	27.168,4	Russia	77	97,0	106	12.074,5
Czech Republic	108	126,7	120	25.395	Belarus	100	134,5	155	6.285,5
Estonia	102	113,7	121	16.508,4	Ukraine	51	60,7	58	3.937,0
Poland	135	156,5	171	13.838,9	Kazakhstan	94	124,5	156	8.736,4
Hungary	115	119,6	114	15.326,1	Armenia	89	131,3	140	3.711,2
Lithuania	84	99,8	102	14.017,8	Turkmenistan	105	160,3	217	2.915,6
Slovakia	114	142,4	150	18.248,9	Azerbaijan	71	163,0	187	5.507,4
Croatia	91	104,8	97	15.552,4	Georgia	41	73,5	98	2.845,0
Latvia	83	98,0	97	14.909,1	Uzbekistan	107	144,8	191	1.007,4
Albania	129	154,5	170	4.066,1	Kyrgyzstan	75	94,2	112	952,5
Bosnia & Herzegovina	57	78,9	76	4.833,5	Moldova	41	57,5	70	1.766,0
Serbia	60	81,1	83	6.761,0	Tajikistan	62	91,9	127	794,8
Montenegro	72	101,1	101	6.509,0	CIS	76	111	134	4211
Romania	92	113,2	111	9.186,5	All TEs	94,7	117	129	12013,9
Macedonia	78	95,7	104	4.761,3					
Bulgaria	84	105,7	107	6.561,1					
CEEC 5+ (the most advanced)	116	131	131	19.647,4					
CEEC 5- and Balkans	86	107	109	9.582					
All CEEC + Balkans	96	119	120	14.614,9					

Source: Transition Reports 2004, 2009, 2013. (Continued on next page.)

Note: **CEEC 5+** are the most advanced 5 CEEC: Poland, Czech Republic, Hungary, Slovenia, Estonia.
CEEC 5- are the least advanced 5 CEEC: Bulgaria, Romania, Lithuania, Latvia, Slovakia. Balkans: are the rest of Balkan Countries including also Croatia, Serbia, Macedonia, Montenegro, Albania and Croatia.
CIS are the Former Soviet Republics being today part of the Commonwealth of Independent States (the rest of TEs).

However, the situation among CEEC (and among NMS) worsened, relatively to other TE, during the past 5 years. In fact the GDP performances since the economic down turn of 2009 were worse in CEEC than in CIS and in particular in the most advanced CEE. This can be easily explained. After 1989 CEEC entered in, and integrated to, the economic and financial system of Western countries (EU 15 and North America in particular). The financial crisis which started in 2007 in USA and propagated in Europe, affected negatively CEEC, which then had lower recovery and negative performance, similar to most of EU 15 countries. The Figure below shows better these dynamics.

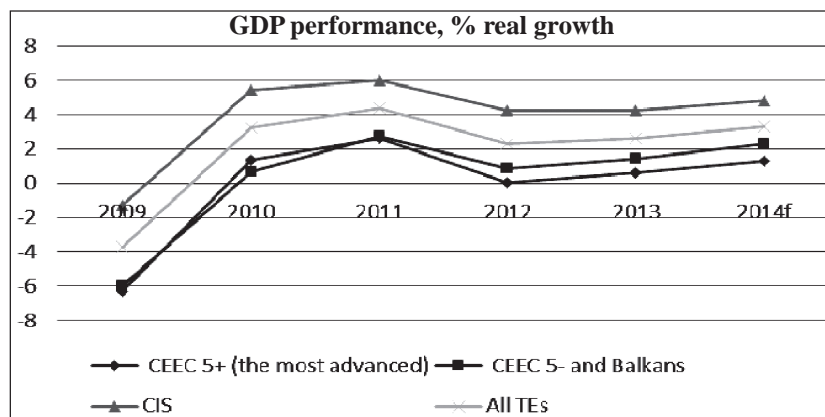


Fig. 2. GDP dynamics after the 2009 recession

Source: Own elaboration on EBRD and Eurostat database.

More generally, the financial crisis had a very bad effect on the real economy among all transition countries. Both political vulnerability and economic volatility seem to be better avoidable in countries which built in pre-crisis time *stronger* institutions, and *better* and more appropriate integration in the global economy. That is: countries that have social institutions and can rely on a domestic aggregate demand like Poland (which is, very interestingly, one of the very few countries

among TEs which had positive growth during this international crisis); and countries that did not adopt an extreme export-led model with an uncontrolled openness to FDI (unlike Estonia, Latvia and Lithuania, who had a fall in the GDP of around – 15%). Among CIS, the crisis was very deep in Russia, Ukraine, Georgia and Armenia. On average, it was deeper in Eastern Europe and Caucasus (– 9%) than in the rest of CIS (+ 0.8%) and in CEEC (–5%). Obviously, the three countries relying more on a sort of State capitalist model (Turkmenistan, Uzbekistan and Belarus) were even able to achieve growth consistently during the current crisis, thanks to public investment improvements and less exposure to the credit crisis (Tridico 2011). Their cycle is not depending on the fluctuations of the financial markets. As a general assessment the crisis was better managed where countries showed stronger maturity of pre-crisis institutions, external anchors, and greater social cohesion.

2. The impact of EU enlargement on transition of CEEC

In Central and Eastern Europe (CEE), the EU membership promise, which became then a reality for all candidates from CEE in 2004 and in 2007, was definitely a beneficial anchor and a strong guide during the transition from planned to market economy. Croatia joined the EU on 1st July 2013. Macedonia, Montenegro, Serbia plus Iceland and Turkey are candidate countries, while Albania, Bosnia-Herzegovina and Kosovo have officially the status of “potential candidate” (i.e., they were promised the prospect of joining the EU when they are ready). EU enlargement in some of the former Yugoslavian Republics (Montenegro, Macedonia, Serbia, Bosnia-Herzegovina and Kosovo) and in Albania remains difficult and remains uncertain for the near future, although all of them are officially classified as candidate or potential candidate. Former Soviet Republics are not interested by the EU enlargement process, apart perhaps from Ukraine which is strongly supported by Poland and to some extent Georgia and Armenia, whose future relations with EU depends largely on the future adhesion of Turkey (another EU’s candidate country). Finally in 2013 the EU Council of Vilnius agreed to sign the association agreement i.e., the “Eastern Partnership” with six post-soviet Republics: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. In general an association agreement is signed with potential candidates to EU. Hence, with the Eastern Partnership EU is opening an opportunity for future membership to those countries. Georgia and Moldova signed fully the agreement. The agreements will contribute to creating deeper political and economic relations between the EU and these two countries and will include deep and comprehensive Free Trade Areas covering both goods and services.

While Azerbaijan and Armenia limited the agreement to specific sectors like Visa-facilitation. The final signature of the Eastern Partnership proved to be particularly problematic with Belarus and Ukraine which stopped the negotiations for further agreement. Both these countries, along with Kazakhstan, were offered simultaneously an agreement by Russia for the creation of a Euro-Asian Free trade area. Mass protests started in November 2013, when the then Ukrainian President Viktor Yanukovich refused to sign the Eastern Partnership with the EU. The development of these protests managed from one side to dismiss Yanukovich and from another side caused a negative reaction of Russia. The situation is still very uncertain, and while we write, tensions and “war risks” between Russia and Ukraine started. Russia invaded the territory of Ukraine and sent its Army to Crimea, which is a region where Russia has special interests along with a very important military basis.³

The enlargement process of the EU to ten former communist countries i.e., Poland, Czech Republic, Slovenia, Estonia, Hungary, Lithuania, Latvia, Slovakia (which joined the EU club in May 2004) and to Bulgaria and Romania (which joined EU in January 2007) represented a very important condition during transition and a goal which all of them aimed to reach as soon as possible. The negotiation process and the adoption of the *acquis communitaire* has played an important role for the transformation of institutions and rules in CEEC, and was one of the main conditionality during the transition (Carlucci and Cavone 2004; Prausello 2003). In fact one of the most important steps in the process was the European Council of Copenhagen which established rules for Former Communist Economies of Central and Eastern Europe to become part of EU. These were three: political criteria, an economic criterion and an institutional criterion.

1. The presence of stable political institutions to guarantee democracy, the primacy of the rule of law, human rights, and minority protection.
2. The existence of a vital market economy able to cope with competition pressure and market forces within the European Union.
3. The institutional capability for the new member states to respect communitarian obligation and to adopt the European law, i.e. the so called *acquis communautaire*.

³ This is not the place to explore in details these tensions which involve economic, military and geopolitical interests in the region. However, the situation reached a very critical stage and further development are difficult to forecast today.

These three criteria were a strong conditionality during transition for CEEC. It would be reasonable to argue that, to some extent, most of CEEC performed better during transition because of the EU conditionality. At the same time however, one could argue that most of CEEC had better initial conditions than FSR and fewer corruption and institutional problems. This allowed them to attract FDI and therefore to grow faster.

