

Chapter 1

The Significance of Trust

THE MASSIVE interest in trust in recent years seems to be stimulated by the inarguable view that social order is fundamentally dependent on cooperative relationships. This is a variant of what has historically been the central question in the social sciences: how is social order produced and maintained? General theories of social order range from assuming we need an all-powerful sovereign to coerce us, to requiring that we have shared norms or other mechanisms to generate successful social exchange, to merely supposing we achieve simple coordination to stay out of each other's way.

Some social theorists claim that trust is required to produce cooperation on a large scale in order to make societies function productively. This view is well represented in the work of Francis Fukuyama (1995), Robert Putnam (1995a), and others.¹ We argue, on the contrary, that trust works primarily at the interpersonal level to produce microlevel social order and to lower the costs of monitoring and sanctioning that might be required if individuals were not trustworthy. Trust therefore can play a role in the regime of informal social exchange, where it decreases the need for regulation by state and other institutions and reduces the transaction and monitoring costs of ordinary spontaneous relationships. Generally, however, given the long-term change from small communities to mass urban complexes, mere coordination and state regulation have become far more important, we argue, while *the actual role of trusting relations has declined relatively* (Cook and Hardin 2001).

On this view, trust is no longer the central pillar of social order, and it may not even be very important in most of our cooperative exchanges, which we manage quite effectively even in the absence of interpersonal trust. *Trust is important in many interpersonal contexts, but it cannot carry the weight of making complex societies function productively and effectively.* For that, we require institutions that make it possible for us to exchange and engage in commerce and joint efforts of all kinds, even in contexts in which distrust at the interpersonal level prevails and certainly in

contexts in which we simply may never know enough actually to trust the persons with whom we must interact even on a daily basis.

We take a relational view of trust: we treat trust as an aspect of a relationship between two or more actors.² *Trust exists when one party to the relation believes the other party has incentive to act in his or her interest or to take his or her interests to heart.* We refer to this view of trust as the “encapsulated interest” model of trust relations, and we emphasize the importance of an interest in maintaining the relationship into the future as the primary foundation of the trustworthiness of each party in the relationship (see also Hardin 2002b). A trust relation emerges out of mutual interdependence and the knowledge developed over time of reciprocal trustworthiness. We spell out what we mean by relational trust in this chapter, and we contrast our view of trust with more psychological orientations to trust.

Our approach challenges much of the current theorizing about how to improve organizations, governments, businesses, and societies. Many observers argue that we need more trust in organizations and institutions. We argue that some organizations and institutions serve us well just because they substitute for trust relations. Furthermore, we suggest that distrust may be good in many contexts, since it grounds forms of social structure that help to limit exploitation and protect those who cannot protect themselves (Levi 2000). When distrust stimulates the development of improved institutions, it may facilitate cooperation, not hinder it. In contrast, networks of trust relations that are closed can promote ethnic clashes or racism and can even unproductively restrict economic exchange and significant forms of social exchange. Trust in such contexts may restrict opportunity, and such restrictions may in turn retard economic growth and development.

We emphasize the role of institutions and other arrangements for ensuring the reliability that makes it possible to sustain complex markets, accountable and responsive government, and a wide range of social and organizational devices for managing conflict and improving productivity at the workplace and in society. We therefore envision the role of trust as most active in the realm of personal relationships and in some settings as a *complement* to (not a substitute for) organizational arrangements that make cooperation possible. Trusting one’s coworkers (when they have proven themselves trustworthy) makes it possible to widen the range of cooperative enterprises and lower the costs of managing such activities. But the contexts that make it possible to assess trustworthiness tend to involve ongoing relationships in which the individuals have personal knowledge of each other or knowledge acquired through inclusion in a well-connected network.

Where the risks are high, the relevant knowledge about trustworthiness is unobtainable, power is highly unequal, or distrust prevails, we

are likely to turn to institutional arrangements and other devices to ensure the reliability of partners in our exchanges and interactions. In these circumstances, it is not trust (or more precisely, belief in the trustworthiness of others) that facilitates cooperation. As discussed later in the chapter, this is because we cannot know that the other person's interests encapsulate our own (see also Hardin 2002b). Indeed, we may even know for sure that the other party has interests that conflict with our own. If we cooperate at all in such cases, we do so because we believe our partners have incentives to behave consistently with our interests. These incentives, however, are built into the social structure; they are not inherent in our personal trust relations. Incentive compatibility may make our partners reliable but not necessarily trustworthy.

Even within families, friendships, and other very dense networked relationships, trust beliefs and relationships are variable and depend on knowledge conditions, the kinds of tasks the other is being trusted to perform, and the context. When the costs of mistaken judgments become high, or when the temptations to become untrustworthy are great, we tend to turn to other ways of ensuring the competence and motivation of those on whom we are taking a risk. This is often true even within families. It is almost always the case in business, government, and professional relationships.

