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# A State of Trust

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Levi: *A State of Trust*

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The topic of trust has recently inspired a host of books and conferences[1]. This is in part because of recent events. The overturning of the communist regimes in Eastern Europe and the emergence of democratization movements in other parts of the world raise questions about how to institute trust in an unaccustomed state and government. The creation of new institutions to manage the European Union seem also to depend on the development of trust, this time among both member states and their citizens. The intensity of ethnic and religious conflicts generate concern about what fuels and maintains distrust. The relative success of the Japanese economy or of Korean immigrants to the United States suggests the importance of small group trust in generating productive and efficient economic organization.

Of equal importance in explaining the focus on trust is the need for some such concept in social science research dedicated to the explanation or design of institutions. Many economists and political economists who spent most of the 1980s working on models aimed at "getting the incentives right" are now recognizing that they need something more than incentives if they are to have better models of principal-agent relationships (see, e.g., Kreps 1990, Miller 1992), collective action and cooperation (see, e.g., Gambetta, ed., 1988; North 1990; Orbell and Dawes 1991, 1993), negotiation of government policies (Scharpf 1994), or compliance with government regulations (see, e.g. Levi 1988, Ayres and Braithwaite 1992). Further contributing to this preoccupation with trust is the attractiveness of the idea of social capital, a concept popularized by Robert Putnam (1993) but drawing on the work of the economist Glen Loury and the sociologist James Coleman, as a means to produce better polities and economies.

Trust is, in fact, a holding word for a variety of phenomena that enable individuals to take risks in dealing with others, that solve collective action problems, or that promote willingness to act in ways that seem contrary to standard definitions of self-interest. However, what it is, what work it does, and what accounts for its variation are only beginning to be the subjects of serious theoretical and empirical investigations. Thus, the first step in understanding trust is to clear away some of the conceptual cobwebs that surround the subject. The purpose of this paper is to initiate this task by thinking about the relationship between state actions and generalized, interpersonal trust.

A commonly accepted conclusion of the anthropological and theoretical literature is that centralized government destroys the social cohesion of traditional communities, undermines cooperation, and destroys trust among

[1] Paper prepared for presentation to the Robert Schuman Centre, European University Institute, in march 1996 and will appear in Valérie Braithwaite and Margaret Levi (Eds), *Trust and Governance*, (in process).

individuals (Taylor 1982; Gellner 1988). There is little real question about the first, considerable question about the second (from Hobbes on), and, until recently, no serious consideration of the third. It must certainly be the case that government agencies, depending on their nature and their personnel, are at times among the major forces for destroying interpersonal trust either directly or by means of destruction of other institutions that support trust. However, centralized government is sometimes crucial in establishing levels of trust among citizens that make possible a whole range of social, political, and economic transactions that would otherwise not be possible. Critical to this task is its use of coercion, rightly understood and used. Moreover, there is some reason to believe that democratic institutions may be even better at producing generalized trust than are non-democratic institutions--in part because they are better at constraining the use of coercion to tasks that enhance rather than undermine trust.

In what follows I explore the role of the state in producing trust, the economic and political advantages of trust, and the conditions that make trust possible. I do this by means of a survey of the existing empirical research in a variety of disciplines and on an array of subjects as a way of clarifying what we know--and still need to know--in order to develop a satisfying theory of trust.

## WHAT IS TRUST, AND HOW DO WE OBSERVE IT ?

The act of trust is, in this account, a form of encapsulated interest, as Hardin (1993, 1996) argues. That is, the trusted will have incentive to fulfill the trust placed in her. It is neither normatively good nor bad; it is neither a virtue nor a vice. However, the act of trusting has consequences that may be productive for the individual, or not, and beneficial to her society, or not. Equivalently, the act of distrusting lacks normative connotations, but it, too, can have individual and societal welfare effects.

Trust implies a risk to the truster. In some instances the risk may be so low that we tend to use the label confidence instead of trust. In other instances the risk is so high that we consider the truster gullible. In certain cases, the risk is worth the payoff; this seems to be the estimate of the Persian rug salesperson who offers to let someone take a valuable rug home, often to another state or country, and try it out before paying a cent. In other cases, the possible risk is so considerable that no trust is given. The overguarding of children by their parents exemplifies this.