The EU enlargement towards East of Europe has some immediate consequences for the EU and for CEEC as the table below shows. For the EU, first of all, the population (and the size of markets) increases; secondly, per capita GDP, which in average changed consistently, decreased; then, most importantly, distribution of Structural Funds, with a shift from poor regions of old European Member States towards poor regions of New Members States (basically all the new members).

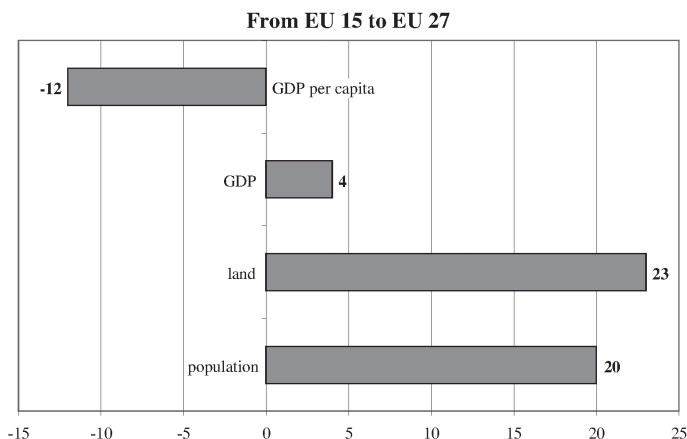


Fig. 3. Evident implications of EU enlargement to CEEC, 2004–07 (values in %)

Source: EU Commission.

Among CEEC, Poland, Hungary and the Czech Republic represent 63% of the whole GDP of the ten EU new member States. They are among the most advanced TEs, in terms of reforms and steps towards market (Transition Report 2011) and therefore, among the most attractive countries for foreign investors. Hungary and Poland were the first, in 1991 to sign an Association Agreement with EU, the first step for membership. The Czech Republic signed the Agreement in 1993.

total GDP of CEECs (10 new Member States of EU), in %, 2008

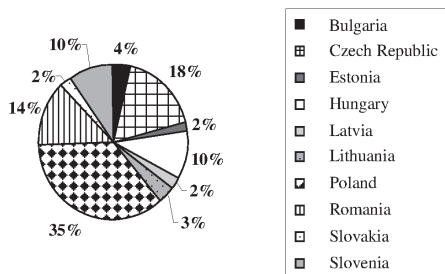


Fig. 4. Biggest countries (in terms of GDP share): percentage of CEEC

Source: Transition Report 2009.

A very sensitive issue for the relation between NMS and old EU is the Common Agriculture Policy (CAP). The agriculture sector is very important for all CEEC, because it still plays an important role in terms of employment and GDP contribution. Therefore, CAP subsidies are very consistent for NMS. The MacSharry reform in 1992 was further modified in June 2003 in order to reduce the agriculture budget and to link subsidies not any more to production levels but to land dimension, with the form of the unique direct payments to agriculture firms which respected some criteria such as cross-compliance (i.e., sustainable environment conditionality), productivity improvements, green innovation etc. (De Filippis 2002).

As regards cohesion policies, the old objective 1 of EU Cohesion Policy Program states that regions having average GDP per capita below 75% of the EU income would get EU Structural Funds. Therefore, these funds were mainly dedicated, for the 2007–2013 EU Program and for the one which just started (2014–2020) to NMS. Until 2004 (2007 for Bulgaria and Romania) NMS received pre-accession funds (see table below). This was not, for the consistency of the funds, a “Marshall Plan” as many politicians claimed. It was an important funding plan which helped new member states with EU conditionality in several sectors i.e., transport, agriculture, technology, environment etc. On the other hand, EU, and in particular EU firms, enjoyed great advantages in terms of delocalisation of production towards CEEC, new investments with high profits, lower labour cost, economies of scale towards new markets and consumers, along with increase of exports.

Table 2

EU Pre-accession funds to CEEC (million of Euros)

CEEC	Phare	Sapard	Ispa	Total
Bulgaria	100	52.1	105.8	257.9
Czech Rep	79	22	71	172
Estonia	26	12	29	67
Hungary	97	38.2	90	225.2
Latvia	30	21.8	47.6	99.4
Lithuania	44	29.8	53	126.8
Poland	398	168.7	354	920.7
Romania	242	150.6	243.3	635.9
Slovakia	49	18.3	47.6	114.9
Slovenia	25	6.3	15.8	47.1
Total	1090	519.8	1057.1	26669.9

Source: EU Commission.

Notes: **Sapard:** Special accession programme for agriculture and rural development;
Ispa: Instrument for Structural Policies for Pre-Accession;
Phare: Poland and Hungary Assistance for Restructuring their Economies.

However, all this was no longer sufficient *per se* to boost economic development. Empirical evidence among new member states is different. Bulgaria and Romania are typical examples of membership without strong economic development. The lack of this relationship can be traced also in Lithuania and Latvia. The average GDP per capita among CEEC is a fraction of EU 15 income, and EU conditionality needs to be accompanied by a process of development and of institutional change, to enable informal rules, which may otherwise inhibit economic development, to change.

The transition is a complex and gradual process which includes institution settlement, property right allocation, certainty of economic relations, and interaction of these factors with many other social, economic and political variables such as education, health, technology improvement, political rights and participation, capability and social opportunities. Moreover, during the transition the evolution of these institutions must be coherent, and the economy must be organised and governed with an appropriate governance, without an ideological approach and with proper political decisions and collective actions which would benefit the collectivity of people and their needs, because in the end, need satisfaction means development.

GDP per capita EU 15 and NMS 10 (EU 15=100)

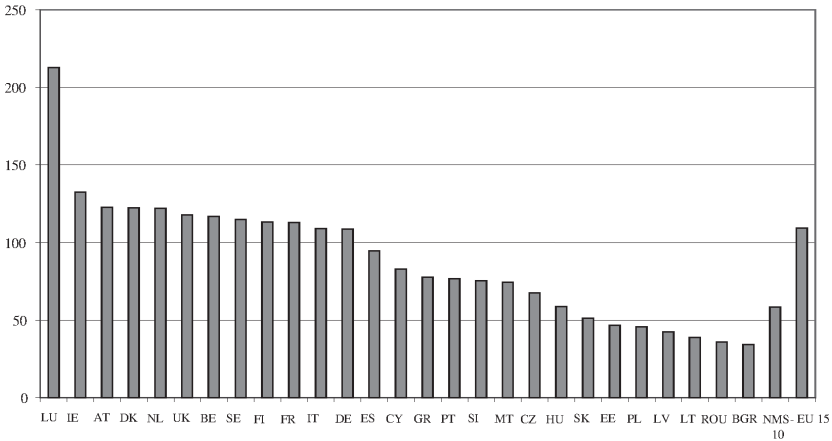


Fig. 5. Levels of GDP per capita in the new EU (2007)

Source: Eurostat.

As regards differences in terms of GDP between new and old member states, one can say that they are still very big, and a catching up within the enlarged EU 28 is very difficult to imagine at least for all the new member states.

Apart from the case of Luxemburg's GDP per capita of 75,800 Euros at current 2009 prices, which has remained steadily very high in Europe, the tendency is to find high variability in GDP numbers across Europe. For example, Bulgaria, the poorest of the 28 EU countries, has a GDP per capita hovering around 4,400 Euros (6600 \$US) and Romania is not too far from that with 5,500 Euros at current 2009 prices. Macedonia, an EU candidate, could potentially be the poorest member nation with an income of 3,100 Euros at current 2009 prices (Eurostat 2009). This contrasts with the current average income per capita in the EU 27 which is 24,300 Euros, and that of the EU 15 averaging 28,200 Euros again at current 2009 prices. The new 10 member states, which joined the EU between 2004 and 2007 plus Croatia, which joined in 2013, and Macedonia and Turkey, the last two EU candidate countries, have an average GDP per capita equal to 9,125 Euros (current 2009 prices). And yet, there are substantial differences across the board. For instance if one were to compare Slovenia, the richest among the NMS to Portugal, the poorest of the EU 15, Slovenia interestingly enough ranks higher in terms of GDP per capita. In fact it is almost as rich as Greece, the second poorest among the EU 15.

The figure below tries to express these differences in a more accurate way, using US \$ in Purchasing Power Parity (PPP). In this way income in NMS is actually higher than at current prices, since purchasing power of those countries is higher, given the lower national level of the prices.

GDP per capita and economic growth: differences between new and old EU members

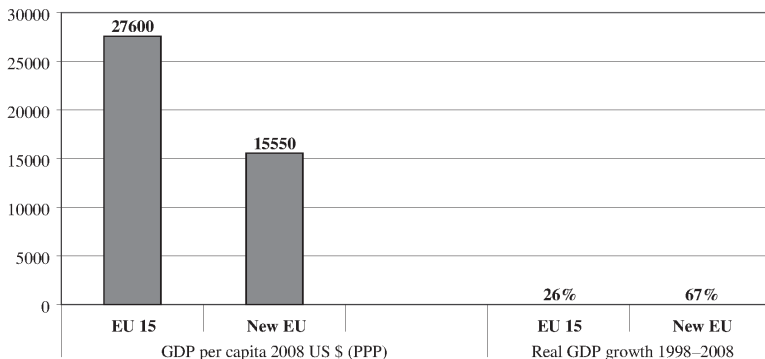


Fig. 6. A comparison between old and new MS of EU

Source: Eurostat 2008.