We discuss many of the mechanisms that society has devised for ensuring the reliability and competence of those on whom we need to rely. Relying on trust relations is not the most common such mechanism. And even when trust relations do facilitate one kind of cooperation, they may inhibit others. For example, trust relations among those in a group can create boundaries that inhibit relations with those outside the group. Similarly, groups of trusted colleagues within an organization can build power that is used to inhibit technological innovation, slow production, or otherwise hold the firm hostage. Trust relations among cronies are a major source of corrupt and inefficient government.

Yet under some circumstances trust and trustworthiness can *improve* the workings of organizations and markets, as many writers have noted. In these instances, trust and trustworthiness are *complements* to structured incentives and to monitoring and enforcement mechanisms (see Arrow 1974, 24). The backdrop of third-party enforcement can give individuals the confidence to treat each other as if they are trustworthy at least in those domains where violations of trust will be punished or in which little is at stake. Such a context may enable individuals to learn more about each other, to begin to take risks with each other, and in time to become trustworthy to each other. Examples of third-party enforcers abound: legal institutions that enforce contracts, managers who supervise employee relationships with clients, professional associations that investigate unethical behavior of their members, hospital boards that inhibit malpractice.

Third-party enforcers not only boost the probability of reliable behaviors but also create circumstances in which trust within certain relationships over certain issues becomes viable.

Trust is most likely to emerge in contexts in which the parties find themselves in ongoing relationships. This probability is enhanced to the extent that each party depends on the goodwill of the other to make things run more smoothly. Thus, the managers of firms and their subcontractors can become trustworthy with respect to their exchanges. Bankers and their lenders, social workers and their clients, physicians and their patients, supervisors and their subordinates in the workplace—all may perform better when they are able to take risks. But grants of discretion are unlikely unless some degree of trustworthiness becomes evident.

In many settings, unequal power may make it nearly impossible for the more powerful to convince the less powerful of the credibility of their trustworthiness. Yet when the relationship becomes personal and long-lived, trustworthiness may develop. Often trust seems to require that the more powerful treat the less powerful with respect and fairness, or that the more powerful treat the subordinate in the relationship as trustworthy by reducing monitoring and other intrusive interventions. Patron-client, physician-patient, and employer-employee relations are among the examples we cite as having this quality under certain circumstances. However, these trust relationships are fragile. Trust is generally about a very narrow set of tasks in a specific context. Trust is more easily broken and probably less easy to repair in these relatively one-dimensional relationships than in multifaceted relationships in which there may be more latitude and thus room for repair.

When trust does develop in power-dependent relationships, there may still need to be some form of third-party enforcement to ensure against the worst abuses or exploitation of the relationship, even when the basis of trust is the ongoing dyadic interaction. The most important means for creating the potential for a trust relationship based on encapsulated interest may well be the threat of ending the relationship. Such a threat is viable only when there is some level of mutual dependence. This is true even when the third party is far in the background. However, even in those cases in which trustworthiness seems to emerge, it may be an effect not of a belief that each party encapsulates the other's interest but rather of the more straightforward fear of loss of a loan, a welfare payment, or a livelihood. Given this dependence, demonstrating trustworthiness is important in maintaining the relationship with the more powerful party.

Most of the contemporary treatises on trust and its benefits are not attentive to the questions we raise. The authors of some of these works may define trust and trustworthiness differently. Ours is a relatively specific definition that imposes clear requirements on those we claim are trusting. Trust requires considerable knowledge. It is impossible by our defini-

nition to trust strangers and even many of our acquaintances, and it is virtually impossible by our definition to trust institutions, governments, or other large collectivities. Anyone who wants to make claims about trust or trustworthiness must have a definition that allows them to account for variation in its intensity, consequences, and probability.

There appear to be only three conceptions of trust that are at least moderately articulated and developed in the existing literature. These conceptions are differentiated by their grounds for supposing another is trustworthy. We can suppose you are trustworthy because we think you are morally committed to being so, because you have a relevant character disposition, or because you encapsulate our interests. In this chapter, we spell out the three conceptions of trust that are grounded in some kind of judgment of the trustworthiness of the potentially trusted agent or person. The first two are presumably clear enough, but it is worthwhile to spell them out so as to see what force they have in explaining behavior or social structures. We focus first on the encapsulated interest conception and then briefly discuss the other common theories.

Trust as Encapsulated Interest

Most of the discussion in this book is based on the encapsulated interest model of trust (Hardin 1991b, 2002b). According to this conception of trust, *we trust you because we think you take our interests to heart and encapsulate our interests in your own*. You do so typically because you want to continue our relationship, and you therefore want to act in our interests. By “encapsulate” we mean that to some extent our interests become yours in the trust relation between us. From this perspective, the trusted party has an important incentive to be trustworthy, and this incentive is grounded in the value of maintaining a relationship with the truster into the future. Of course, it is always possible that your concern for your own separate interests will sometimes trump your concern with ours, and thus we may face some risk in trusting you. In this case, you may sometimes act against our interests.