The actual extent of risk and the extent to which the truster is taking a "sensible" risk are variables. They are always partially and often largely functions of the trustworthiness of not only the trustee but also those on whom the truster relies for information and sanctions against a trust-breaker.

Sometimes this actor is the truster him or herself; this is the case when s/he relies on her own assessments of character. More often, there is a third party who has either vetted the trustee, will sanction the trustee if necessary, or both. Trust is, therefore, a relational and rational, although not always fully calculated, action. In many, if not most, cases it depends upon confidence in institutions that back up the trustee.

Having clarified what it means to trust, it is now necessary to explicate a way to study variation in trust. This requires, first, an observable indicator of the absence or presence of trust. Behaviorally, a trusting individual is one who makes a low personal investment in learning about the trustworthiness of the trusted and in monitoring and enforcing her compliance in a cooperative venture. Notice that each clause is important here. The investigation is of trusting **behavior**, not its outcome. In other words, someone can trust mistakenly. The measurement is of **personal** investment in monitoring and enforcement and not of the cost of institutional arrangements that lower that investment.[2] At issue is a **cooperative venture**, which implies that the truster possesses a reasonable belief that well-placed trust will yield positive returns and is willing to act upon that belief. Thus, the observer can tell if an individual is trusting by noting whether a transaction took place[3] and by measuring her investment in learning about potential partners in cooperation and in monitoring them and enforcing their behavior once the bargain has been struck. The absence of a transaction indicates the absence of trust. The higher the investment, the less trust.

The use of this behavioral indicator also makes clear that trust is not one thing and does not have one source. It has a variety of forms and causes. Although a reasonable belief that the trustee will act consistently with the truster's interests depends on knowledge of the trustee, this can but need not be detailed, personal knowledge. Trust requires the reduction of the information and transaction costs to an individual, and the arrangements that both lower personal investment and reinforce reasonable beliefs are diverse, ranging from an individual's capacity to make sound character assessments; to her embeddedness in thick networks of interaction that make knowledge of others easy to acquire; to reliance on institutions that do the work of information-gathering and monitoring.

All such arrangements have in common their capacity to solve information problems and provide credible assurances that the trustee will follow through on her obligation. The major distinction between them is the extent to which they rely on individual assessments or personal relationships rather than impersonal

[2] I shall return to this issue later in the text.

[3] I wish to thank Daniel Verdier for helping me to see this component of the behavioral indicator of trust.

but institutionalized interactions. No other obvious factors distinguish them, however. Computer technology may offer a more detailed account of an individual's history of promise-keeping than does living next door or being her cousin, but sometimes it does not. For example, someone who always pays her bills on time will find herself in the perverse situation of having difficulty getting a bank loan due to her lack of credit history. In this case, personal knowledge may be a better source of information.[4] The relative costs of bringing punitive measures to bear if need be may be extremely high in a close-knit community where the truster may feel ashamed of her bad judgment or where she must bring evidence to bear against a popular and important member of the group. It is also extremely costly, in time, money, and reputation, for a citizen to bring or defend a harassment suit, despite (and sometimes because of) all the protections and procedures under law. However, many communities have elders, pastors and other means to bring pressure to bear on trust-breakers, and a phone call to the police or one's attorney—and, often, only the threat—can be a relatively low cost way to enforce an agreement.

The behavioral indicator of trust as low personal investment in monitoring and enforcement is compatible with common sense and with what most people mean when they say they "trust". Use of this indicator permits us to transcend arguments over precisely what trust is and to recognize that trust has a multiplicity of forms as well as a multiplicity of mechanisms that evoke and secure it. Trust can result from closely-knit networks of individuals who are dependent on each other and engage in iterated interactions that promote loyalty even when alternative options may appear preferable; this is what Cook and Emerson (1978) term commitment. Despite the insistence of both Cook and Yamagishi[5] that trust and commitment are different mechanisms for resolving uncertainty, by my account commitment is one of the means to create trust. It produces what Yamagishi and Yamagishi (1994) label assurance and what Fukuyama (1995) seems to mean by familial trust. The more generalized trust for which Cook and Yamagishi reserve the label trust may result from a web of associational memberships as Putnam (1993) argues,[6] or it may depend on institutional arrangements that increase confidence in contracting. Its sources may be morality, culture, or encapsulated interest.

