

Between Identity and Efficiency? – regional jurisdictions as winners and/or losers of the financial and economic crisis?

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JEL–No: K10

The financial and economic crisis raises also the question about the effects on regional jurisdictions, like the Austrian “Länder” are. It is to be assumed that the demand for an economic policy orientated on Keynes, also on the regional level, will rise. Further the need for public supervision of economy will rise. Thus the meaning of regional jurisdictions, which have the appropriate legal and financial abilities, can rise. On the other side stands an intensified pressure on the legitimation of the “Länder”, which will force these regional jurisdictions to prove their efficiency. In addition, legitimacy can be created by regional democracy and participation. But the federalism actually supplies good conditions.

Strategies for eliminating trust

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Trust is not only a natural component of life, but it is also an essential economic resource. However, there is no strategic or instrumentalistic production of trust. Trust is built up in protected processes, and constant appeals for a reconstruction of trust in times of economic crisis will not succeed, if experiences are contradicting the calling. Trust is an unstable resource, and single events can take it to the collapse. The current economic crisis has dismantled the trust which has been built up in favor of the business or manager class within the last decades, and it has also eroded the trust which has supported the institutions of the market and the financial world. An important role in the process of “trust dismantling” has played the observation that economic experts have proved a high level of incompetence, but decisive has been the process of misinformations and lies, which have accompanied the progression of the crisis: the repeated statements of denial and appeasement, the mechanisms of the obviously strategic manufacturing of the boom, and the suspicion that the relevant economic protagonist have lost their sense of reality.

The role of trust in economic systems

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Based on an analysis of the existing literature on trust in economic systems, we first delineate the most prominent approaches to trust research and provide a comprehensive definition of the notion of trust. We then outline different perspectives on trust by drawing a distinction between personal trust and system trust. As an outcome of this analysis we show how both forms of trust are connected through disembedding and reembedding processes. We proceed by outlining a practical approach to further develop and enhance trust within the economic system. We thereby focus on system trust. The article concludes that the “management of trust” is a difficult and risky task.

Trust, Reputation, and Crises

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Starting with the observation that institutions and trust are partly complimentary and partly substitutive, some rough ideas on the interdependence of trust and institutions are sketched. The bulk of the paper is concerned with some elements of an economic analysis of trust. First, the functions of trust are discussed: trust may be a cost-saving substitute for credible commitments. In other cases, it may be a necessary condition for co-operative ventures under conditions of genuine uncertainty when such commitments are infeasible. Second, the conditions for stabilization of a high-trust-regime are dealt with. This sheds light on a particular aspect of the interdependence between trust, rules and regulations: if trust has broken down, re-emergence of trust may require a change of rules such that it makes sense for individuals to base their individual decision-making on a longer time horizon. Finally, trust as affective attitude and its intrinsic value are brought to the fore.

Trust in times of crisis. Or: The indispensability of the welfare state for a market economy

Milena Susanne Etges/Nils Goldschmidt

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The actual finance and economic crisis asks for a re-evaluation of social policy, too. Different to what was thought in recent years, it can be seen at the moment that a well developed and efficient welfare state will be an asset, especially in times of crisis. The systems of social security function during economic recession as 'automatic stabilizers'. In this article, we will analyze this insight from a systematic perspective. Against the background of the ordoliberal origins of the social market economy, we will show that there is an inevitable and synergetic connection between economic and social policy – a connection, which is furthermore a result of the rise of capitalism itself. This combination is also the key for the acceptance of a social market economy as an order of society. It is the task of the political system to guarantee this conflation permanently and to strengthen by this also the confidence into the economic order.