Such a violation of trust is especially likely to happen when there is a systematic conflict of interest between us, as when I could profit at your expense while seeming to act as your agent. There are many examples of such betrayals coming to light, often ending relationships once based on trust. Conflict of interest is a broader phenomenon, however, that can happen in simple business and other relationships in which there need not have been any trust. A disturbing recent example is the practice of many major investment and banking firms—including Merrill Lynch, Citigroup, Morgan Stanley, and UBS—of running “both investment banks and brokerages. Investment bankers help companies sell stocks and bonds. Brokers help investors buy stocks and bonds. Companies

want to sell high; investors want to buy low. Companies want Wall Street to make them look good; investors want Wall Street to tell them which companies actually are good. When the same firm is advising both sides, someone is going to get a raw deal, “*even if everyone is acting honestly*” (Surowiecki 2003, 40, emphasis added). For examples of such conflicts of interest from professional practice and science, see chapter 6. On the encapsulated interest conception, when we trust you, our expectations are grounded in an assessment (perhaps inaccurate) of your interests specifically with respect to us. If we have a conflict of interest with you over the matter on which we might wish to be able to trust you, we have good reason to doubt your trustworthiness.

While superficial objections could be made to bringing interests into trusting relationships, such as one’s relationship with a close relative or friend, they are clearly there much of the time. For many other trusting relationships, the whole point is likely to be interests. For example, people may have ongoing commercial relationships with local merchants or business people that become trust relationships. Such a view of trust fits quite well with a wide array of trust relationships. In fact, we most often trust those with whom we have ongoing relationships. And the richer the ongoing relationships and the more valuable they are to us, the more trusting and trustworthy we are likely to be.

This model of trust has been used in explanations of many behaviors and social phenomena, as it is in this book. For example, it is used here to explain the effects of asymmetric power on trust relationships (chapter 3); the ways in which distrust and trust can be asymmetric and how distrust grounds liberal theories of government (chapter 4); informal social devices for eliciting cooperation (chapter 5); quasi-institutional devices for overcoming conflicts of interest in our relationships with professionals acting as our agents (chapter 6); intraorganizational trust and distrust (chapter 7); devices of government and law to overcome lack of trust (chapter 8); and many issues in the transition from one form of social order to another on both the small and large scales (chapter 9).

The main factor that distinguishes trusting from other types of social relations, such as relations of simple coordination, is *the concern of the trusted with the truster’s interests*. To say that we “trust” someone to coordinate with us when doing so directly serves their own interests is not a compelling use of the term “trust.” The only issue at stake in the case of mere coordination is the other party’s competence and understanding of the situation, such as another motorist driving in ways that do not lead to harm. In driving and many other contexts in which we are primarily concerned with successful coordination, we need not care very much about the others involved in that coordination effort, and in fact we are likely not to know them at all. Trust entails a stronger claim. For us to trust you requires both that *we suppose you are competent to perform what we trust you*

to do and that we suppose your reason for doing so is not merely your immediate interest but also your concern with our interests and well-being. Although much of the discussion of trust is general and not very specific, actual trusting seems to be quite specific. I trust you to do certain things (and not other things). In our model, trust is a three-part relation. A trusts B with respect to issue x or issues x, y. . . . A is very unlikely just to trust B tout court. We expand this model in chapter 2.

One can argue that A trusts B with respect to x under a specific set of conditions that have as much to do with the nature of the relationship between A and B (that is, trust is a property of the social relation) as with the nature of A's interests and B's interests and with their levels of relevant knowledge or any other individual attribute (gender, education level, occupation). The analysis of trust based on factors such as interest and knowledge can then be embedded in the context of social relations and what we know about aspects of the relationship and the broader network of relations surrounding the A-B relation (for example, with actors C, D, E . . .).

Developing a relational model of trust should aid in the study of the diffusion of trust and distrust in social settings, such as within organizations or communities. Presumably these take quite different paths. For example, the diffusion of distrust in a social system or network of social relations might be quite rapid, whereas trust would be diffused only under a highly special set of circumstances. Such analyses should also put into relief the asymmetries between trust and distrust and help to sort out the significance of changing units of analysis (individual-level, relational-level, system-level). At least two broad substantive issues are raised by these considerations: the nature of the relation between any two particular actors and the determinants of trust between them (a dyadic focus), and the nature of the network surrounding these actors that might facilitate trust or the reconstruction of trust where it has been destroyed (the embedded conception).

This book assumes an essentially dyadic account of trust and trustworthiness based on the analysis of trust as encapsulated interest. We extend the model by assuming that relations of trust are embedded in a larger social context (see, for example, Granovetter 1985). On this account, the truster's expectations of the trusted's behavior depend primarily on assessments of the trusted's motivations. These assessments can be based on knowledge of the actor or knowledge of the structures in which the relationship is embedded. We expand on both of these bases of trust in chapter 2 on trustworthiness.

The purpose of the account offered here is to explain some trust-related behaviors and the implications of trust and distrust in many social and institutional contexts in order to make sense of a wide array of devices for organizing cooperative behavior in the absence of trust or in the

presence of very weak trust. In general, we suppose that the success of cooperation under such conditions is a far more important social issue than are trust relations in many other contexts.

