

Competition and structure

The political economy of collective decisions:
Essays in honor of Albert Breton

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Trust and society

Russell Hardin

There is a substantial literature that is essentially about conceptual, explanatory, and normative issues in trust between individuals (see further Hardin 1991b, 1999b). There is also a more recent, growing literature about trust in government and, by analogy, in larger institutions generally.¹ There is still a large array of relationships in which trust might be important that lie somewhere between these two. If I have to deal with some organization with which I am not very familiar or with you, whom I do not really know, on some matter of great importance, I may be able to rely not on trust but on backing by institutions. Very commonly, of course, we have government to back our relationships with other individuals and with various organizations and institutions. For example, we have the law of contracts for major exchanges, to protect us in our ordinary dealings, and at least to reduce the likelihood of massive endgame losses. Within this protective setting, we can take the smaller risks of giving others limited power over our well-being, as we do daily.

Hence, we are relatively secure at two quite distinct levels of social interaction. At one level, we have institutions to back our relationships regarding big issues in which the risks of loss justify, for example, the expense of using contracts and having recourse to legal devices. At another level, usually of one-on-one interactions, we have ongoing rela-

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¹ I address this issue from the point of view of conceptual and epistemological considerations, respectively, in Hardin 1998a and 1999a.

tionships that give our partners incentive to live up to, indeed to define, our trust.

What is left over? Two large categories. First, there are interactions (1) that pose risks of losses too small to justify invoking institutional devices (2) with people who are not involved closely or frequently enough with us for us to have grounded trust in them. Such interactions are likely to be common in our lives and, while not always trivial, are typically of less importance than are our interactions with closer associates or those the law does oversee. Because they are of modest scope, they typically pose only slight burdens for those who have to fulfill our cooperative expectations. And even when there is no general expectation of iterated interaction with someone, there may be significant reputational effects that give strong incentives for fulfillment.

Second, there are many kinds of interaction that government is, for various reasons, incapable of backing strongly enough to make them work. Perhaps most obviously, there have been and still are economic interactions that go beyond government's capacity in cases when government is weak because it is nascent or in transition. And for many relationships, including those closely governed by the law of contracts, there are limits to how precisely or how well government enforcement can make them work.

It is commonly supposed that widespread trust is, loosely speaking, a public or collective good, especially in political life but also more generally in society and in the economy (Fukuyama 1995, Luhmann 1980, and Putnam 1993). This supposition cannot be generally correct. Rather, *generalized trustworthiness* would be collectively beneficial and, then, correctly acting on the trustworthiness of others would be beneficial not only to the truster of the moment but also more generally to the society (Hardin 1996). One way to say that trust is a collective good is to say that it produces positive externalities. This is clearly not true of trust in the context of generally malign relationships, such as in Stalin's Soviet Union. One who trusted there could thereby bring harm to many others. The character of the external effects of trust therefore depends on broader background conditions of trustworthiness.

Let us turn to the role of trust in society more broadly, that is to say, outside of the government and its relations with citizens but beyond individual-to-individual trust. Even if there are no grounds for trusting a government in the strong sense of trust as encapsulated interest (as discussed later), it is plausible that government can help to secure trustworthiness in many contexts, thereby making trust the conditionally beneficial thing that many authors too readily and unconditionally assume it to be. Additionally, other institutions and even spontaneous

forms of relationships can help to secure trustworthiness. Consider four background considerations that make for greater trustworthiness and thereby enable sensible trust.

First, we will benefit if the state and other institutions can block the worst that others might do to us if we mistakenly trust them when they are untrustworthy. One of the most important functions of many institutions is to help individuals be trustworthy. This is often all that the law of contracts does. Suppose you have a contractual obligation to me, say to build a building to my specifications at a certain price. If you default, I can typically gain only modest redress. I cannot get you to live up to your contracted obligation, which might require you to lose substantially because, say, you miscalculated your costs. Instead of specific performance from you, I get only a default payment, and I might be worse off at that point than if I had never dealt with you at all. But at least contract enforcement will typically limit my losses. At an even more basic level, we expect the law to do for us what Thomas Hobbes ([1642] 1983, 1651) supposed to be the purpose of government: to protect us against the depredations of others.

Second, we often benefit from having a reliable state and trustworthy (or fair) institutions to engender greater cooperation. Government can provide infrastructures and information systems that enable us to be more confident in our dealings with others even when we are not sure they are sufficiently trustworthy. These institutions might be organized in ways that entail less cost than if the institutions did their work only by means of sanctions and constraints (see further Hardin 1998b).