[4] Pat Troy offered this example to me.

[5] See their papers for the Russell Sage Foundation-University of Washington Conference on Trust and Social Structure (September 1995).

[6] However, I am not exactly sure about the mechanism by which such associations produce trust. See Levi (1996).

Use of this behavioral indicator also offers the analyst a means to engage in comparative research and in institutional design. Trust is measurable by low personal investments in information, monitoring, and sanctioning where there are, *ceteris paribus*, risks of failure to perform by the trusted with consequent high costs to the truster. Thus, trust can be high in societies that are quite different from each other or can vary significantly among societies that appear quite similar. The reasons for variation will lay in the mechanisms available to bear the information, monitoring and enforcement costs. The prevalence of accepted contractual procedures may create as much trust as tight interpersonal networks. Alternatively, two societies with similar legal and constitutional frameworks may have different levels of trust due to different kinds of workplace or community networks.

There are some interesting implications of this approach that are worth a brief exploration. First, distrust, as well as trust, may involve low personal investments. Expectations that someone or some government will always act against one's interests would discourage investments.[7] These are cases in which the potential truster has confidence, even certainty, regarding the outcome. Thus, the investments in trusting have a curvilinear form: Where there is certainty, the investment will be low or non-existent. The personal investment varies with the uncertainty. What distinguishes these poles, however, is the existence or absence of a transaction.

Second, active distrust, as opposed to trust or simple lack of trust, may be the normatively appropriate response, depending on the situation. When some fundamental interests may be divergent--as between workers and management or between competing ethnic, religious, or racial groups--or when citizens are concerned about protecting themselves from incursions of state power or from intolerant majorities, there is good reason to be wary. Lack of a sufficient basis to evaluate the motivations or predict the behavior of those on whom one depends may be another appropriate basis for the activation of distrust. For example, recent republican arguments[8] about the importance for democracy of a participatory and vigilant citizenry rest on distrust as the normatively correct stance. On the other hand, certain kinds of distrust can prevent coordination that makes possible destructive ethnic conflicts or obstructive coalitions against minority rights (Hardin 1995, 1996).

Third, distrust can be the basis for efficient organization. Gambetta's (1994) masterful account of the Mafia demonstrates the role of distrust in creating and maintaining a powerful organization that is extremely effective

[7] Victor Nee raised this issue in discussion at the Russell Sage Foundation-University of Washington Conference on Trust and Social Structure in September 1995.

[8] See, for example, Braithwaite, J (1996) and Braithwaite and Pettit (1990).

economically. Distrust can also be the basis for more effective governance by stimulating the development of institutional arrangements that resolve potential conflicts and constrain the harmful actions of others. In other words, distrust can generate a societal or even personal investment in mechanisms and institutions that then make possible the low personal investments of trust.

Fourth, in order to be able to trust and thus lower future investments, an individual may invest considerable amounts in establishing the relationships or institutions that make trust possible. For example, managers and constitution-makers put large amounts of time and energy into designing institutions that promote trust, and some people take considerable care in choosing marriage partners or invest quite a lot in their marriage. The effect of these investments, intentional or not, is the establishment of trust when there is a real risk of betrayal involved. However, the investments that establish the basis for trust are conceptually and empirically distinct from the investments that measure the actual degree of trust.

Fifth, trust is relational. The initial grant of trust depends on one person's evaluation that another will be trustworthy. Its maintenance requires confirmation of that trustworthiness, or else trust will be withdrawn.

This means, sixth, that trust, at least interpersonal trust, is "a fragile commodity" (Dasgupta 1988: 50).[9] It is hard to construct and easy to destroy. Thus, an argument about the construction and maintenance of trust must also address the question of how to rebuild trust once it has decayed.