Note that the conception of trust as encapsulated interest implies that *many interactions in which there is successful coordination or cooperation do not actually involve trust*. In this book, this observation is fundamentally important because it is success in just such interactions that we wish to explain, whereas many discussions of trust take cooperation to be virtually defining proof of trust. Consider a very important daily interaction that we resolve with apparent ease and with neither knowledge of the other parties involved nor real concern for their welfare. We usually walk on sidewalks and drive on streets without difficulty. We coordinate with all the other pedestrians or drivers without running into them. You might be an unusually nice person who is deeply concerned with the welfare of others, but you need not have any such concern to be adequately motivated to avoid bumping into others. Your own interest in survival typically suffices. Indeed, you might wish you could simply will the others off the sidewalk or the road to let you pass more easily or safely. Trust is not at issue.

Similarly, in the cooperative venture of trying to elect a candidate whom you favor, you might vote because of the effects you want to have, not because you are concerned with the desire or interests of others who are also voting your way. This is yet another context that typically involves coordination in which trust as encapsulated interest is not at issue. You may have confidence in others to vote your way, but you need not trust them. In fact, there need be no trust whatsoever for you to succeed in these interactions.

There are many such daily interactions. *Trust involves a genuine involvement between you and the trusted other and a specific, not abstract, assessment of that other's motivations toward you*. If you have never met or in any way dealt with the other person—perhaps you cannot even see the driver of an unknown car—it is meaningless to say you trust that person. The word *trust* has no real meaning if it does not differentiate our relationships with others because trust is inherently about our relationships. Indeed, it differentiates our relationships because we trust some people but not others. For trust to yield explanations of behavior, it must tell us something distinctive about our relations with others.

Other Conceptions of Trust

In two alternative conceptions, trust depends on the moral commitments or the character of the potentially trusted person or agent. Despite the fact that moral commitments seem to be very important in motivating trustworthiness in the lives of many of us and therefore in evoking trust for us, and despite the fact that many writers on trust assert the centrality of such

commitments, there is apparently no systematic work on the role and effects of morally motivated trustworthiness. From the sheer number of scholars who assert the importance of morally grounded trustworthiness, one could say that this is the chief alternative to the account of trust and trustworthiness as grounded in encapsulated interest. Unfortunately, however, the moral theory of trustworthiness and therefore trust is almost entirely undeveloped.

In the trust literature, the moral account leads to almost no explanations of social behaviors in general or of the social structures that result from it. Furthermore, such literature may offer no compelling accounts of why some are morally motivated to be trustworthy while others are not. The moral account of trustworthiness is more often asserted than either of the other two main candidate theories of trust—the dispositions and encapsulated interest theories—but it is generally asserted without argument, as though it were an obvious conceptual point or an undeniable fact of human nature. And it is seldom put to the empirical task of explaining different categories of important behaviors (Becker 1996; Held 1968; Hertzberg 1988; Horsburgh 1960; Jones 1996; Mansbridge 1999). Some data, however, seem to show that ordinary people characterize *trust* as moral, just as many scholars do (see, for example, Uslaner 2002).

Many, perhaps most, of the proponents of the moral theory mistakenly refer to trust as moral, although their actual claims and discussions are most often very clearly about the *moral commitment to be trustworthy*.³ Of course, if others believe you have such a commitment, they can attempt to cooperate with you with relative confidence that you will live up to their expectations. But such knowledge of moral commitments realistically derives from information most likely obtained from ongoing relationships. It is something I come to know about you over time, and it is particular to our relationship as articulated in the encapsulated interest account. Occasionally you might assume that all those in a particular social category are morally committed to be trustworthy, but such categorical judgments are often wrong (see chapter 2).

Perhaps the leading recent proponents of a dispositional account of trustworthiness are Toshio Yamagishi and his colleagues (for example, Yamagishi and Yamagishi 1994), who include moral and other dispositions in their accounts. Bernard Barber (1983) and Tom Tyler (2001) similarly tend to have dispositional accounts of trustworthiness. One can imagine, however, focusing only on the disposition to have a particular character, as a stoic might do, and here we restrict the dispositional model to such dispositions.

It is commonplace that we each trust different people. This fact makes eminently good sense on the relational view of trust as encapsulated interest, but it does not fit well with the two accounts of trustworthiness as based on very general features of people (for example, the dispositional

and moral accounts). When you trust someone whom others distrust, either you or they must be mistaken in assessments of that person's moral or character dispositions. The person's trustworthiness, on the moral and dispositional accounts, is independent of who is dealing with her; it is purely a feature of her morality or her character. In other words, *a person's trustworthiness is wholly nonrelational*. Yamagishi (2001) connects his dispositional account with what he calls "social intelligence." Some people are better judges of who is likely to be trustworthy or untrustworthy. Without an account of something like social intelligence, the dispositional model of trust would make little empirical sense of actual trust relations. We review this discussion more fully in chapter 2.

On the encapsulated interest view, some of us can trust while others distrust a particular person A, because some of us have ongoing relations with A that others do not have; those ongoing relations might be valuable enough to A to induce A to be trustworthy toward us. The universality of the moral and character views with respect to who is or is not trusted is not substantiated by our actual experience, and it suggests that these views of trust are not views that actually drive real people in their assessments of their own relationships with those whom they trust and those whom they distrust.