Third, we need a reasonable capacity to detect trustworthiness or its absence. As James Coleman (1990: 180–185) argues, this is one of the roles of many institutions. An institution that has dealt with me might inform others of my trustworthiness. Intermediaries in trust can help two parties connect when they do not know enough about each other to connect on their own. These intermediaries may be better connected to some kinds of people than to others, giving the former great advantages over the latter (Coleman 1990: 185). So, for example, wives, the self-employed, and the young may have less access to intermediaries than they need to establish credit. Moreover, various institutions that have no stake in my affairs may nevertheless be able to evaluate my trustworthiness and then to share their evaluations with others who do, at least potentially, have a stake in my affairs. Apart from such institutions, we also may establish, willingly or not, reputations that enable others to judge whether to risk dealing with us. Albert Breton and Ronald Wintrobe (1982: 69–70) suppose in addition that individuals must develop reasonably good instincts for assessing indicators of others'

trustworthiness even absent institutions and reputations to certify them. Robert Frank (1988: 127–128) suggests that our capacities for being trustworthy may in part be genetic, as in uncontrolled blushing when we are being devious or are otherwise caught in embarrassing inconsistency.

And fourth, we commonly need to develop ongoing relationships so that we can spontaneously secure each other's trustworthiness. That is to say, we benefit if we establish ongoing relationships of trust and trustworthiness with other individuals.

In the following discussion, I will first quickly summarize the account of trust as encapsulated interest, which is the conception of trust that lies behind all the discussions here. Then I will turn to the contemporary thesis that what society needs if it is to go well is generalized or social trust, rather than trust in specific others, such as trust as encapsulated interest. As a counter to this thesis, I will then discuss the benefits of an atmosphere of trustworthiness. Thereafter I will take up issues in the workings of trust in the economy and in institutions. Then I will take up various problems in the working of trust in the larger society: logical limits on the extent of trusting, the relationship between cooperation and trust, the putative role of trust in the social structure, and parasitic abuses of trust. I will conclude briefly with comments on the scope of trust in society.

Trust as encapsulated interest

Ordinary trust can be analyzed and largely explained as an essentially three-part relationship grounded in encapsulated interest. The three parts are that A trusts B with respect to matters X. A does not very likely trust B with respect to everything. For example, I might trust you with respect to money matters and someone else with respect to more personal matters that I would want to keep confidential. And it is trust in you rather than merely expectations IF my expectation of your fulfilling what you are entrusted to do with respect to X depends on your taking my interests into account, so that your trustworthiness encapsulates my interest. It is easy to see how trust could be grounded in ongoing relationships in which both parties regularly exchange with each other over some range of matters. You and I could then be in a loosely structured iterated Prisoner's Dilemma, in which each of us has incentive to cooperate because taking the other's interests into account makes it in the other's interest to take our interests into account in similar ways. Even more loosely, I might have an interest in being cooperative with you

because the reputation I build in my relations with you will affect other relationships that are valuable to me.

If we can develop such relationships, why, one might ask, do we need government or other institutions to govern our daily interactions? Of course, part of the answer is that we need government, as Hobbes argued, to protect us from miscreants who would intrude on and wreck the projects we achieve through mutually trusting relationships. But even in my relations with you, we may be better able to trust one another in some range of interactions or over certain matters if we are secured against endgame effects. In an endgame, or final interaction in our ongoing exchange relationship, we no longer have incentives for cooperation now from our previous concern to keep open the prospect of future exchanges with each other. We face endgame effects if our relationship is about to end or if it is about to have its stakes elevated to such a degree that one of us might be induced to cheat.

Consider one of the most important of our common relationships and the impact of endgame effects on it: marriage. Typically, when two people marry, their affections initially make it the case that their individual interests encapsulate the interests of the other. Hence, they are able to trust each other on the encapsulated interest account of trust. The endgame risk that each of them faces is the possibility that the other's affection will fade or fail entirely. Through much of history in Western societies, couples have de facto relied on the state or on the Catholic Church to block some of the worst implications of an endgame by making it illegal and severely punishable to end a marriage or even to engage in extra-marital sexual relations.

Now that the law no longer coercively supports marriage in many nations, there are generally three possibilities. First, alternative institutions and practices might spontaneously arise to support marriage. Second, marriage might change its character, becoming far less stable and perhaps even ceasing to seem plausibly a lifetime arrangement. And third, many couples might sustain their marriages by maintaining their affections and, therefore, their trust.

At the moment, prenuptial agreements appear to be a spontaneously evolving institutional structure that depends on state backing through contract enforcement but does not otherwise depend on state sponsorship or creation. Many couples wish to guarantee themselves against financial disruptions that might result from divorce with prenuptial pacts that largely arrange divorce settlements in advance. That many marriages, and perhaps even the modal marriage, might simply be unstable could undercut the credibility of sustaining any marriage on mutual trust.

Expectations or inferences from such instability might also push more couples into using devices such as prenuptial agreements to protect themselves against some of the worst consequences of instability.

Many institutions do not work by reinforcing or backing trust but by making it unnecessary or, at least, less necessary. That is what the former regime of coercive fidelity did. In recent decades in the United States and in some other nations, the institution of marriage has changed in ways that make it more dependent on trust than it was earlier. The institution has changed from a relatively coercive regime to one in which divorce is relatively easy. It is commonplace to suppose that the increasing use of prenuptial agreements suggests that there is declining marital trust (*New York Times* 1986). Against that too quick conclusion, one should ask whether the increasing use of such agreements is evidence of declining trust or merely of declining confidence in a world in which incentives over the longer run have changed dramatically.