## Using this behavioral indicator

How does this behavioral indicator help make sense of variations in citizen trust of government and of each other or the trust of government actors in citizens? Until quite recently and with the partial exception of studies based on survey data, there has been little empirical investigation of the effects of trust in government on generalized trust or even on citizen responses to government demands. Logically, trust should make a difference in both of these dimensions. To the extent citizens can trust government, they are more likely to comply willingly, to give their behavioral consent. This is the finding of Tom Tyler (1996), Valerie Braithwaite (1996), and John Braithwaite (1996). It is also one of my principal conclusions in *The Contingencies of Consent.* They may also be more likely, it seems, to trust others in other spheres. To the extent government

[9] As Jean Blondel noted in discussion, sometimes trust in government is quite durable. However, as Levi (1988) found in the study of contemporary Australian taxes, trust in the fairness of the tax system can be quite fragile.

actors can trust citizens, they can implement policies more easily and with lower cost.

A review of the recent research reveals a debate on how to conceptualize trust with implications for how to explain what we observe. For example, Tyler (1996) and V. Braithwaite (1996) argue that social bonds are at the root of trust while Hardin (1993, 1996) and I argue for an encapsulated interest approach. By transforming the positions to testable propositions, it is possible to begin to arbitrate between these models of trust.

The behavioral indicator outlined above suggests that:

> (1). where there is evidence of low personal investment in information-gathering, monitoring, or sanctioning, either there is no beneficial cooperation at issue or there are mechanisms present that are eliminating the need for such an investment;
>
> (2). variations in personal investment are a function of the availability of institutions and committed relationships that produce trust, or the expectation of arbitrary responses or betrayal, whatever the investment.

These outlines of hypotheses may help to address such questions as:

1). Is there actually a decline in trust?
2). If, as Putnam and others argue, trust has declined, what is the cause?
3). Is non-voting an indicator of considerable trust of government or its opposite?
4). Is the variation in the political relationship between unions and governments in various democracies an effect or cause of trust, or is trust an irrelevant concept in understanding this phenomenon?

In what follows, I do not address these questions directly; the research still needs to be done. However, I use the indicator and the logic of encapsulated interest to explore what we know and think we know in the extant literature on trust.

## HOW THE STATE AFFECTS INTERPERSONAL TRUST

States contribute to the development of trust by bearing the information and monitoring costs individuals would otherwise have to pay, reducing the divergence of interests between parties who would benefit from cooperating with each other, and thus diminishing their risk and enhancing trust. A centralized state potentially influences the construction, maintenance, and destruction of trust of three sorts: communal and familial trust; generalized trust within a society; and trust in the state. Creation or support of the first two kinds of trust facilitates cooperation (which sometimes appears to be spontaneous cooperation), while destruction of such trust can, at its limit, lead to anomie. Creation of the third kind increases compliance with government policy and tolerance of the regime. Destruction may lead to wide-spread antagonism to government policy and, at its limit, active resistance while also undermining the state's role in producing the other kinds of trust.

### Communal and Familial Trust

Two lines of argument paint the growth of the state as a major cause of the decline in communal and familial trust. The first is anti-Hobbesian, and the second is anti-Marxist. Often the two combine--as in certain strains of libertarian communitarianism. The very development of a central state may have negative effects for trust, initiative, incentives, community, etc., or such negative effects may result from massive governmental intervention in peoples' lives. The extent to which the state actually has these effects, particularly on the construction of trust, remains, however, an empirical question and one that is far from resolved. While Taylor (1982) argues that the centralized state drives out spontaneous coordination that depends on small groups and thick networks of interaction, Fukuyama (1995) claims there is a correlation between a large state and familistic economic organization.

Moreover, normative communitarians tend to neglect the distrust that can exist within families, villages, and small towns. Feuds within families and feuds among families suggest that intimate knowledge does not always produce either trust or cooperation and in fact can produce just the opposite. Banfield's (1958) concept of "amoral familism", whether or not descriptive of the actual village he studied, remains a powerful indictment of societies in which trust extends only to insiders, and distrust reigns outside.