Obviously cumulative economic growth in the last ten years among NMS was higher than among old EU. However, as we will see later, it is controversial to state that this represents a clear process of catching up.

3. The impact of EU enlargement on democracy and political transformation

As far as political system and democratic transition is concerned, the situation looks very divided between NMS and FSR. Here, perhaps more than in the sphere of the economy, the influence and the conditionality of EU membership was stronger: CEEC reached a higher level of democracy, political rights and civil liberties (as defined by Freedom House 2009) than FSR.

One of the contemporary pioneers among political scientists, who tried to establish a relationship between democracy and development, was Lipset (1959). He points out two factors relevant for democracy: economic development and political legitimacy. Both these factors are associated with democracy. He argues that democratic states tend to have higher levels of socio-economic development than non-democratic ones. Moreover, he states that the stability of a democratic system also depends on the effectiveness (an efficient bureaucracy and decision-

making system) and legitimacy of the political system (maintaining the belief that existing political institutions are the most appropriate for the society).

On a similar line Przeworski et al. (2008) argues that economic development does not tend to generate democracies, but that democracies are more likely to exist in richer societies. Moreover, they found that the type of political regime has no general impact on economic growth. Both these findings, which are tested through wide cross-countries analyses, seem very reasonable and can also be verified among transition economies. However, in general, in transition economies, political and economic liberalization seem to be positively correlated whereas the relation between democracy and development remained unclear (Apolte 2010).

Huntington (1991) who classified three “waves of democratisation” considers part of the post-communist transition as being part of the third wave of democratisation (1974–1991) in which he includes countries from Southern and Eastern Europe, Latin America and parts of Africa, Spain, Portugal and Greece. The first wave (1828–1926) involved North America, Britain, France, and some other Western European countries; and the second one (1943–62) involved countries like India, Israel, Japan, West Germany, Italy.

Former Soviet Republics remain outside the third wave of the Huntington classification, although Central Eastern European countries are included. However, following the Huntington approach, it would be possible to classify further post-communist transition in the following way: first wave of post-communist democratisation (1989–91) which concerned most of the CEEC; the second wave of post-communist democratisation (1995–2005), known also as the “colour revolutions” which concerned the removal of autocrats such as Iliescu in Romania and Meciar in Slovakia; Serbia’s Bulldozer Revolution of 2000; Georgia’s Rose Revolution of 2003; Ukraine’s Orange Revolution of 2004; and the Kyrgyzstan Tulip Revolution of 2005. The remaining TEs are still unvisited by consistent waves of democratisation, and in particular there are no free and fair electoral regimes. Moreover, the situation worsened, in the last years after in political terms, in Russia and in Ukraine, where respectively Putin and Yanukovich leadership and administrations brought their respective countries back in political terms, to restrictions of freedom and democracy, illiberal practices and collusion with oligarchy.

According to Freedom House three levels of democratisation among TEs can be identified: 1) Free democracies; 2) Partly Free Semi-authoritarian regimes; 3) Not Free, Authoritarian regimes.

Table 3

Freedom House classification

Free (Democracies)	Partly Free (Semi-authoritarian regimes)	Not Free (Authoritarian regimes)
Czech Republic	Albania	Azerbaijan
Estonia	Macedonia	Kazakhstan
Hungary	Montenegro	Russia
Lithuania	Bosnia-Herzegovina	Tajikistan
Poland	Georgia	Belarus
Slovakia	Moldova	Turkmenistan
Slovenia	Kyrgyzstan	Uzbekistan
Latvia	Armenia	
Bulgaria	Ukraine	
Croatia		
Romania		
Serbia		
13 countries	8 countries	7 countries
HDI 2012	0,859	0.776
Per capita GDP in ppp 2012 (\$)	15284	5563
		6795

Source: Freedom House 2012 and UNDP (2012)

Møller and Skaaning (2009) found that a modernization process is needed first and then democracy will be improved. As an indicator of modernization they posit an economic development threshold of about \$5,300. However, most TEs have already overcome that income level. Way (2008) found that politicians and autocrats control oil and gas rents in countries like Russia, Azerbaijan, Kazakhstan, Turkmenistan and this is detrimental for democracy. They use in fact these rents to pay friends, to create political consensus and to eliminate opposition. Finally vicinity to Western Europe and implementation of political and economic reforms are both indicated as important factors for development of democracy (Schimmelfennig and Scholtz 2008). The EU sets the adoption of democratic rules, anti-corruption policies and institutions, and practices as conditions to be fulfilled by the target countries in order to receive such rewards as financial assistance, some kind of institutional association or ultimately, even membership (Schimmelfennig and Scholtz 2008). This contributed to the more successful democratic transition of CEEC vis-a-vis FSR.

In this context one can notice that democracies are always better associated with less corruption, and to some extent with education, and descriptive statistics confirm this trend.

The link between corruption and democracy (Political Rights and Civil Liberties) appears clear because corrupted governments by definition cannot be considered free, and corrupted politicians try to reduce democratic means to eliminate any control over their actions. Investing in health and education contribute to the creation of a more educated and healthier middle class which would therefore be more able to control its government.

A comparative analysis among CEEC and FSR shows that the first performed better in terms of democratisation because of several reasons: 1) the EU membership, 2) a better endowment of social capital, 3) implementation, during transformation, of policies and institutions better able to reinforce middle class and reduce inequality (Tridico 2011). On the contrary, in most former Soviet Republics transition occurred in the beginning in a sort of systemic vacuum. This vacuum favoured anti-social behaviour, perverse attitudes such as lobbying and corruption, increased egoism, a threat to trust and increased inequality, and favoured personal privileges, power groups, and the rent-seeking behaviour of oligarchs, with further negative effects on social capital and development. In these circumstances, democratic institutions, and control of corruption, are discouraged too, and in fact FSR tend to be not only poorer but also dominated by authoritarian regimes.

4. Convergence and divergence processes among EU and the New Member States

The New Member States, after the recession of the early 1990s grew more than the old European Union (EU15), at least until before the beginning of the current global crisis which started in 2007/08. Average growth in CEEC (10 NMS) and in Croatia (new EU member in 2013) and Macedonia (EU candidates) between 1997 and 2008 was around 4.6% annually. This is higher than average EU 15 growth for the same period, below 3%, and even smaller if one excludes Ireland which experienced an extraordinary growth in the last two decades, before the current crisis. Therefore, on average, GDP per capita in NMS increased more than in EU 15, and it passed from 45.5% in 1997 to almost 61% in 2008 as the table below shows. This convergence analysis does not take into consideration the period of systemic recession (the first half of the 1990s).

Standard deviation of average income declined and to some extent one can notice a so-called Sigma convergence (the reduction in income dispersion among countries).

Table 4

GDP per capita (at PPP) in EU and candidate countries, average

Group of Countries	2003	2014
European Union (27 countries)	100	100
European Union (15 countries)	115.5	110.8
Standard Deviation of income in EU 27	25.5	20.9
GDP per capita in NMS 10 plus Croatia and Macedonia	45.5	60.9

Source: Eurostat 2009.

During this period we could see a limited catching up process between the Old EU and NMS. Interestingly enough, this limited convergence is observable only for NMS and not for the rest of transition economies, where, tests show, the sigma coefficient did not decline. Very likely, the role of the EU conditionality, before the membership in particular, and the stimulus to reach EU standards had an important impact in the NMS.

However, we have to keep in mind that there are several limitations which stand against the evidence of absolute convergence. Firstly, we are considering only the period of fast growth of CEEC, after the second half of the 1990s, and excluding the recession period at the beginning of the 1990s which was very consistent throughout transition economies. As the table below shows, paying attention to the fact that in 1989 the conformation of several countries was different, average GDP in 1989 among CEEC with respect to EU 15 is higher than it was in 1997 (45.5%). Therefore standard deviation, which declined in the last decade, remained at the same level during the previous decade.

Table 5

**GDP per capita (PPP) among Former Communist Economies
in % of EU 15**

Countries	1989
Bulgaria	35
Czechoslovakia	65
Hungary	57
Poland	38
Romania	39
Yugoslavia	45
Average (of above)	47
Soviet Union	49

Source: Berend, 2006.

Secondly, one could argue that, apart from the case of some fast growing countries in the EU15 (such as Ireland, Spain, Finland and Greece), the old EU experienced a process of slow growth over the period considered (1997–2008). Hence, the decline in the standard deviation between Old EU and NMS may be attributed more to EU stagnation than to NMS catching up.