Compare my incentives in the two marital systems: coercive fidelity and easy divorce. If we change from the first to the second, my actual interests may change even though my concern for my spouse's interests might be no different from what it was before. Suppose my affections fail in either case. In the coercive regime I might stay faithful and we might therefore face no financial complications from a loss of affections. I do not stay married in the coercive system because of a concern for my spouse. I do so because of the coerciveness of laws that give me trouble if I leave my spouse or even if I commit adultery. I actually have my own personal interest in some degree of fidelity independent of specific concern for my spouse. Because my interests are different in the easy-divorce system, my spouse may wish to lock in certain benefits against the possibility that I might happen later to want a divorce – or even the possibility that my spouse might later want a divorce.

The confidence I have in my spouse in the coercive system is therefore not trust in the encapsulated interest sense but only confidence in the force of the institutions that back our fidelity. So long as my spouse has strong affection for me, I can trust her in this strong sense, however, because then it is in her interest to take account of my interests. What I cannot trust is that she will continue to have such affection for me. But this is true regardless of whether we live in the easy-divorce or the coercive-fidelity system.

If, however, we are like some of the characters in Jane Austen novels, I might even be able to trust my spouse to maintain her affection. For example, Darcy could probably trust Elizabeth not to lose her affection for him – once she belatedly discovered such affection. He could trust her because he was not merely Darcy, as she seemed to suppose when

she first encountered him. Rather, he was the very wealthy Darcy, scion of a fine family and inheritor of a glorious estate. Elizabeth's discovery of that fact made him far more attractive than he had been before, so attractive as to be worthy of her great love. In the moment of Elizabeth's gazing on Darcy's portrait in his family manor, Jane Austen notes that "[t]here was certainly at this moment, in Elizabeth's mind, a more gentle sensation towards the original, than she had ever felt in the height of their acquaintance." (Austen 1952 [1813]: Chapter 43, p. 228). Both of them might change over the years, but Darcy's status would not, and the – apparently very large – part of Elizabeth's love for him that was grounded in his secure status would not fade.² (Of course, had their story been written by Lorenzo Da Ponte and composed by Mozart, all bets would be off.)

What the state could do in the coercive-fidelity regime was to reduce certain endgame effects. It could do some of that in other ways, at least for financial effects. Other institutions and widespread practices might also be able to do that. What the state presumably cannot do is enforce the maintenance of affections. But this is arguably the fundamental problem of marriage. The maintenance of affections also cannot be grounded in individual-level trust. It is not itself an iterated reciprocal exchange. I do not make a deal with you that I love you if you love me or that I like your company if you like mine. There may be choices involved in such affections, but the affections are not primarily a matter of choosing. Rather, like knowledge, suspicion, and many other states of mind and emotion, they simply happen to us.

Generalized or social trust

The bulk of the fast-growing literature on the value of trust in society seems to focus on the possibilities for social exchange that follow from *generally* trusting others (Luhmann 1980). So-called generalized or social trust is trust in random others or in social institutions without grounding in specific prior or subsequent relationships with those others and, as is often argued or implied, without taking into account the variable grounds for trusting particular others to different degrees. There is a substantial literature on such generalized trust, which is loosely seen as unspecific trust in generalized others, including strangers. At best, such

² Lord David Cecil puts Austen's view of marrying for money clearly: "It was wrong to marry for money, but it was silly to marry without it" (quoted in Blythe 1966: 12). Apparently, so long as money led to love, it was fine to marry in this way, for money one step removed.

generalized trust must be a matter of relatively positive expectations of others' trustworthiness, cooperativeness, or helpfulness. It is the stance of, for example, the child who has grown up in a very benign environment in which virtually everyone has always been trustworthy. That former child now faces others with relatively positive expectations by inductive generalization. The value of generalized trust is the value of such an upbringing: It gives us the sense of running little risk in cooperating with others, so that we may more readily enter relationships with others. Of course, this is again a value only if others are in fact relatively trustworthy.

One might wish to say that generalized trust is more than merely expectations about the trustworthiness of others, that it is genuinely trust in others. But it is very hard to say who is the B and what is the X in the relation A trusts B to do X if A's trust is truly generalized and not, as is usually the case, heavily limited and conditional. Hence, generalized or social trust seems to violate this paradigm of trust. But if generalized trust is, in a perhaps very complicated way, limited and conditional, what could it mean to call it generalized? In any real-world context, I trust some more than others, and I trust any given person more in some contexts than in others. I may be more optimistic in my expectations of others' trustworthiness than you are, but apart from such a general fact I do not have generalized trust. I may also typecast many people and consider some of the types very likely to be trustworthy and therefore worth the risk of cooperating with them, other types less so, and still others not at all. But this is far short of generalized trust. It is merely optimism about certain others (Hardin 1992). Such optimism from typecasting makes rational sense, just as typecasting of those one might employ makes rational sense as a first, crude indicator of competence or commitment.³

From various experimental studies and surveys, it is supposed by many social scientists that Americans have higher levels of generalized trust than do people in many other societies (Fukuyama 1995). Again, what is in fact needed if we want successful exchange is trustworthiness, which is likely to beget trust from learning of its utility in reputational and trial-and-error experience. But let us examine the claims for the value of generalized trust, even for its necessity. There is an explicit or implicit claim for the necessity of trust in many very current claims that American and other democratic societies face a crisis of declining trust. Claims of necessity that are causal rather than conceptual are among the strongest claims one can make in the social sciences, and among the most difficult to make

³ As in the analysis of discrimination in hiring in Becker 1971.

compelling. Nevertheless, the claim of the necessity of generalized trust for social order is strikingly commonplace, as though it were beyond much serious doubt.