Parallel to the dispositional model of trustworthiness is a long-standing view that some people have a *disposition to trust*. One could usually reframe this claim as a matter of optimism, learned perhaps through experience, that others (and perhaps only certain classes of others) will be trustworthy toward us if we try to deal with them. Julian Rotter's (1967, 1980) interpersonal trust scale is intended to measure the disposition to be trusting, independently of any inquiry into the trustworthiness of those trusted. It is not a scale of the trustworthiness of the person or agent who is trusted. We discuss this empirical work in chapter 2, but in general we are not concerned with the possible *disposition to trust* in this book. In the context of trust relations, we treat any such disposition as a summary of one's experience. If most of the people you have dealt with have been trustworthy, you may typically expect to find it easy to develop relationships of trust with new people with whom you come to deal. That is, you are more willing to take a risk on someone unless the stakes are too high. Note, incidentally, that the moral theory of trust (that it is moral to trust) is far less developed and researched than the psychological disposition-to-trust theory, as represented in the extensive work of Rotter and many others.

Generalized Trust

Related to the view that some people have a disposition to trust is the somewhat complex and much grander claim that we have generalized trust in other people, independently of who the other people are. This is

sometimes called social trust. It has arisen as a concept perhaps only because poorly worded, imprecise questions in the two main surveys of political attitudes in the United States have forced fairly grand answers. The National Election Studies (NES) surveys measure attitudes toward government, and the General Social Survey (GSS) of the National Opinion Research Center (NORC) taps attitudes toward the general other person in society. The latter seems to allow people to say that they trust just anyone at all. Quite possibly, no one would ever have thought it plausible that anyone trusts literally everyone in the world, but thousands of people answering these survey questions are virtually forced to say that they are either *generally* untrusting or *generally* trusting. The thesis that science is socially constructed may well be apt in this case. Here are the GSS questions that are used to measure generalized trust:

1. Do you think most people would try to take advantage of you, or would they try to be fair?
2. Would you say that most of the time people try to be helpful, or that they are mostly looking out for themselves?
3. Generally speaking, would you say that most people can be trusted, or that you can't be too careful dealing with people?

It seems sensible to suppose that someone might distrust almost everyone and even literally everyone in certain groups. That same person is unlikely to trust almost everyone or even everyone in any particular, broadly defined group. Hence, we could have group-generalized distrust, although it is unlikely that we would have group-generalized trust (see chapter 4). Some people might be more or less likely to take a risk on interacting with certain groups of people based on fairly naive conceptions derived from their past experiences, but that is not to say that they would *trust* these other groups of people in any meaningful sense (see chapter 2 on social cognition). Also, many people might have very general distrust in government and all its agents in certain contexts. For example, Jews in Nazi Germany must have come to distrust the Nazi government and virtually all German soldiers and police officials.

The idea of trust in government has some of the quality of the idea of generalized trust in everyone in some broadly defined group. The government of a large nation such as the United States or the United Kingdom has hundreds of thousands of employees, all of whom are in some vague sense the agents of citizens but very few of whom take our particular individual interests seriously or even know anything about most of us. We could readily distrust all of these people as a class, and therefore distrust government, for the simple reason that we cannot see how our interests are encapsulated in theirs.

Ironically, the battery of four questions that constitute the trust scale in the National Election Studies surveys were originally proposed as a cynicism scale. That scale was invented in an effort to understand lack of participation in democratic politics, especially in the United States, where turnouts in national elections were typically below 60 percent when the scale was introduced around 1960. Couched as a general attitude toward government, the questions in this cynicism scale are:

1. How much of the time do you think you can trust the government in Washington to do what is right—just about always, most of the time, or only some of the time?
2. Would you say the government is pretty much run by a few big interests looking out for themselves or that it is run for the benefit of all the people?
3. Do you think that people in the government waste a lot of money we pay in taxes, waste some of it, or don't waste very much of it?
4. Do you think that quite a few of the people running the government are crooked, not very many are, or do you think hardly any of them are crooked?

Cynicism is essentially the belief that others are motivated only by self-interest. That suggests that high cynicism should be a very neat, although not perfect, analogue of distrust. Hence, generalized cynicism can make sense just as generalized distrust can make sense.

Inverting the cynicism scale to make it a measure of generalized trust makes much less sense. The questions in the scale seem to be a fair guide to cynicism, hence to distrust, but no guide at all to trust on any of the three standard conceptions of trust.⁴ The trust questions in the General Social Survey should also be good for tapping cynicism. We view many of the empirical claims about the seeming goodness of generalized trust as actually about the benefits that would follow from generalized trustworthiness; hence, our focus in this book is primarily on devices used to ensure trustworthiness and cooperation in the absence of the possibility of assessing trustworthiness accurately or at all.

Declining Trust?