Moreover, on average CEEC increased their GDP per capita, but income differentials among them remained the same. Standard deviation in 2003 among CEEC only, was around 17.3 while in 2014 it was around 16.5. Countries like Czech Republic and Slovenia, with better initial conditions in 1989 are still today much richer than other CEEC, because they grew consistently over the last 2 decades. Countries like Romania and Bulgaria, which were much poorer, are still poorer today. Similar stories apply to Macedonia, Latvia, Lithuania. Poorer countries did not grow faster.

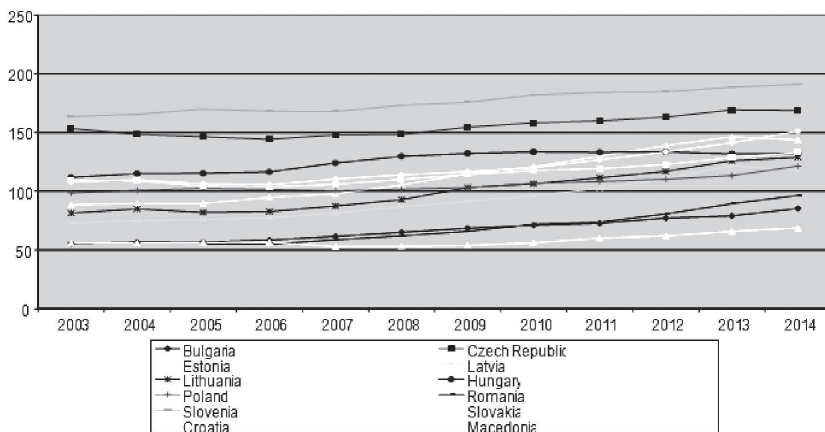


Fig. 7. Income differentials within the New Members States and candidates

Source: own elaboration on Eurostat 2014.

Finally, any form of correlation between a lower level of GDP and faster growth can be excluded. Such a statement, that poor countries did not grow faster, would be confirmed by a simple regression model which considers the initial GDP per capita of countries (GDP1989) as an independent variable and the rate of growth (g) as a dependent variable over the last two decades. A term of error ' ϵ ' and a constant ' a ' is considered in the model, as it is shown by the equation below:

$$g = a - \beta \cdot GDP(1989) + \epsilon$$

In general, according to neoclassical models of growth, an absolute ‘Beta’ convergence (i.e. a convergence in the rate of growth) would occur among countries. Poor countries are supposed to grow faster than richer countries. If the results are statistically significant and the Beta coefficient of the model is negative, then an absolute convergence would occur (Sala-i-Martin 1996): countries which have an initial higher GDP level would grow more slowly than countries with an initial lower level of GDP.

The model above would need to be tested for causality. However, empirical studies across the world and countries on this issue show very controversial evidence and unclear results (Boggio and Serravalli 2003), and this applies also when transition economies are included in the analysis (Andreff 1998; Manzocchi and Beatrice 2001a; Montalbano 2002; Sarajevs 2003; Falcetti et al. 2006). It is not the objective of this paper to test for causality or to analyse deeply the convergence, which was however excluded by many studies. It is sufficient here to state that the correlation between var. GDP1989 and growth 1989–2009 is very weak.

Table 6

Correlation GDP 1989 and GDP growth 1989–2009

	GDP89 growth 1989–09	
-----+-----		
GDP89		1.0000
Growth 1989-09		-0.0088 1.0000

Source: own elaboration on EBRD data.

The scatter figure below confirms that an inverse decreasing relation cannot be characterized.

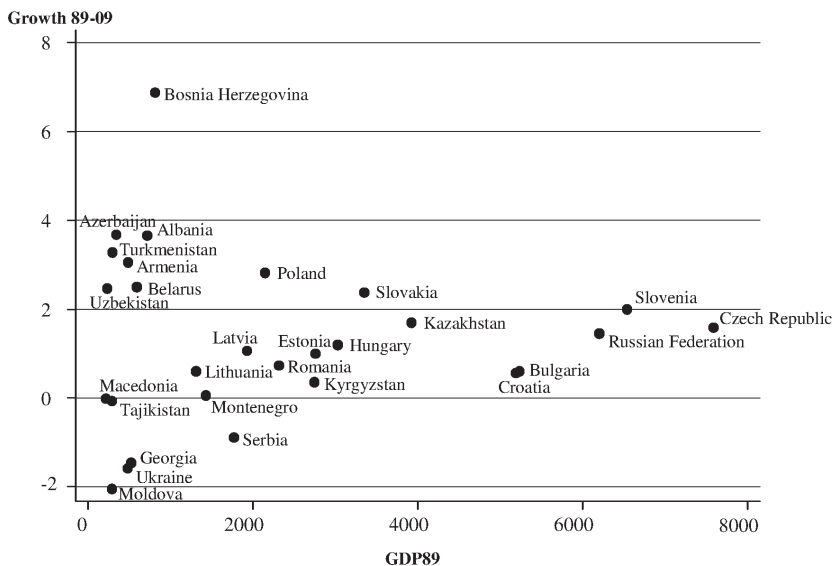


Fig. 8. Scatter GDP 1989 and avg. growth 1989–2009

Note: data for Bosnia-Herz. refer to 1996–2008. Source: own elaboration on EBRD data.

5. Foreign Direct Investments and international constraints

The promise of membership to the EU was a guarantee for foreign entrepreneurs to move their capital and to set up their business. First of all in Poland, Hungary and the Czech Republic and later in all of CEEC. Hungary, which initially was considered an economically safer country, started first to attract FDI. However, in the second half of the 1990s, when Poland also became a more stable country, together with the Czech Republic, they attracted the biggest share of FDI. The graph below describes the evolution of FDI in the three countries which attracted more of them.

Poland is the first country in terms of cumulative FDI, while the Czech Republic has the supremacy in terms of FDI per capita, followed by Hungary. The same can be said with respect to FDI as a percentage of GDP. With regard to the origin of FDI, 39% of cumulative EU flows come from Germany, which was a strong supporter of the eastern enlargement; 15% come from Netherlands and 12% from France. *(Continued on page 104.)*

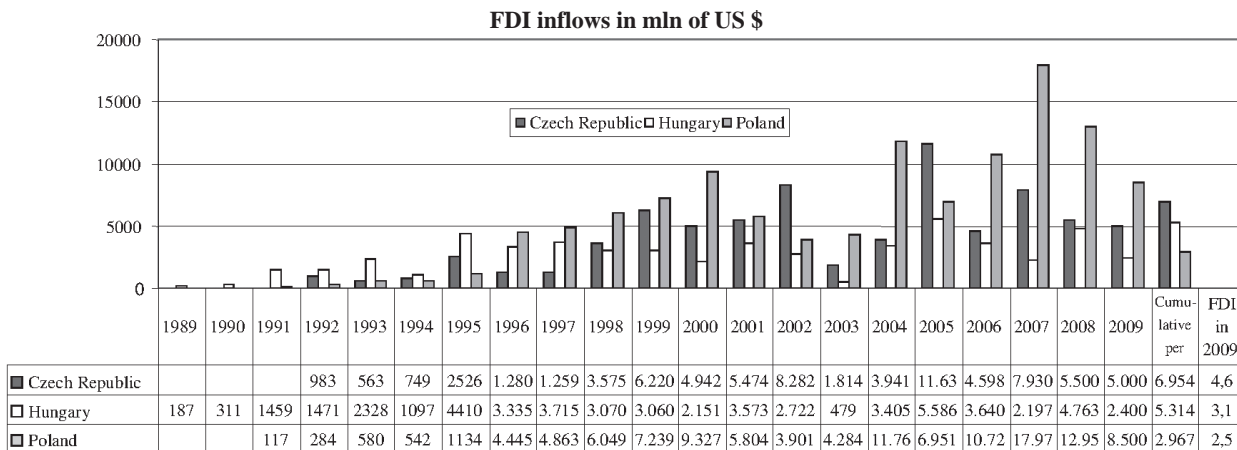


Fig. 9. FDI in Poland, Hungary and the Czech Rep during the 1990s and 2000s

Source: Transition Report, 2001.

The Italian share is 4%. In terms of number of investment projects, Italy is in second place, with 19% of the total share, while Germany remains in first place with 27% of projects.⁴ French flow is mostly concentrated in Poland and Romania while German and Dutch FDI go mainly to Poland, Czech Rep., and Hungary. In the three Baltic countries are mainly concentrated the Scandinavian FDI, while the Italian flows are concentrated in the Balkans and Romania.