Many, maybe even most, claims for generalized trust can readily be restated as claims that, in contexts in which trust generally pays off, it makes sense to risk entering into exchanges even with those whom one cannot claim to trust in the encapsulated interest sense because one does not yet have an ongoing relationship with them nor does one have reasons of reputation to trust them. This is not a claim that one trusts those others, but only that one has relatively optimistic expectations of being able to build successful relationships with certain, perhaps numerous, others (although surely not with everyone). If the context is even slightly altered, this conclusion may be wrong, as it is in dealings with con artists who propose quick profit schemes or, often, with sellers in tourist traps. Hence, generalized trust seems likely to be nothing more than an optimistic assessment of trustworthiness and a willingness therefore to take small risks on dealing with others whom one does not yet know. That assessment would quickly be corrected if the optimism proved to be unwarranted because people or agencies in the relevant context proved to be untrustworthy.

Recent discussions of the crisis of declining (generalized) trust in society are grounded in contemporary survey data. Such data do not firmly establish any claim about levels of generalized trust because they are confounded with the encapsulated interest account of trust, and it is not clear that they tap so-called generalized trust. People respond to survey questions such as, Do you trust most people? or Are people generally trustworthy? Unfortunately, such questions are insufficiently articulated to distinguish trust as encapsulated interest from generalized trust. Suppose I trust most of the people I deal with at least in those matters over which I have dealings with them. This is, in part, because they *are* the people I deal with – had I not trusted them, I would have stopped dealing with them. Do I trust the vastly larger number of people with whom I have no dealings in those matters? No, presumably not. Most of these are people I do not even know and have no reason either to trust or to distrust. Unfortunately, if we begin to articulate our questions precisely enough to get at such discriminating differences, we may virtually have to explain what we are seeking to those we survey (or to those whom we put through experiments). We thereby give them theoretical understandings they did not have, and we in turn elicit answers or experimental responses to those understandings rather than to their normal experiences.

If we compare across nations, we find lower levels of generalized trust

in some societies than in the United States. What questions are people in the United States answering when they say they trust most people? And what questions are those in certain other societies answering when they say they do not trust most people? Plausibly, they are answering different questions, perhaps because they are differentially alert to the problem of dealing with those with whom they do not have ongoing relationships, or perhaps because their background institutional structures differ in the scope of the interactions they protect. That is to say, they frame the questions differently.

Or consider variations over time in the responses to such questions within a single culture. Again, it is supposed that levels of generalized trust are in decline in many Western societies, especially in the United States. Such longitudinal claims are apt to be confounded with various other trends that might make the apparent trend in trust an artifact. For example, the level and extent of interactions a typical person has in the United States in the 1990s may be substantially greater than those a similar person had in the 1950s. On average, then, the later person would be less trusting of the whole – larger – class of those with whom she deals than the earlier person would have been. But she and the earlier person may be as trusting of any particular class of people, such as close friends, associates at work, relatives, neighbors, and so forth. Indeed, she may substantially trust more people in various matters than the earlier person would have, while still distrusting or lacking trust in more people in her dealings than the earlier person would have. To assess whether there is a meaningful decline in trust, one would need to have questions over the decades asking people how much they trust their close associates, random strangers, and so forth. Questions that do not control for context are too hopelessly under-articulated to yield the grand thesis that trust is in decline.

Has the scale of our interactions changed over the past four decades? The discussions of Robert Putnam and many others of the impact of television on the privatization of American life suggest that we interact less today than our peers did fifty years ago (Putnam 1995a, 1995b). But there is a similarly widely asserted thesis that increasing urbanization has produced more extensive interactions with people as compared with earlier small-town life. The truth of the latter thesis seems especially evident to the vast number of people who have moved from small to larger communities or who have prospered in ways their parents never knew. This number probably includes many, maybe even most, of the academic and other researchers who claim that generalized trust is in decline. The trend from small-scale organization of society and social relations in

medieval times to the large-scale complexities of modern industrial states continues.

Even if we establish that there has been a meaningful decline in levels of optimism that others are trustworthy, controlling for types of others, we still have, unfortunately, data on only a short-term trend. As noted later, there have surely been many eras in which trust in others has suffered from the general faltering of institutional backings of trustworthiness. We do not know from mere survey data, which exist only for a few decades, whether there is a secular trend in trust or distrust. This particular era suffered from many episodic crises that might have undercut optimism about others' trustworthiness, and the effects of these crises might last the lifetime of a particular generation. But it is perversely ahistorical to suppose there were not even greater losses of optimism in earlier times. Yet, we seem to have survived into a richer social life than our predecessors knew.