How Animal Spirits destabilise trust

Linda Pelzmann

JEL-No: D03

In a turbulent economic environment, when no one knows what's what, we need consistent and trustworthy partners who defuse the risks of the situation through the reliability of their actions. Trust creates a safe environment for the unprotected transfer of information, services, money and resources. Since Corporate Europe fails to produce this environment of mutual trust, time, energy and resources are wasted for being on guard, the breakdown of trust imposes an additional tax. Trust does not come free of charge. It is only earned trust that performs this safe-guarding function; unfounded confidence however works in the same way as a bounced cheque.

Unjustified confidence over the last three decades prepared the way for the largest destruction since the 1930s. The driving forces – unrestrained appetite for more profit, more growth, more deregulation – were described by J. M. Keynes (1936) as "Animal Spirits". Restraints have been deactivated in an unprecedented competition of cunning. After the crash, what general conditions and circumstances should we create and what rules must we comply with?

The Austrian Court of Audit – enhancing trust through control and transparency

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JEL–No: H83

The Austrian Court of Audit (ACA) is the independent supreme audit institution for the federal, laender and municipal levels of government. Its most important aim is to ensure the most effective use of public funds. ACA audits the accounts and financial management of all levels of government, it provides consultation services and regards the auditees as partners. ACA's audits confirm the correctness of the accounts and financial management of the state or – in case of errors – provide solutions or recommend possible improvements. ACA does not only have pre-emptive effects: 75 % of its recommendations are complied with. As it publishes its reports to the auditees, to the National Council and the laender parliaments as well as to the public, ACA gives transparent information on the allocation and use of public funds. Its audits and the transparency they provide are an important asset for strengthening trust in democracy and the democratic bodies.

Trust – a prerequisite for market economies

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On various levels trust is an important factor in democratic, market-based societies. First, only if people agree by majority, such an economic order can exist in the long run. Therefore people must have trust in the constitution and the resulting outcomes it produces. Second, almost all economic transactions are based on the implicit prerequisite, that people trust each other not to breach contracts. Otherwise they would not enter a contractual agreement. Both government institutions like the legal system and private, informal institutions like reputation can play an important role enforcing contracts and thus generating trust, but only if these institutions themselves are accepted and trusted by the people. This article discusses both the scope and the limits of different institutional arrangements to create trust.

Overcoming the Economic Crisis with Quality of Life

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Individual-related products and services to increase quality of life could help to overcome the depression because they have the potential to cause sustainable intersectoral growth. They are addressed to people in different areas of life and assist in individual lifestyle as well as managing the daily life. Just the demographic change shows that there would be a huge economic potential for these products. The generation 50+ will be the biggest and financially strongest customer group. Politicians should use quality of life as an alternative welfare measure to GNP and regulations should meet quality of life criterions. But also a firsthand promotion of sectors which are developing preventive and competence supporting products is recommended because they are bearing a high market risk.

China and the future of the car

Weert Canzler

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Despite the current crises are the crucial questions: Can China make the quantum leap in automotive technology from engines that burn fossil fuel to those that do not? Is the world witnessing “catch-up modernization” in the hegemonic western sense of the model? Or will China take an “alternative Asian path of development”? The scenario of pursuing a radically new automotive technology and building a “post-fossil fuel mobility industry” could be realistic – and desirable from the standpoint of resources and the environment. China would have less existing know-how to unlearn and less fossil-fuel infrastructure to write-off than any other country with an established automotive industry. But analyses also show how many factors indicate the merits of avoiding an alternative path when it comes to modernization as a whole and to China’s motorization. A centralized industrial and technology policy beyond sectors and the scramble for consensus is still possible in China. But because innovations consist of more than new technical infrastructures and mere imitations, they require decentralized spaces for incubation and experimentation. Translated into conditions governing the policy milieu, that need means that potential promoters of innovations need fundamental political freedoms, equality before the law, legal certainty, and the advancement and protection of personal rights vis-à-vis the state. Technologically beating the triad countries to an automotive hydrogen-based economy is not just about strong political will and efficient execution of policy. In a sociological perspective China needs social modernization in the sense of differentiation, individualization, and internalization of external constraints.