FDI have two objectives: 1) to conquer new markets and 2) to use them as a productive basis for their further exports. Many multinationals in fact, invested heavily in CEEC during the 1990s in order to build a competitive advantage based on lower labour costs, skilled labour force and market positioning. CEEC in less than 10 years became a place for old EU firms, where to delocalize and internalize production (Manzocchi and Beatrice 2001a; Montalbano 2002). International specialization changed consistently thanks to these new flows of FDI in former communist countries. An interaction between job destruction and job creation in EU and in CEEC took place and the effects of it are still taking place. CEEC are countries very close to the core of the old Europe, with a skilled labour force and a mature industrial structure, although it was obsolete at the beginning of the 1990s. A relatively low country risk and the EU membership made these countries very attractive for European investors who enjoy their labour cost equal to half or one third of EU-15 average (Markowski and Jackson 1993). Multinational firms in CEEC are interested to exploit profits coming from different sources such as market size, cheap labour, and natural resources. In the first case, the objective is to conquer new domestic and profitable markets. In the second case, FDI are mostly concentrated in the industrial sector, exploiting lower skilled labour costs. In the last case, the advantages come from investing in heavy industry where natural resources and raw material can be exploited. In all three cases, the production often is turned towards the exporting sector.

Moreover, CEEC policy to attract FDI was very incisive since they were able to create strategically, special zones where FDI could enjoy advantageous fiscal tax conditions. However, despite the special zones, many FDI go to central zones and capital city areas, where they can also enjoy better infrastructures and higher human capital levels (Litwack and Qian 1998).

FDI contribute to institutional and structural change. New FDI bring about new forms of management, knowledge, organization, strategies and marketing,

⁴ This underlines also the pattern of FDI, mainly characterized by small and medium firms in the Italian case.

new know-how and investment agencies. They bring new rules to business and have a huge impact on the economic organization in general.

Together with the attraction of FDI CEEC, in particular Poland, Hungary and the Czech Rep. increased their trade flow with EU. These two factors, FDI and trade, are reported as key factors for the further development of these three countries in some articles (Manzocchi and Beatrice 2001a; 2001b). Clearly, evidence is controversial on this topic, and there are economists who argue that FDI contributed to an increase in commercial deficit in some TEs, because foreign investors imported capital goods, technology and other services from their own country in massive amounts (Weresa 1999). However, FDI definitely contributed to integration in the world economy of the new EU member States, which were also affected by other international organizations and international conditionality such as the World Trade Organization (WTO) and the International Monetary Fund. In fact the new EU member states during the 1990s experienced also a transition towards membership in those organizations as the table below shows. Moreover, during the 2000s new EU member States also became members of NATO.

Table 7

International Agreements of CEEC during 1990s

	GATT/WTO	IMF (art. VIII)	European Association	EU full membership
Bulgaria	Dec-96	Sept-98	Mar-93	Jan. 2007
Czech Rep.	Jan-95	Oct-95	Oct-93	May 2004
Hungary	Jan-95	Jan-96	Dec-91	May 2004
Poland	Jul-95	Jun-95	Dec-91	May 2004
Romania	Jan-95	Mar-98	Feb-93	Jan. 2007
Slovakia	Jan-95	Oct-95	Oct-93	May 2004
Slovenia	Jul-95	Sept-95	Jun-96	May 2004
Estonia	Nov-99	Aug-94	Jun-95	May 2004
Latvia	Feb-99	Jun-94	Jun-95	May 2004
Lithuania	May 2001	May-94	Jun-95	May 2004

Source: *Transition Report 2001 and European Commission.*

6. The transformation of the trade pattern among the NMS of the EU

In CEEC, transition means also the transformation of the trade pattern, which changed radically in the past 20 years. This pattern used to be oriented towards Former Communist Economies only, while now it is very much integrated into the EU. In fact in the place of the Former Soviet Union and Comecon one can find today, in the figure of Import-Export, the EU. The very example of this change is Poland, which is the biggest among CEE economies. In 1989 FSR accounted for 33% of Polish imports and for 28% of the exports, today, this role is played by Germany, that accounted for 38% of the Polish exports and for 27% of the imports.⁵ In 2007, only 5% of the Polish imports came from Russia, and 2.6% of the Polish exports were directed towards it (EIU 2007). Such a pattern, as illustrated below, is very similar to other CEEC. In a way the relation between Germany-Poland-Russia is a paradigmatic example of the European context with respect to the current European political situation and economic influence. For years Poland was alternatively under the domain or the influence of Germany and Russia (Davis 2001). Nowadays it is “the turn” of Germany, which is the biggest and most important EU economy. Until 1989 was “the turn” of Russia; and usually in Europe, the country which controls Poland has the main influence in the Central and Eastern Europe (Davis 2001).

Table 8

Main trade partners of CEEC (% of total) in 2007

Export to		Import from	
GERMANY	37.1%	GERMANY	26.2%
ITALY	7.5%	ITALY	10.4%
NETHERLANDS	6.3%	FRANCE	7.8%
FRANCE	5.8%	RUSSIA	6.9%
UNITED KINGDOM	5%	UNITED KINGDOM	5.6%

Source: EIU, 2007

The structural change which occurred in the economy of the CEEC made possible the change in the trade pattern and today those economies are fully part of the EU single market. However they had to change production, to restructure their economies, to transform their productive infrastructure. During the 1990s they went through high social costs in terms of unemployment. Most of

⁵ Economist Intelligence Unit (2001).

CEEC had an international specialization functional to Comecon⁶ needs and to FSR requirements. The heavy industry was the most important industry in most of CEEC. Therefore the change towards the more diversified EU pattern was very costly because it had to adjust to EU demand and technical norms.

The new model encompasses the possibility to export high technology products and services with higher value added. Moreover, the EU membership requires continuous investments in innovation and organization in order to maintain a high level of competition able to compete with old EU firms. For some countries such as Poland and Romania, this means also the restructuring of the agricultural sector characterised by high levels of employment (around 25%–30%) and by lower levels of productivity, with a percentage of the agriculture sector on GDP equal to 5%, as the one of Hungary and the Czech Republic which however employ in the agricultural sector a much smaller percentage of people (around 6%). For all new member States it meant restructuring big former SOEs and to attract foreign capital able to innovate and to foster productivity.

The EU plays today the main role in the import-export flow of CEEC (see figure below). The flow of trade between EU and CEEC has increased enormously. Already at the end of the 1990s, it represented 70% of the CEEC flows. The balance is slightly in favour of the EU. All the CEEC have been opened to the international trade and converged towards EU average tariff levels. Small countries like the Czech Republic, Slovakia and Estonia are very open economies, with a model more and more oriented towards an export-led type, while Poland, Romania and Bulgaria remain a bit closer. However, all of them have abolished all the restrictions between them and EU on 1st January 2003 and have adopted a Common Foreign Tariff (CFT) towards third countries at 3%.

⁶ Comecon (or CMEA) was the former communist commonwealth for free trade, similar to the European Economic Communities, among Former Soviet Republics and the other communist economies.

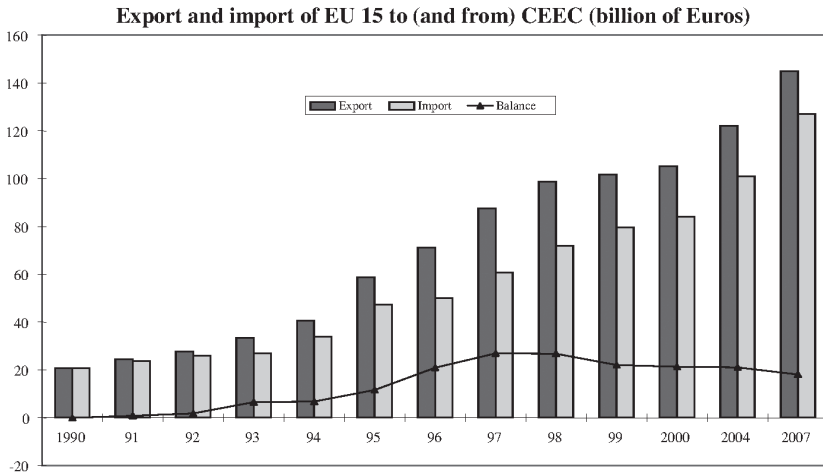


Fig. 10. Trade EU-CEEC, 1990–2007

Source: Eurostat

The change in the model of trade is fundamental because it involves also norms and behaviour of agents who were not familiar with new import-export rules, international demand, technical requirement, marketing, strategies of sale, etc. (MacBean 2000). The impact of the integration in the EU and the world economy is therefore huge from an economic point of view and from an institutional point of view. Trade balance, as the figure above shows, is in favour of the old EU 15, which exports more than what they import from CEEC. This is to underline a better competitiveness of old EU versus CEEC. The opening of trade brings about pressure and world-wide competition which modifies the domestic issues, power relations within national economic powers and policy preferences, increasing the danger for the social cohesion. Therefore, social institutions which would be able to attenuate social conflicts and to manage new power forces are necessary in order to keep social peace and to lower social costs (Rodrik 1999).

Conclusion

The transformation of TEs has been profound and recession has been severe, both in CEEC and in FSR. However most of CEEC started a more consistent process of economic development which did not happen in most of FSR. Reasons for that are several. One of the reasons which was analysed in this paper is the

EU conditionality and membership which played a positive role for most of CEEC.