Can we successfully live together without trust? Put somewhat differently, is trust necessary for social order? One might presume to answer this question by putting societies in a two-by-two matrix of the possible combinations of high and low trust on one side and high and low social order on the other. Suppose there were no cases of low trust and high social order. Unfortunately, this fact would not settle the issue *because social order provides the background conditions that facilitate trust* by creating the conditions for stable ongoing relationships and backing them with law to block the risk of massive losses from wrongly trusting someone. That is, social order might, as "The Anonymous Iamblichus" (1995 [an ancient Greek text]) asserts, produce trust as first among its benefits, after perhaps Hobbes's chief concern, namely survival.

Does social order grow out of trust? It might prosper better with widespread trust and trustworthiness, but it does not follow that it must initially be *grounded* in such trust. Consider the so-called velvet revolutions in Eastern Europe in 1989. Masses coordinated behind the expression of hostility to the prior regimes (Sztompka 1996). Distrust must have been endemic in, for example, East Germany at that time, with a very large fraction of the population implicated in the STASI (secret police) oversight of citizens at all levels. It was partly distrust that stimulated the quest for a new order. It would be odd to suppose that quest to have been grounded in trust. There might be instances in which fairly widespread trust has facilitated the move to civil society. And we might suppose that widespread trust is facilitated by civil society and that trust in turn supports social order.

But current writings go much further than this in their claims. For example, Adam Seligman (1997: 6) makes the somewhat restricted but still grand claim that generalized trust is *necessary* for the workings of civil society. Shmuel Eisenstadt and Luis Roniger (1984: 16–17) say that “There is the necessity for and the ubiquity of trust in human relations and the impossibility of building continuing social relations without some element of trust.” Ubiquity? Yes or almost so.⁴ Necessity? No. Impossibility? Maybe – but in a very different sense than that apparently intended by Eisenstadt and Roniger or by Seligman. That is to say, if we do build stable, continuing relations with others, we will almost necessarily have the conditions, including the relevant incentives, for trustworthiness and trust. It would be virtually, although not logically, impossible to escape the development, therefore, of some trust.

The claim that generalized trust is necessary is surely wrong on one count and undemonstrated and perhaps beyond demonstration on another count. First, it is merely widespread, not generalized, trust that even might be necessary. Second, while there might be a causal arrow from social order to trusting, and as well a causal arrow from trusting to enhanced social order, it may be beyond demonstration whether there is any necessary link. Furthermore, at least for initiation of social order and for mere maintenance of social order, widespread trust is not necessary, as is suggested by quite diverse cases, such as (1) Fredrik Barth’s accounts of the Omani and Swat Pathan social orders (Hardin 1999b: Chapter 4), (2) social orders, including Nazi-ruled Czechoslovakia, that have been maintained nearly by pure force, and (3) the transitions from endemic distrust to social order in Eastern Europe from 1989 forward.

The atmosphere of trustworthiness

Kenneth Arrow (1974) supposes that normal economic relations require a background or atmosphere of normative commitments to be honest, to keep promises, and so forth. In a similar sense, we might suppose that social relations of many kinds require or at least are simplified by a background of trustworthiness, although this might be more nearly rationally than normatively motivated. This might yield an alternative account of what many scholars see as generalized trust. For example, children who grow up, especially from their earliest days, in a supportive environment have reason to suppose that people are trustworthy. They therefore have

⁴ There is still the nagging possibility of Fredrik Barth’s trustless societies of Oman and Swat. For discussion see Hardin 1999b, Chapter 4 on “Distrust.”

reason to risk entering into relationships with others that will be beneficial to them if those others are trustworthy (Hardin 1992). They then give others reason to be trustworthy because those others can thereby develop beneficial relationships with them. Trustworthiness begets trust, which, perhaps to a lesser extent, begets trustworthiness.⁵

This general background or atmosphere of trustworthiness makes social life go much more smoothly than it would without such an atmosphere. Hence, life in a harsh ghetto or in a society that has broken down into violence and rabid self-seeking, as in Somalia at the end of the twentieth century, is hampered by the prudent lack of trust and by the disastrous lack of institutions to enable joint enterprises to proceed even without much trust. Introducing trust in such a context would be pointless. What is required for a constructive atmosphere is trustworthiness, which cannot easily be established by individuals across a whole society that has destroyed it. And, again, what is required first is institutional safeguards against the potential for disastrous consequences so that people can begin to take the risk of cooperating in ways that, if successful, would lead to trust relationships.