The central question about trust in larger social contexts is what makes people trust each other when they have relatively little direct relationship with one another. It is unproblematic that trust emerges in smaller communities and is maintained among small groups or dyads when individuals interact regularly over time. To be beneficial, trust must be maintained and even constructed, but there is relatively little under-

standing of how this is done or can be fostered. There are extensive literatures on property rights, appropriate organizational forms for solving principal-agent problems, and correctives for high information and transaction costs. Contracts cannot be perfectly specified, information is imperfect at the margin, private incentives do not always work, and enforcement costs can outweigh the benefits of many transactions. Yet explicit and implicit contracts continue to be made, people believe they can predict the relevant behavior of others, and collective action problems are sometimes solved despite evidently contrary incentives.

Often the combination of trust and reputations for trustworthiness resolves these problems. Putnam (2000) argues that trust, produced by a dense network of secondary associations, improves the quality of representative government, leads to economic development, and makes neighborhoods safer and more livable. Russell Hardin (2002b) suggests that the long-term persistence of structural inequalities between certain groups or individuals is a consequence in part of initial differences in the learning of trust, which is to say in learning how to distinguish who is likely to be trustworthy; such learning must be difficult for those who seldom see examples of trustworthiness (see chapter 5). By implication, policies designed to reduce economic and political disparities must build a social infrastructure that ensures a rupture with the past and that promotes substantial relearning of the likelihood of trustworthiness.

Survey research findings on trust have been interpreted to suggest that both overall levels of interpersonal trust and general levels of trust in government and other major social institutions are in steady decline in the United States and some other industrial states, especially Canada, Sweden, and the United Kingdom. The popularization of the general conclusion of these studies has become a major part of public debates about the performance of government and the viability of democracy in an age of apparent distrust. Indeed, most of the recent literature on the supposed decline of trust in the United States and on its putative effects is based on such survey research. Putnam (2000) examines numerous possible explanations of the seeming decline in trust. Some of these explanations suggest that it is a problem of individual-level psychological changes, and others suggest that it might be an artifact of structural changes.

Consider various individual-level explanations that have been offered. Putnam (2000) has suggested that the rise in television viewing undercuts social participation; lower levels of social participation lead in turn, he argues, to lower levels of trust in varied contexts. John Brehm and Wendy Rahn (1997) argue that materialism is rising and that it undercuts trust. One possible motor for this effect is that a society's single-minded focus on economic success leads its members to pay less attention to others and therefore to trust each other less. Laura Stoker (personal communication, May 6, 2000) argues that deliberate programs to induce people to make

demands on government (under the Great Society and other initiatives at various levels of government) succeeded in stimulating direct participation, but that the subsequent failure of government to resolve the relevant problems led to a loss of trust in government. William Julius Wilson (1987, 144) argues that the hard-core poor, especially in racial ghettos, develop little social capital. The departure of the more nearly affluent ghetto dwellers makes it “more difficult to sustain the basic institutions in the inner city,” and those who remain behind face the decline of their “social organization.” We argue in chapter 5 (see also Hardin 2002b) that this problem is exacerbated by the difficulty of learning to trust in a context in which networks of beneficial interaction are poorly developed, beginning already at the level of weak familial networks but extending outward to larger social networks that are weak and even unreliable. A child who suffers abuse whenever he or she interacts with adults is unlikely to risk interactions and therefore is unlikely to learn that some adults can be trustworthy.

There have been two large structural changes that might have changed the meaning of the responses to the standard trust questions used in most survey research on these issues. Increasing urbanization entails interactions with larger numbers of people, so that “most people” is a much larger category for current generations than for respondents forty or fifty years ago. Similarly, increasing immigration and increased mixing across ethnic groups make it likely that in many advanced industrial societies “most people” is a more diverse category than it was earlier. This effect might be part of the reason blacks in the United States are reported to be less trusting than whites: as a mere structural fact, a black must have about seven times more interactions with whites than a white has with blacks (Blau 1994, 30–31). The standard survey research questions about trust do not easily address these causal claims. In this book, we focus directly on causal claims, specifying the nature of the role of trust in society, its limits, and its alternatives.

An Overview of the Book

We have discussed the most developed approaches to trust in the social science literature, and we have introduced the conception of trust as encapsulated interest. In this book, we extend and apply this model to a wide range of phenomena traditionally viewed as central to the understanding of the production of social order in many contexts, from small groups to nation-states. We evaluate the existing evidence and clarify the role that trust plays in the construction and maintenance of social order. Contrary to much of the literature on trust produced over the past quarter-century, we argue that trust plays a relatively small role on the grand scale in producing and maintaining social order. We usually rely

on and cooperate with each other, not because we have come to trust each other, but because of the incentives in place that make cooperation safe and productive for us. We can take risks on one another even as complete strangers in many situations because of the presence of institutions, organizations, and networks that constrain exploitation and provide individual and collective incentives that reduce externalities.