In fact, the impact of EU on CEEC has been very important during transition in particular in terms of FDI, trade, political transformation and democracy which were promoted by the EU perspective of membership. Likely, more FDI, and trade with EU 15, along with EU aids, contributed to a faster GDP recovery in CEEC than in FSR which were not affected by EU membership.

In terms of foreign relations, the eastern enlargement modified the EU approach towards the Former Soviet Republic too. Moreover, the access to the EU of Eastern countries shifted more to the East not only the EU border but also the EU perspective and the approach towards Ukraine, Belarus, Caucasus Republics which some decade ago were not even considered part of European affairs. On the contrary, today a perspective for these countries, in particular for Ukraine and Belarus, of being part, in the future, of the European Union, is no longer impossible.

Politically, the transition from the single-party system existing in the previous regime towards the multi-party system of the current regime, was more successful in CEEC than in FSR: higher levels of democracy, freedom, political rights and civil liberties are observed in CEEC with respect to FSR. Obviously, in this sphere, probably more than in the economic sphere, the positive influence and conditionality of EU membership was stronger.

Finally, although it is possible to observe, to some extent, a sigma convergence with a reduction of income dispersion between NMS and EU 15, it is not possible to observe a Beta convergence among EU 28 Member States in the period analysed.

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Elena Tarando

*St. Petersburg State University,
Dep. of Economic Sociology*

Nikolay Pruyel, Maria Rubtcova

*St. Petersburg State University,
Dep. of Social Management and Planning*

On Social Functions of Private Property

Abstract

In the article the social nature of private property is investigated. The question about the correlation of the property relations and the private property relations is considered. The criteria of the effectiveness of the private property's establishment are defined. The social functions of a private property are chosen, such as the function of the concentration of the surplus product in hands of not numerous groups of population and the function of the monopolization of economic resources by defined social groups. The social results of the realization of these social functions are analyzed. The intellectual property as a special variety of a private property is investigated. Its main social function is chosen – the function of attaching the social product's part for the social group being occupied by the intellectual labor. The conclusion about the historicity of private property is drawn.

Keywords: private property, social nature of private property, effectiveness of private property, social functions of private property, intellectual property, social function of intellectual property.

Introduction

One of the burning questions of the proprietary theory is the social role of private property. At the same time, in spite of plenty of viewpoints on its harmfulness, or vice versa its practicability, inadequate development of theoretical issues concerning its social nature and explaining its social functions is observed.

Generally speaking, private property relations are described by authority of ownership, use and disposal. Ownership is supposed to have possible goods allowed by society and to keep it. Use means a similar possibility to get benefit from goods. At the same time, goods can get destroyed. Disposal (alienation) is the same possibility to determine the goods' future: if the goods remain owned by this person or he decides to get rid of it by means specified by society. Disposal authority is of great importance for understanding the private property essence. It is expected that society grants the person a possibility to realize his will on an object independently of another person's will. An individual's will in this case is limited with society's will only. By that, all third parties get alienated from the object, and they are related to it like to an object they do not own. This is the essence of private property.

Authority of ownership, use and disposal (triad) plays a key role in the legal frameworks of modern states. However, this triad completely lacks social content. Generally describing private property relations, it cannot present its development process. In the same way, three authorities served both a slave and feudal society. They are the capitalist society functional base including the modern capitalism at its highest development level. On any stage the triad has remained unaltered, although these stages significantly differ from each other for both social content and the nature of private property (Venediktov 1948: 17). In this context, a narrow juridical approach is overcome by a sociological approach supposing research of the private property context including its social functional analysis.

Ownership relations and private property relations

A discussion point of private property sociological theory is a matter of its interaction with actual property relations. On the whole, two main approaches to this interconnection interpretation may be marked out. These approaches are results of different definitions of the property relations. Within the first approach typical for the Russian tradition, the property is interpreted as the whole set of social relations on the subject of goods being conditions of reproduction of human life. In this view, these relations may have different social expressions, i.e. they may take different forms including individual ones. In such a way, private property within the framework of the given approach is considered a possible form of property which is specified as the dominant form in certain social-and-economic circumstances.

Another approach comes from the fact that in social life property is expressed by the law of property identifying the system of exception to the approach to

material and immaterial resources (Kapelushnikov 1990: 8). So, it appears that property relations are private property relations, i.e. private property is the only possible form of property.

Meanwhile, the property relations forming in society of goods movement from manufacturing to consumption exist in any society independently of the fact of the formation of the private property. Private property is only a possibility to organize ownership, use and disposal of the goods created in the society. Therefore, its identification to property relations is wrong.

E.g., the given histories, ethnographies and archeology testify that private property arises only at a certain development stage of society, particularly when surplus product reproduction gets stable. This moment is a border separating the primitive communal stage of the society development from later stages supposing existence of the private property institution in any form. The important fact is the surplus product existed on the primitive communal stage, i.e. the level of labor development permitted to get surplus product. However, causes of social nature prevented getting it. First, the distribution system according to the social form of property in the conditions when surplus is taken by efficient members of society provokes parasitism of inefficient members of society (modern literature calls this situation as “tragedy of the commons”). Second, primitive societies are nomadic ones, therefore they manage with a minimal number of the most necessary things since they have to carry them when they move to a new place. So, according to M. Sahlins, surplus product “can be technically available, but economically undesirable and unprofitable for the society” (Sahlins 2013: 45).

Absence of development of usual private property relations on the primitive communal stage makes possible different interpretations of the property specific character with regard to this stage of the society evolution. E.g., supporters of property economics believe that in the primitive societies there are no property relations at all for lack of private property which, from their point of view, is property in itself. This point of view covers the fact that if economic goods belong to everyone (as a condition of reproduction of human life), that means they belong to no one (Alchian Demsetz 1973).

The Russian tradition defines property as people’s relations concerning goods and proves that in the primitive societies such conditions exist but in a form which is significantly different from the succeeding private property. From this point of view, if a thing belongs to everyone, that means it belongs to everyone, which is a feature of communal property. According to this position within the given tradition more detailed analysis of property relations in the primitive society becomes necessary.

We stick to the Russian tradition and believe that private property in the process of history development replaces communal property and appears at a certain stage of the social development, i.e. its relations starts formation at the moment of origination of stable reproduction of the surplus product. Historically this reproduction arises within transition from assuming economy to manufacturing economy, and the question about the transition primary cause is still open.

Stable reproduction of surplus product starts formation of property relations in a new way. First, its alienation from direct manufacturers does not harm the current reproduction of their life; second, its appropriation releases its owner from necessary participation in material production; third, it guarantees life reproduction independently on a natural fortuity. Increase of the circle of owners (consumers) of surplus product inevitably reduces this guarantee for an individual society member. Therefore, the circle limitation gets economically effective for its members and develops according to the principle of expulsion of dysfunctional individuals who only take part in its life material support. Therefore, as of surplus product, within transition from assuming economy to manufacturing economy *private property* relations in the form of surplus product belonging to some individuals and its alienation from other individuals start forming.

Private property and its social functions

Based on the alienation relations, a difference of social status of those appropriating surplus product and alienated ones is formed. As it was mentioned, the base for surplus product appropriation is significant functionality in the community besides its material support. So, surplus product gives a possibility to release a number of members of society from productive labor to let them get engaged into nonproductive labor, and their life support mechanism becomes the private property institution allowing redistribution of the social product for the benefit of social groups engaged in nonproductive labor. At the same time, the product alienated from productive workers accumulates in the hands of these social groups. Therefore, one of the key social-and-economic functions of private property becomes a function of accumulation of surplus product in the hands of a few social groups carrying out special social functions related to nonproductive labor (management, healing, religious activity).

As a social-and-economic phenomenon, accumulation of surplus product has its own minuses and pluses. The plus side of such concentration is a possibility to make great quality transformation on the whole scale of society and thereby it may become the base for the society development within the resource

limitation conditions. However, for such development possibility the society pays extreme social polarization, when a minority of those not self-denying are on one pole and a majority of those holding their heads above water are on the other pole.

However, today in connection with the increase of significance of a productive man, complication of production process, labor automation, computation and intellectualization the situation of communal product distribution changes. To reproduce a skilled labour force it is necessary to invest both the worker's life reproduction and extended reproduction of his qualification. And quality performance of his labor duties by skilled workers depends on proper conditions of components of their labor potential – not only on their education, professionalism, qualification, but their health, moral quality, social graces. Appropriate reproduction of these components requires proper resource support, i.e. increase of a share of social product which workers receive. And, this increase does not mean appropriation of a part of surplus product, but expansion of limits of necessary product for account of inclusion of goods which consumption forms workability meeting the requirements of the modern high-tech manufacturing. As for surplus product, it is alienable, as before, for the benefit of owners of the means of production.

In the course of history, the private property relations concerning surplus product are fixed with the private property relations concerning means of production which is a source of both surplus and necessary products, and from unequal relation of different social groups to these means. In such a way a class of society forms, and private property becomes a social institution with a function of class formation.