Unfortunately, trust and distrust may be asymmetric in the sense that the former is much harder to learn for someone coming from a prior background of untrustworthy relations than the latter is for someone coming from a prior background of trustworthy relations. Overcoming the experience of distrust may be extremely difficult. The benefit of trusting, when it is warranted, is that it opens up opportunities. Blocking the severe losses that might follow from misplaced trust might seem similarly to open up opportunities. But those who start from a prior background of justified distrust are not likely to seize those opportunities because they do not readily take risks on their potential partners in joint enterprises, and until they do take such risks, they cannot develop trusting relationships. Hence, "equalizing opportunities" does not equalize outcomes because those from the background of distrust may not seize the new opportunities (Hardin 1992).

Trust and the economy

One of the most important arenas of social life outside ordinary one-on-one individual relations and relations with the state is the economy. Any economy, including a complex market economy, may work in part through trust relationships, and it may also enable us to achieve things we could not achieve merely through relationships of trust. This is an

⁵ For suggestive experimental evidence, see Yamagishi and Cook 1993.

enormous topic that is addressed in a massive literature that includes, illustratively, works already cited here or in discussions to follow by Arrow, Edward Banfield, Breton and Wintrobe, Francis Fukuyama, Ernest Gellner, and Niklas Luhmann. Most of that literature focuses on modern market economies and much of it on the nascent development of market relations in earlier times.⁶

Given the size and complexity of that literature, I will not attempt to organize it or seriously contribute to it here. Rather, I will merely note two issues of the role of trust: in the development of economic relations where they have been hampered and in a socialist, centrally planned economy, which one might suppose hampers economic relations. Both of these issues evidently involve institutional problems in securing trust or, alternatively, in eliminating the need for it. As already noted, institutions play a role in underwriting even interpersonal trust. As Hume says of contracts, if they “had only their own proper obligation, without the separate sanction of government, they wou’d have but little efficacy in [all large and civiliz’d] societies. This separates the boundaries of our public and private duties, and shews that the latter are more dependant on the former, than the former on the latter” (Hume 1978 [1739–40]: 546). Hobbes may have exaggerated the extent to which powerful institutional sanctions are required for grounding trust and promises, but he was not radically mistaken.

First consider an account of trust in the development of economic relations. Anthony Pagden supposes that the conditions of Neapolitan society under Spanish rule until the eighteenth century suggest answers to larger questions about the necessary conditions for economic growth and social development in the early modern world (Pagden 1988: 127). After the revolt of 1647, the Habsburgs deliberately worked to destroy trust relations in order to maintain control until Naples passed to Austria under Bourbon rule in 1724. Three Neapolitan political economists of the eighteenth century, Paolo Mattia Doria, Antonio Genovesi, and Gaetano Filangeri, attempted to explain how a working economy could be created on the ruins of the distrusting Spanish order.

Doria and Genovesi supposed that trust is the basis of the well-ordered republic. Doria wrote that trust “is the sole sustenance of states and leads to their stable maintenance” (quoted in Pagden 1988: 129). The Italian words are not exact equivalents of the English “trust.” But we might suppose Doria’s sense is roughly that of the encapsulated interest account discussed earlier, because for him trust is the motive to behave

⁶ For a detailed account of the actual development of exchange relations in a context of international disorder and weak legal institutions, see Greif 1993.

toward members of the society at large in much the same way that one behaves toward members of one's own kin group, with whom, of course, one has ongoing reciprocal exchange relations (Pagden 1988: 138). This secular ethic of classical republicanism performs the role of Weber's Protestantism: It shatters the fetters of the kin. Hence, it runs against the view of community in Ibn Khaldun in his defense (to be discussed) of anarchic tribal Muslim communities in North Africa, communities that depend centrally on kin relations (Gellner 1988).

Filangeri supposed that confidence is the soul of commerce and that the credit it can generate should be regarded as a second species of money (Pagden 1988: 130). Doria argued that trade can flourish only under two conditions, "liberty and security in contracts, and this can only occur when trust and justice rule" (Pagden 1988: 137). It has so been taken for granted that contract enables cooperative dealings even absent trust that a recent literature has grown up to say that much of apparent contractual dealing is in fact regulated by informal devices (Macaulay 1963).

Now turn briefly to problems of trust in a socialist economy. If the theses of Fukuyama (1995) and Seligman (1997) are correct, one might suppose that the chief problems of Eastern Europe and the Soviet Union before 1989 were the lack of trust in many relationships, especially in relationships with the government and its agents. Hence, centralization of the economy might have worked had there only been more trust. One might consider Sweden a partial example of the truth of this supposition.

Alternatively, one might suppose that centralization was a problem in addition to low levels of trust, or even that centralization tended to produce distrust or to reduce trust. Gellner says that, politically, a socialist government "needs to atomize society; economically it needs autonomous institutions" (Gellner 1988: 156). In the second part of this claim, he evidently supposes that an economy must be organized somewhat entrepreneurially, which is to say, somewhat as a market. Yet, if the first part of his claim is true, this need founders on the state's efforts to undermine trust relationships.

This last conclusion sounds plausible, although the causal relation might be opportunistic rather than inherent. That is, giving government power to regulate prices gives it power to do many other things as well, such as suppressing the symphonies and operas of Dmitri Shostakovich and the writings and political activities of more or less everyone. Any lousy official can abuse such power, and a Stalin at the top can abuse it grossly even though there need be no reason associated with the economic purposes of centralization to use the power in such ways.