In such cases, a government that reduces personal dependencies and resolves conflicts may actually enhance familial trust. By increasing social rights, the state plays an important role in eliminating risky, personal reliance on another. For example, government-provided welfare or health care reduces the range of services that the needy must otherwise trust--or coerce--their families or community to provide. If the breaking of trust in one sphere influences the willingness to trust in others, dependence on the state rather than particular individuals may increase or at least support interpersonal trust.

**Generalized Trust**

Coleman (1990), Putnam (1993), and most recently Fukuyama (1995) conceptualize trust as one component of social capital, that is, "features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated action" (Putnam 1993: 167). They argue that a society with considerable social capital in the form of intermediary groups is more likely to produce the large-scale organization that is often correlated with development and the vibrant civic life associated with political democracy than a society with hierarchical, familial, or no social capital. Putnam (1993) makes the case that the alternative is a vicious cycle of distrust with negative consequences for economic backwardness and ineffective government. His arguments are consistent with those of the historian Pagden (1988) and the political philosopher Hardin (1993), who offer logics of how distrust breeds distrust with negative consequences for those who distrust.

Economists and psychologists, too, are beginning to recognize the value of trust for improving principal-agent relations in firms (see, e.g. Kreps 1990; Miller 1992; and Williamson 1993) and organizations more generally (Kramer and Tyler, eds. 1996).

There is relatively little attention in either of the recent literatures on "social capital" or the firm, however, concerning the role of the state in influencing generalized trust. Coleman emphasizes the family, Putnam intermediate associations, Miller leadership, and Kreps a corporate principle. Only Fukuyama seems to take the state seriously in his analysis, for it is one source of social capital for him. He claims--without much evidence one way or the other--that to the extent the state facilitates cooperation, it tends to drive out other, more spontaneous and productive associations. He is the most consistent with the long political philosophy tradition as well as more recent research, particularly in economic history, that affirms an important role for government institutions in lowering the personal investments and providing the assurances that make possible the trust that lubricates cooperation.

The absence of an effective state can lead to the Hobbesian world of the "war of all against all"--although, of course, there are other means to avoid such catastrophes than reliance on a centralized, coercive power. Nor does a centralized state necessarily ensure against the descent into violence--the United States Civil War is a case in point. Nonetheless, states often reduce the need for citizens to trust each other, facilitate trust by solving the essential information, monitoring, and enforcement problems, or both. One of the major arguments in the recent work of economic historian Douglass North (1981, 1990) has to do with the role of the state as enforcer of contracts; efficient markets, in the Northian account, depend on state actions. Consequently, sellers and buyers have more freedom to trust each other.

States enforce rights and rules other than those associated with economic and real property contracts. By protecting minority rights, states facilitate cooperation among individuals who have reason to be wary of each other. By legalizing trade unions or enforcing child labor laws, states reduce the costs to workers of monitoring and sanctioning employers--and thus may raise the likelihood of trust.

On the other hand, the substitution of state institutions for other social arrangements for reducing personal investments carries another set of costs. Wallis and North (1986) illustrate how transaction costs have actually risen over time in the United States and expect that they would find the same result in other advanced, industrial economies. They conjecture that one rising transaction cost they have not yet measured is a decline in trust between workers and management that is affecting labor productivity.[10] There is, as well, independent evidence that social distrust is increasing (Yamagishi and Yamagishi 1994; Putnam 1995).

## TRUSTING THE STATE

If the state is one of the institutions--and, in many cases, the most important institution--for reducing individuals' information and monitoring costs and for harmonizing their interests, it can play this role only if the recipients of these services consider the state itself to be trustworthy. To put this another way, under what conditions will individuals have confidence in the reliably of the information provided by the state or have faith in the state's impartiality?