A lot of authors have given consideration to class aspects of the society function. Both French enlighteners and representatives of the classical political economy operated with the idea of classes. But the idea became really in general use after publication of works of K. Marx.

However, K. Marx had no special proved idea of classes. But he constantly appealed to the idea, and that allows to specify a sense in outline inserted by him. Social division of labor forms the basis of the society class differentiation, according to the founder of Marxism, even though there is no direct interaction between it and the society class structure: on one hand, if a society has no social division of labor (primitive society), it also has no class division; but on the other hand, social division of labor exists in the slave society, in the feudal society and in the capitalist society, but their class structure is different. Being a source of origination of classes the social division of labor, nevertheless, is not taken into consideration by K. Marx as a criterion specifying the class diffe-

rentiation: “doctors and civil servants, for example, would form two classes as they do not belong to two different social groups ... The same would be true in relation to endless atomism of interests and positions created by social division of labor among workers, as well as among capitalists and landowners ...” (Marx 1998: 870).

Obviously, the question is about a technical-and-technological side of labor division which, in its turn, has an extra social-and-economic side: acting in different fields people hold different positions in the system of social production, and as a result they appropriate an unequal share of produced social product; and this very appropriated share of product is specified by a position of an individual in the system of social production, and not the other way around. What specifies this position? On the basis of that the key factors of the production process are means of production and human labor, i.e. the man as its bearer, his position will be determined by relation to another material factor of production – means of production like own ones or foreign ones. Therefore, just property for means of production is posed by K. Marx as a criterion on the society division into classes. Accordingly, in the capitalist society he sorts out two main classes: capitalists (owners of means of production including land) and proletariat (non-owners of means of production, i.e. owners of their labor force).

Marx’s understanding of classes was developed by V.I. Lenin who suggested five criteria of their selection, and all of them, in one way or another, are based on social division of labor and derived from relations of ownership of means of production: “Classes are big groups of people different in their position in the historically certain system of social production, in their relation (for the most part specified in the laws) to means of production, in their role in social organization of labor, and as a result in ways of gaining and size of a share of the public wealth which they have” (Lenin 1981: 15). In this interpretation, property relations are the main and original factor of the society class structure, and the whole system of social relations is based on them.

Class aspects of society functions became the subject of analysis for M. Weber who believed that property as belonging as a means of production is important but not the only criterion of separation of classes including people in the same “class situation”. The class situation, in its turn, is determined by him as a possibility for representatives of the given class to get goods, to reach a certain social position and their satisfaction (Weber 1978: 302). In such a way, M. Weber suggests a few criteria of class separation, which originally makes it difficult to specify which of them in every individual case lies at the root of formation of a class: “the most important division is between the class of owners and the class of traders. It may be attributed in one case to differences in property,

and in the other case – to differences of “commodity form of material products and services” which “originally defines” the class situation” (Weiss 1986: 92). And from the point of Marx’s theory of classes these two groups belong to the same class of capital owners.

A similar economic situation specifies the similar possibilities of market realization of own interests for representatives of the same class. Hence M. Weber, as opposed to K. Marx, ties the idea of classes to the capitalist society only, since only there the market is the basis for the organization of the economy (and it does not give a clear definition of the class structure of such a society), and the class struggle – to the struggle for market access, as well as struggle for incomes and resources, i.e. per se to the capitalist competition for resources and product markets among capital owners, and for the best jobs among wage laborers. Being divided on the inside with the competitive struggle Weber’s class forfeits an ability to be a subject of social activity.

Meanwhile, even M. Weber proceeds from “distribution” criteria for class separation, a factor of capital ownership by one part of the society and its lack for the others, is considered by him as an indicator of the society class separation. A. Giddens says that M. Weber accepts K. Marx’s idea that “opposition of owners and non-owners is the most important basis for the class separation” (Giddens 1981: 164).

Since the late 19th century – the early 20th century, private property for means of production began losing its importance as a criterion of class separation. Social groups appear which collect revenues comparable and even exceeded incomes from property, but at the same time they have no means of production (middle and top-managers, distinguished scientists, writers, journalists, actors) (Bowles 2013). In this situation an income criterion comes to the fore for class affiliation identification. However, as we know, income is a derivative of the production factor. Therefore, in this case one needs to define a production factor which lies at the root of income formation for these groups. It is clear that such income is formed based on use of knowledge, experience, realization of creativity of these groups members, i.e. on the basis of realization of their human capital. The very property for human capital is the base for income formation for these groups, and therefore it gets a criterion of class separation. Therefore today private property does not lose its class formation function, only the composition of its objects changes.

The class formation function of private property is closely coupled with its status function. Class belonging supposes possession of an appropriate social status and set of social roles. The status function of private property was studied by T. Veblen in his book *Theory of Leisure Class: Economic Study of Institutions*

(Veblen 1915). Veblen connects emergence of the leisure class to emergence of the surplus product which accumulates in the hands of the members of the leisure class in the form of property. Property ownership is what differs the leisure class from other society classes. In such a way, property becomes a social status marker for the leisure class members. As Veblen correctly said, a high social status is always connected to property ownership. At the same time, lack of property is a social status market too. So, as of private property, the key social statuses are a status of means of production owner and a status of that who lacks his property. In the sets of social roles relevant to these statuses one can separate the core and periphery. The core covers social roles of these statuses over all existence of private property, the periphery is presented with social roles appearing in the course of private property development as a social institution.

The core of social roles of a means of production owner covers the roles containing behavior samples in the conditions of appropriation, consumption and accumulation of surplus social product. By that the essence of the owner's role core is surplus product disposal. Under capitalism the owner's status role set begins adding social roles called to provide enlarged reproduction of means of production. These are roles for production process organization and management.

The role core of social status of those lacking in their means of production covers social roles to provide labor activity. On the highest stages of capitalism development the role core of this status is added with roles of participation in the company management and disposal of surplus product (share in the profit). In such a way, capitalism as a stage of society development introduces into the role set of every abovementioned status roles typical for an opposite status which dissolves their boundaries.

The private property reproduction function is closely connected to its status function. People possessing private property and appropriate social status strive to transfer this social status to their descendant. The transmission mechanism is inheritance institution. The question about transfer measure remains open in the sociology (Carruthers Arioovich 2004). At the same time it is obvious that the nature of the descent mechanism of private property and social status interconnection changes with the society development. So, in medieval Europe the noble social status supposed to possess an estate. However, if the estate got lost, that noble remained a noble anyway, and he could transfer his status hereditably. Under capitalism the situation changed dramatically. If a capitalist lost his capital, he could not be a capitalist, i.e. if private property gets lost, the social status gets lost and becomes impossible for hereditary transmission.

The reproduction function of private property plays the key role under reproduction of social inequality, especially of social difference among families (Albertini Radl 2012).

Meanwhile, the private property itself can take any form. For example, they separate labor private property and private property supposing appropriation of alienated labor (non-labor). And if non-labor private property clearly generates the society polarization based on division into classes, the legitimate question arises of whether just labor private property is more acceptable from the point of view of equal social-and-economic possibilities for every member of society. Historically, labor private property provided the basis of social-and-economic organization of the simple commodity economy which existed in medieval cities in the form of workmanship. Economically workmen united into shops with community organization in and of itself which was modified for urban environment. We know that such shops regulated practically all sides of life of workmen and their families: from labor organization (work measurement, quantity of manufactured products, number of apprentices and pupils etc.) till family organization (age and conditions of marriage, workman widow social guarantees etc.). This regulation goal was the achievement of secured provision of all members of the society with all the goods needed for their life reproduction. For example, “finding out the real needs of the city for their products a shop could equally distribute orders among workmen without keeping someone out of work, and consequently without wages” (Kuznetcova 1997: 62).

Nevertheless, following the city growth and at the cost of serfs leaving the countryside workmen competition gained strength. “Over the whole Middle Ages slaves continuously left for cities. Those slaves persecuted in the country by their masters one by one came to the cities where they found an organized community, they felt their helplessness and had to yield to the status specified by their labor need and interests of their organized urban competitors” (Marx Engels 1975: 65). Therefore with the lapse of time the shop admission requirements become tougher, the apprenticeship period gets longer which means that the moment of initiation into workmanship is delayed, as well a possibility to get married and start a family (regulation of number of workmen – shop members “on the inside”). Therefore the incomer into the city could find joining a shop organization ever more difficult (Braudel 1993: 457). Later the shop workmanship ever more and more gains the estate features: when entering training decided preference is given to workmen’s sons, their apprenticeship period shortens, training payment reduces, and at the same time baseborn children (children of people of so called “base trades” (executioners, comedians, musicians, grave diggers etc.) and children born out of wedlock were not allowed to join the

shop at all as a rule. For example, the Hildsheim smith's shop until the 18th century required "evidence of origin" for a few previous generations when accepting an apprentice (Zider 1997: 106). That introduced "dynastic" nature into the workmanship environment. Ever higher borders for entering a shop divided the urban population into those incoming workmen (people with guaranteed income) and those engaged non-shop and day-labor (people with unguaranteed, casual income). Shop workmen themselves divided into masters and apprentices.