Trust in institutions

If institutions are to be used to back up or substitute for trust relations, we may naturally wonder whether we can trust institutions. Many scholars claim that citizens trust government in some societies and, in the vernacular, we commonly speak of trusting institutions. Such vernacular use of the term “trust” might be a trivial and empty use, almost as trivial as when we say we trust the sun to rise tomorrow. We merely expect an institution to act in a certain way because it seemingly has always done so and we rely on that expectation. Such expectations are generally adequate to get us through most of life. Generalizing from past behavior or results raises the traditional formal problem of induction that bothers philosophers, although for most of us this may not be an obstacle to belief. Indeed, we – including philosophers – would find life impossible if we could not act on even weak inductive generalizations. Mere inductive reliance on organizations eliminates central concern with trust.

For lower-level institutions and organizations in society, we might make arguments generally analogous to those made about trust in government (Hardin 1998a, 1999a). That is, we might suppose that it is not typically possible to trust a government or a large organization *in a way analogous to the way we can trust one another*. It might, however, be possible for you meaningfully to say that *you* can trust *a particular institution* in the sense, discussed earlier, of encapsulated interest. You might know enough about a particular organization to be able to unpack it, to assess the motivations of individual organizational role holders and to judge how these fit together to produce organizational responses to your interests. Or if you could actually know of many of its officers that they act in relevant ways toward you because they have incentives to take your interests into account, you could say you trust the organization, although this would be a shorthand for the fuller account involved in unpacking that organization.

Most of us most of the time, however, cannot be in a position to claim in this strong sense to trust organizations that are important in our lives. Most of us cannot know enough about the incentive structures of organizations that matter to us even to judge which specific actions by role holders would be in our interest. Most obviously, moreover, most people cannot know many of the role holders in any of the institutions that matter to them and therefore cannot be said to be able to trust them in the way they might trust close associates or even local merchants. In sum, most people lack both the organizational theory and the personal knowledge to trust particular organizations.

Suppose we grant that it is not possible for our relations with institutions to be grounded in trust in the individual role holders in the institutions. Then how can we rely on those institutions to address our interests even in those cases in which they ostensibly have a mandate to do so? In part, role holders are made reliable in fulfilling their role requirements through the use of incentives, both rewards and sanctions, to induce cooperative behavior. But they are also (less overtly) made reliable by institutional roles that are designed to make it directly in the interest of role holders to do what the organization requires. In the heyday of Taylorism in the early years of this century, it was supposed that workers should simply do what they were told and that they would be monitored and paid according to what they did. Institutional control structures are typically far more subtle than Taylor's vision suggests. But the choice is not the simplistic one between monitoring and trust. The actual device in common use in organizations is matching interests and tasks through relevant structures (Hardin 1998b). This device functions so well in many organizations as to induce professional deformation, that is, excessively zealous effort on behalf of organizations and their goals. Such deformation leads to such dismal results as the Dreyfus affair in the French military, in which officers preferred to see an innocent man left with his dreadful punishment than to see the military embarrassed for mishandling his trial.

Hence, we may expect organizations often to be reasonably competent to do what they are supposed to do in serving our interests even though, at the micro-level of the people in the organizations, we could not explain why they do so. But those who have to deal with an organization need not trust it in any significant sense in order to depend on its apparent predictability. You may not know enough to be able to break the organization down into roles whose occupants you can judge and you may not be able to figure out the functional relation of the various roles to the things you want or expect from the organization. But you can possibly still know enough about the past history of the organization to have strong expectations of how it will respond with respect to your interests.

This general conclusion is strengthened by the fact that an institution sets up the possibility of sudden endgames for those who rely on trust. The person one trusts might move from one role or organization to another, ending the iterated play that grounded one's trust – through that person – in the organization itself. This problem can afflict both organization-client and intra-organizational relations. Many people with substantial careers in organizations can recount instances in which their reliance on the organization was in fact only reliance on a particular

person, whose departure wrecked their expectations of trustworthy fulfillment of some arrangement. Here the stakes need not change to produce endgame effects, which follow, rather, from a literal end of the game.

A major value of written rules and agreements in organizations is to stabilize expectations by connecting them to the organization rather than to its specific agents. This device entails a substitution of organizational mechanisms for personal trust and trustworthiness. Organizations face a *de facto* type-1 versus type-2 error problem. They can rely on interpersonal trust relations that may be unstable but that can be well crafted to fit cases. Or they can rely on bureaucratic devices that can be stable but that cannot be individually crafted. Larger, especially public, organizations tend to opt for the type-2 error and to avoid reliance on personalistic relations. They need neither elicit nor depend on trust relationships with their clientele.

Although this claim lacks research, it seems likely that the developmental trend in organizations is away from reliance on trust toward reliance on structural and other incentives that substitute for trust. A perhaps minor, because special, case in point is the organization of modern banks. There is virtually no need to rely on trusting bank tellers because they are rigorously monitored and are structurally almost incapable of cheating their employers.