In chapter 2, we consider the bases for beliefs in the trustworthiness of others. Such beliefs derive from cognitive processes that help us assess the role of social structure in the actual production of trustworthiness. Stereotypes, reputations, norms, communities, networks, and incentives all come into play. We do not rely primarily on morality or personal dispositions to produce trustworthiness in most contexts. In the encapsulated interest view of trust, judgments of trustworthiness are most often grounded in specific evaluations of the actors involved, the nature of the issues at stake, and the social context. Few can be said to be trustworthy in any meaningful sense of the term under all conditions. Yet the bulk of the existing empirical evidence, especially that derived from general social surveys, as noted earlier, fails to take context into account, even though the data come from many different cultures. We discuss the limits of evidence as well as the limits of the theoretical claims based on such evidence.

Chapter 3 addresses an undeveloped topic in the extensive literature on trust. Given that trust is often treated as an individual character trait or moral disposition in this literature, few have explored the topic of power and its relationship to the possibility for trust. Once trust, like power (Emerson 1964), is defined as *a property of a social relation*, other aspects of the relationship beg for analysis. The vast array of social relations characterized by power inequality comes under the microscope in this chapter. Two features of the power relation that affect trust are the degree of mutual dependence on the relationship and the nature of the alternatives to the relationship for each party. Greater access to alternatives yields greater power, lower dependence, and less possibility for trust. High mutual dependence creates the grounds for high trust as encapsulated interest as well as trustworthiness.

Various devices are used by the powerless to reduce their dependence and thus their vulnerability. Where trust relations are desired, powerful actors can attempt to make credible their commitments not to exploit others, or they can use various strategies that increase the possibility that they can be trusted by making their decisions and actions transparent, avoiding secrecy and the appearance of unfairness, and embracing principles of distributive and procedural justice. Similar issues arise at the macro level with respect to dishonesty, corruption, and the exploitation of power inequalities, topics we explore in our discussion of economic and political transitions in society in chapter 9.

Chapter 4 focuses on power inequalities, which, among other forces, sow the seeds of distrust. Distrust can create barriers to cooperation and exchange when there is little institutional backing to block the worst possible outcomes. But under some circumstances, distrust is warranted and sometimes desired as an approach to limiting possible abuses of power, as in the design of democratic government. In this chapter, we analyze various devices for managing relationships pervaded by distrust, as well as the devices we employ in settings in which distrust is warranted and in settings in which there is simply a lack of trust. These different conditions result in different outcomes. Interesting conclusions can also be drawn from the fact that there are asymmetries of trust and distrust, which, when acknowledged, clarify many of the grander claims about the role of trust in society and the “problem” of distrust. In particular, there are significant asymmetries in both the knowledge and the motivational elements of trust and distrust.

Important social consequences also emerge from the interrelationship between trusting relations and relations dominated by distrust. Sometimes trust networks, for example, are based on ascriptive characteristics that solve problems of within-group exchange and cooperation and lead to increased within-group social cohesion. But these same trust networks may impede the development of crosscutting social ties and lead not only to a lack of trust of “outsiders” but to active distrust. In addition to exploring such social consequences of trust relations in the context of distrust, we examine the role of liberal distrust of government in the production of good government. And we comment on the difficulties that are created, especially during political and economic transitions, by corrupt and unreliable governments (see also chapter 9). In some circumstances, the state itself can be a major source of distrust in society.

In the face of distrust or even the lack of trust, we commonly attempt to create structures—at the interpersonal, small-group, organizational, or societal level—to protect us against the potential for harm. In some arenas, it is not likely that even a strong state or a powerful oligarch could secure for us the conditions that make certain cooperative relations possible. For this, we rely on *informal social and organizational mechanisms* to give potentially useful partners the incentive to be cooperative. Such devices, the subject of chapter 5, have long been the focus of anthropology, sociology, and even economic history. This class of cooperative interactions may be the most numerous in our lives, lying somewhere between those that can be managed with trust relations secured by encapsulated interest and those that are significant enough to be managed by the state and by legal institutions, such as the courts. We explore devices such as reputational mechanisms, networks of social capital that enable cooperation without trust, and norms backed by communal sanctions. For color, we include a discussion of the duel as a social device for controlling interpersonal be-

havior among aristocrats and the use of fictive kin relations in such places as Japan and Kenya to secure cooperation and in some instances genuine trustworthiness when familial ties do not exist. We also discuss numerous forms of lending without legal backing, as in the interesting case of the Grameen Bank.

In the absence of such informal social devices that enable cooperation, we sometimes rely on nongovernmental institutions, some of which have the force of the state behind them if backed by legal institutions such as the courts. These are the subject of chapter 6. Professional organizations are one class of such devices that create the framework within which trust relations between professionals and their clients, or between agents and their principals more generally, can emerge as ongoing relations of encapsulated interest. Two cases are discussed briefly: the American Medical Association (AMA) for doctors in relation to patients, and the American Bar Association (ABA) for lawyers in relation to their clients. We offer more extended discussion of the kind of regulation of science and business that can lead to conflicts of interest in which perverse incentives arise that, if unchecked, threaten to destroy the very basis for productive enterprise in these realms.