So, even in its labor form private property specified the society division into those who can fulfill themselves as owners of means of production and labor product, and those who cannot. Therefore a promise of Russian reformers to turn everyone into private owners of means of production was really groundless.

Another important social component of the private property relations are its close connection to the relations of power. Both political and economic power are always connected with the monopoly right to accumulate and distribute economic resources (first of all, means of production). This right is attached by the private property institution which serves as a base for such monopolization. Based on this fact another important social-and-economic function of private property appears – a function of monopolization of economic resources of the society by certain social groups. Such monopolization supposes appropriate power mechanisms based on private property. Those goods (resources) which are desired by many but belonged to only a few fall under monopolization. The latter gain a chance to give law to those alienated from the goods belonging to them, and on this base appropriate private property power relations arise, and private property itself starts performing a power function.

Essential connection of private property and power allowed K. Marx to substantiate one of the reasons of the state formation – it arises together with execution of the private property right and for its protection. Thereby, to be exercised the private property needs certain social institutions and first of all an institution of state and law.

Means of production-alienated social groups appears dependant on owners of means of production, and therefore forced to submit to their will, and that submission is based on "monopolization of material wealth, main resources of the society, different property units" (Shamhalov 2007: 145). Therefore the private property relations suppose economic and non-economic compulsion as their social consequence. Hereon labor exploitation arises, which is an invariable partner of private property. A possibility to dispose alien labor makes private property especially attractive, this possibility has a mind-bending effect on people.

Labor exploitation is a mechanism to realize the private property function on accumulation of surplus product in the hands of a few social groups.

Private property both affects the social relations in a certain way and gives people certain social quality, forms a certain personality type (Ilyin 1993: 120). Private property supposes the society to give a man a chance to execute his will in connection to a thing (property unit) independently on the will of other people. In this case the human will is limited by only society will. In such a way, the society forms a certain degree of personal freedom with private property relations at the heart, and thereby private property appears a bearer of an appropriate social function (personal freedom function). Degree of personal freedom, from this point of view, can be understood as a value of the social opportunities set submitted by the society to an individual owner. The more goods an individual owner has, the wider his set of social opportunities. Simultaneously, those lacking property have a small set of opportunities. And since private property supposes that there are property alienated people, during its existence there will be those alienated social opportunity given by private property.

The personal freedom function is closely connected to a stimulating function of private property. Private owners try keeping and increasing their property. The owner striving for guarantee of his dignified life stimulates him to effective use of his property, and one can notice that this use is of benefit for the society too as such an owner provides himself and gives jobs, i.e. on one hand, he forms a sphere of activity, on the other hand, he gives an opportunity to other members of the society to get income.

However, the private owner striving for his property increase leaves beyond his interests concern about life reproduction of people he provides with jobs. The owner's interests cover, first of all, extended reproduction of his property by means of non-repayable appropriation of these people's labor as much as possible. In this connection, they are forced to work more and more, but they are paid as little as possible. This circumstance prejudices unconditional society use of the private owner striving to increase his property.

Today, the social-and-economic progress requirements dictate enough tough conditions for private owners; first of all, they need to take care of extended reproduction of human capital. Different programs of the workers' social protection serves this aim, as well as programs of the company social policy, programs of worker participation in management and profits (Kristal 2013). However, according to one of the leading managers of the company Procter & Gamble which developed and introduced quite effective programs "we use this approach not on altruistic grounds" (Simmons, Mers 1997: 25).

Another argument for the benefit of private property is the following thesis: since private property generates stimuli of effective use of appropriate property units, this use will result in both creation of a vast number of different goods and technological advances of the whole society. Unconditionally, private property in the certain social-and-economic conditions appears effective from the point of view of the social-and-economic development. However, not many members of the society can use the results of technological advances and society development in the conditions of private property domination. These results are available for just a few who can pay for their appropriation.

On social functions of intellectual property

A special variety of private property is intellectual property which is as important today as other forms of property. Many researches note that modern society has the information and knowledge as goods for barter in the forefront. The matter is that knowledge and information can be changed according to the laws different from tangible objects. In the course of exchange of tangible objects, every participant in a bargain loses (alienates) that which he gives to his partner. Within information exchange, there is no such a loss since such an exchange consists of the partner information copying, and that partner continuously keeping the information given away in the bargain anyway. Therefore a significant feature of information exchange is lack of alienation. Since absence of an alienation moment differs public property from private property, the information sphere, according to its nature, functions under the law of public property.

The sphere of information and knowledge appeared and has been developing, first of all, for perfection of material production – resource saving, production quality improvement, increase in productivity etc. In such a way high technologies “materialize” into tangible products, which means that they leave the sphere of public property for the sphere of private property. In this connection, a necessity of assignment of an appropriate share of social product to a social group generating knowledge is about to happen. This function belongs to intellectual property which per se supposes private property relations’ penetration into the sphere of information and knowledge functions. Therefore intellectual property is a special kind of ownership of creative and mental products embodied in tangible items. Among all intellectual property items those are more important for the social development which can provide further progress, i.e. scientific discoveries and inventions.

Function of assignment of a share of social product appropriate to a social group generating knowledge is the main social function of intellectual property

as a special kind of private property. Besides, it is also characterized by functions which private property bears as itself. A special one of these is a stimulating function. Principles of intellectual property functioning force to connect the author's ideas formed properly with remuneration for these ideas which is like a stimulus for creative activity continuation. The stimulating function of intellectual property, in spite of its non-key social function, is very important for the provision of extended reproduction of knowledge and information.

Conclusion

In such a way, private property as a social phenomenon appears very contradictory. On one hand, in certain social-and-economic conditions it promotes social development, which substantiates both its reality and historical necessity. On the other hand, it generates an array of social problems connected to the society in extreme polarization, and the impossibility for most people to use the progress results. These problems' solution is connected to changes of private-owner distribution of social product, which allows speaking about public appropriation components (property socialization) appearing in the system of social relations, overcoming the private-owner principle of distribution and demonstrating the historically transient nature of private property. Therefore, the social system built based on private property is just one of the necessary phases of the evolution of society, which starts within certain social-and-economic conditions (stable reproduction of surplus product) and has limits of its development. The main contradiction outlining these limits is a contradiction between public wealth accumulation in the hands of a few social groups and necessity of extended reproduction of human potential of every member of the society.

At the same time, private property turns out as a quite soft structure capable of proving its value in the modern social-and-economic conditions and not to lose its effectiveness in the nearest future. Currently, the private property potential is still not depleted.

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AUTHORS

- Dr **Akhmedzyanova Ruzilya M.**, Senior Lecturer, Department of Management, Marketing and Logistics, the Institute of Finance and Economics, Tyumen State University, Russia
E-mail: r.akhmedzyanova@gmail.com
- Dr **Davydenko Vladimir A.**, Professor, Head of the Science-Research Centre for the Institute of Finance and Economics, Tyumen State University, Russia
E-mail: vlad_davidenko@mail.ru
- Dr **Kitaitseva Olga V.**, Associate Professor, Department of Applied Sociology, Russian State University for the Humanities, Moscow, Russia
E-mail: olga_kitaitseva@mail.ru
- Dr **Kuchenkova Anna V.**, Senior Lecturer, Department of Applied Sociology, Russian State University for the Humanities, Moscow, Russia
E-mail: a.kuchenkova@rggu.ru
- Dr **Kupreychenko Alla B.**, Professor, Department of Psychology, National Research University – Higher School of Economics, Moscow, Russia
E-mail: akupreychenko@hse.ru
- Dr **Pruyel Nikolay A.**, Professor, Head of the Department of Social Management and Planning, St. Petersburg State University, Russia
E-mail: pruijel@inbox.ru; pruijel@mail.ru
- Dr **Romashkina Gulnara F.**, Professor, Vice-Director on Science for the Institute of Finance and Economics, Tyumen State University, Russia
E-mail: gr136@mail.ru
- Dr **Rubtcova Maria V.**, Professor, Department of Social Management and Planning, St. Petersburg State University, Russia
E-mail: ksup@mail.ru; abc33@yandex.ru
- Dr **Tarando Elena E.**, Professor, Department of Economic Sociology, St. Petersburg State University, Russia
E-mail: elena.tarando@mail.ru
- Dr **Tridico Pasquale**, Professor, Department of Economics, Roma Tre University, Italy
E-mail: tridico@uniroma3.it

Dr **Veselov Yuri V.**, Professor, Head of the Department of Economic Sociology,
St. Petersburg State University, Russia

E-mail: yurivitalievichveselov@yahoo.com

Dr **Voronov Victor V.**, Leading Researcher, the Institute of Social Investigations,
Daugavpils University, Expert in Sociology and Economics, the Science
Council of the Latvian Academy of Sciences.

E-mail: viktor.voronov@du.lv

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