It is sometimes said in various contexts that monitoring depresses commitment and therefore reduces productivity. Bank tellers are an instance in which this claim seems conspicuously wrong. What seems more plausible is that monitoring that is generalized, relatively unobtrusive, and cheap works to enhance productivity by inducing productive behavior. Without the monitoring, you might be, as Hume says, "naturally carried to commit acts of injustice as well as me. Your example both pushes me forward in this way by imitation, and also affords me a new reason for any breach of equity, by shewing me, that I should be the cully of my integrity, if I alone shou'd impose on myself a severe restraint amidst the licentiousness of others" (Hume 1978: 535). Hence, monitoring that seems reasonable to all concerned might not depress commitment but might rather enhance commitment by securing expectations that others in similar roles will be kept in line and that none of us will think honesty or proper performance of our jobs foolish.

Of course, even if trusting is not central to all institutional arrangements, relationships of trust might still help to lubricate organizational actions, often indeed by violating bureaucratic rules that substitute for trust.

Logical limits in trusting

On the encapsulated interest account of trust, we obviously face epistemological and time constraints that prevent us from having strong trusting relationships with many people. The constraint of time is clear enough if we must have ongoing exchange relations with others in order to build trust in them. The epistemological constraints even cut against the possibility that we can trust very large numbers of people through their reputations. In addition, in some contexts of dealing with groups rather than merely dyadically with individuals, the logic of encapsulated interest must be violated even if we have essentially ongoing relationships. Hence there are two ways in which we can come up against essentially numerical limits on trusting. First, unlike a medieval Icelander, whose world was tiny, we cannot trust more than a relatively small fraction of the individuals in our worlds (see further the discussion of Bodo's world in the section "Social Structure and Trust"). Second, we cannot trust large groups of individuals as such. We may be able to trust many or most of the members of a collectivity, but we cannot count on them as members of a group to encapsulate the interests of others in the group.

First, consider limits on how many individuals one can trust. Before getting to trust, note that someone who already has several friends may not think the risk of investing in developing another is worth it. This problem may explain at least part of the phenomenon of clique and friendship-group formation. It might also be part of the explanation of familism in contexts in which families are relatively large, that is, large enough to exhaust a substantial part of the resources any member might have for investing in rich relationships. In Breton and Wintrobe's terminology, members of cliques may concentrate their investments in exchange relations in a small number of intensive relationships and may shun others merely to avoid the difficulties of dealing with those with whom they do not have intensive relationships. Similarly, groups may actively develop exclusionary devices to keep their membership confined only to those they know well enough to trust (Hardin 1995: Chapters 4 and 6).

Both of these phenomena – clique formation and familism – turn on the epistemological limits, perhaps especially the limits of investments of time, on developing more than a modest number of close relationships. For example, the members of a family might wind up in conflict with other families primarily because they simply have no time for them while they are heavily engaged in daily life and toil with one

another.⁷ But this means that, because people are not having rich relationships with others beyond their cliques or their families, they are not even in a position to develop trusting relationships with those others because they do not have the ongoing exchange relationships in which to embed interests in trustworthiness. Hence, *it is the rational structure of the relationship of trust that blocks trusting more universally*. Trust as encapsulated interest rules out the possibility or coherence of generalized trust and even of very widespread trust by any individual.

Second, consider whether a collectivity can be trustworthy on the encapsulated interest account. Consider two very different strategically defined classes of groups: groups mobilized by coordination and groups mobilized for collective action (Hardin 1991a). Suppose a group is coordinated behind a leader, as happens with charismatic leaders, in response to what the leader wants it to do. Coordinators can commonly trust their leader because they will withdraw support if the leader violates their trust, making it generally in the leader's interest to fulfill their trust. Of course, the leader's interest in fulfilling can be trumped by changed incentives or preferences. But so long as the leader has an interest in pursuing the goals behind which the followers are coordinated, she can be trusted and she has power derived from the coordination of the followers. It is limited power in the sense that it cannot be used for just any purpose. Rather, it can only be used for the group's purposes (Hardin 1995: Chapter 3). Coordination power therefore fits very well with the three-part relational account of trust. The followers follow only insofar as the leader does X. If the leader attempts to change direction, the committed followers may quickly drop off, as in the extreme case of the Sabbatai Sevi, who lost his charisma when he submitted to conversion to Islam (Scholem 1973). Examples of such trustworthy leaders include certain political leaders of more or less single-issue parties, such as religious and pujadist parties.

In standard contexts of collective action that takes the form of a large-number Prisoner's Dilemma exchange, however, the group cannot be trustworthy. The members of the group might well share some set of interests that someone – call her a leader – has or that she would support for the sake of the collectivity's support of her. But if their support of her requires actions from each member of the group, their own interest might typically be to renege on acting, to free-ride on the efforts of others. Indeed, their own interest is to free-ride on the efforts of others even with respect to their own personal interest in the product of group

⁷ As in the conditions in Edward C. Banfield's (1958) account of life in the fictionally named village of Montegrano in southern Italy.