When people have little confidence not only in politicians, doctors, and lawyers but also in business executives who distort stock prices (as at Enron and WorldCom) and scientists who fake results (such as the physicists Viktor Ninov and Jan Hendrik Schön, as discussed in chapter 6), our attention as social scientists is drawn to the failure of organizational incentive structures to restrain opportunism or to sanction the untrustworthy and even the incompetent. These issues and their relationship to trust are explored in depth in chapter 6. Three major institutional structures that have emerged to constrain the behavior of specific actors to act in our interest come under scrutiny: professional regulation, the competitive self-regulation of scientists, and the market regulation of business.

Managing conflicts of interest and creating wide-ranging devices for aligning individual and collective interests are the main goals of organizational design, we argue in chapter 7. But supervision, rules, monitoring, and clever pay schemes cannot fully constrain opportunism in the face of relatively powerful incentives for profit-seeking or gain. Furthermore, contracts are almost always incomplete, and the parties involved often have asymmetric information, if not differential power. Even though creating and sustaining trust relations in most organizational contexts can be very difficult, their value is clear.

Organizations have to deal with several types of general problems with respect to performance: problems of adverse selection and moral hazard. Adverse selection can be mitigated to some extent by training and, at the extremes, firing. Moral hazards arise when monitoring is impossible or impractical. Typically in such cases more resources are invested in the

selection process and in reliable networks that produce high-quality employees. Reliance on incentives to reward competence, commitment, and loyalty is the cornerstone of the human relations industry. But incentives do not always work, and conflicting interests may result in unanticipated consequences. Monitoring and sanctioning can fill the gap, sometimes with negative consequences if practiced too intrusively or too severely. Under circumstances we survey in this chapter, treating employees *as if* they can be trusted may generate not only trustworthiness but also greater satisfaction, better performance, and reduced transaction costs. But there are limits to the extent to which this strategy can be successful in many organizational and institutional contexts. Even professionals—such as priests, teachers, physicians, or investment counselors—violate the trust placed in them.

The devices discussed in chapters 5 through 7 often cannot adequately ensure cooperation and block opportunism in the absence of a stable state, as we argue in chapter 8. Reliable and stable state institutions can produce the conditions necessary to facilitate exchange and cooperation in the market and in civil society even when there is low interpersonal trust (chapter 8). Democratic forms of government, an independent judiciary, and the public accountability of elected and appointed officials can increase the confidence of citizens, even if these features of state institutions do not always lead to accurate assessments of the trustworthiness of their political representatives.

States that engender willing compliance from citizens tend to be those that are viewed as fair, competent, and relatively good at serving the public interest (Levi 1997, 1998). Democratic regimes are more likely than other forms of government to reach this goal in the modern era. But doing so may require institutionalizing distrust in the design of government to create the checks and balances required to limit abuse of power. If so, then the very general claim that “trust” in government is good is wrong. We explore the complexities of this set of debates both in chapter 8 and in chapter 4.

But states change, sometimes overnight (as in Eastern Europe and the Soviet Union in 1989), and the political and economic landscape can be dramatically altered in the process. Also, people who move from one state to another (or from one country to another) must come to terms with new political, economic, and social conditions. These are among the types of transitions we discuss in chapter 9. Transitions create uncertainty and often risk. Under these conditions, people tend to cooperate and exchange with those they know or are connected to in some significant way. Immigrants are drawn into ethnic enclaves at the end of a migration chain that provides them with the resources, however minimal, to become productive and to settle into a new environment. Networks of trusted family, friends, and acquaintances can aid adjustment but can

also block access outside the group and reduce the capacity for assimilation into the larger culture, and thus such networks can actually decrease economic and social opportunity. In this way, extant social capital may reduce the possibility for further accumulation of human capital (see Cook 2005; Cook, Rice, and Gerbasi 2004). These and other complex links between trust, social networks, social capital, and successful cooperation, exchange, and economic growth are discussed in chapter 9.

We explore the many disruptions that large-scale economic and political transitions have entailed in a number of historical and cultural contexts, from early modern Europe to contemporary Vietnam, Africa, Eastern Europe, and Russia. Reliable and stable institutions that reduce corruption and make possible economic growth are critical. Institutional legitimacy is based on reliability, consistency, and fairness. These factors may lead to perceptions that institutional and state agents are likely to be reliable. We need a more complete model of the process of transition from one state to another if we are to understand more fully the production of social order based on devices for securing cooperation without trust. To suppose that social order and economic growth depend critically on trust relations within society is sociologically and politically naive.

The fundamental problem of social order in society is the main focus of our book. How is social order produced? How is cooperation sustained? What is the role of trust in the production of cooperation and social order? How is distrust managed? What are the consequences for social systems of the lack of trust? How do social systems shift from one state to another? What factors hinder or facilitate the production of trust in society? Who trusts whom, under what conditions, with what consequences? And most fundamentally, how do we secure cooperation and social order in society when there is little trust or trust is impossible?

Our primary aim in this book is to provide conceptual clarity about a subject that is fraught with vagueness in the social science literature as well as in popular writings. If we succeed in this task, we will have made a major contribution to the understanding of the limited role that trust typically plays in the production of social order in the modern era.