The major sources of distrust in government are promise-breaking, incompetence, and the antagonism of government actors towards those they are supposed to serve. Legitimate (and "virtuous") government may depend on leaders keeping faith with the citizens who have given them authority to act on the publicÕs behalf (see, e.g. Dunn 1988 and Pagden 1988). Failures of government representatives to uphold policy compacts, to achieve stated ends, or to treat potentially trustworthy citizens as trustworthy can have disastrous effects on the extent to which citizens trust government and trust each other. In

[10] Conversations with Wallis and North.

*The Contingencies of Consent*, I hope to have demonstrated that citizen trustworthiness is largely an effect of the trustworthiness of government and its agents. If citizens trust government, they are more likely to want to comply with its demands. Citizens are likely to trust government only to the extent they believe that its commitments are credible, that its procedures are fair; and that their trust of the state and of others is reciprocated. Let me now explore each of these in turn:

**Credible Commitments**

Government actors are like other actors in that the major means for establishing their trustworthiness are proven character, demonstrated consistency of trustworthiness, and encapsulated interest. The first requires a presentation of self that includes a demonstrated willingness to act for principle and against self-interest. Consistency is an inductive measurement of trustworthiness, based on the track record of the actor. Both of these bases of trustworthiness are problematic, however. They can be indicators of a sophisticated opportunism. They can be the strategies of con men who forego short term interest in order to win a trust they then betray. Politicians and bureaucrats have certainly been known to play such a game.

A more satisfying basis of trustworthiness is the encapsulated interest of the government actor to honor his or her agreements or to act according to a certain standard.[11] Credible commitments and self-enforcing institutions significantly reduce the citizen's need to make a personal investment in sanctioning and monitoring government and thus enhance citizen trust of government. Credible commitments, reputational effects, and other such self-enforcement mechanisms that encapsulate interest require, however, institutional arrangements that will produce the feared sanctions if need be. Thus, trustworthy government actors are generally those who are embedded in trustworthy institutions. These institutions can take the form of the rules and norms of professional societies, the grievance procedures available to their clients and subordinates, or legal proceedings.

The existence of institutions do not in themselves insure the trust of citizens in government actors.[12] Institutions make actors relatively predictable, not necessarily fair or concerned with promoting the interests of others. The

[11] Hardin has made this point most forcefully in his several Russell Sage Foundation presentations.

[12] For interesting and important developments of this kind of argument as applied to management of firms and organizations, see, esp., Kreps (1990); Miller (1992); and Kramer and Tyler, eds. (1996).

literature on credible commitments explicates and illustrates the origins and maintenance of institutional arrangements that effectively sanction short-term opportunistic behavior by rulers and, consequently, promote the public welfare and, often, the rulers' long-term interests.[13] This is a step towards gaining trust, but it is not yet enough. To earn the trust of the citizens, government actors place themselves in institutional arrangements that structure their incentives so as to make their best option one in which their individual benefit depends on the provision of the collective benefit.

A concrete example of government institutions building trust is the creation of bureaucratic arrangements that reward competence and relative honesty by bureaucratic agents (Levi and Sherman 1997). A competent and relatively honest bureaucracy not only reduces the incentives for corruption and inefficient rent-seeking but also increases the probability of cooperation and compliance, on the one hand, and of economic growth, on the other. To the extent that citizens and groups recognize that bureaucrats gain reputational benefits from competence and honesty, the regulated will expect bureaucrats to be trustworthy and will act accordingly. To the extent bureaucracies can arrange that there are long-term benefits for compliance by the regulated (in the form of reputation that is fungible or side payments in the form of less intervention), the regulated are more likely to cooperate. Together these factors may create a sense of obligation to cooperate, a belief in the trustworthiness and public spiritedness of both the bureaucrats and the regulated, and thus a greater potential for wealth-producing contracting. The development of a bureaucracy is one of the factors that made politically possible the imposition of the initial income tax in 1799 in England (Levi 1988).

**Fair Procedures**

Individuals also need to have evidence that government is relatively fair and not just credible if they are to have confidence that the state will harmonize the interests of otherwise competitive parties. The belief in government fairness requires the perception that all relevant interests were considered, that the game was not rigged.[14] Young men who volunteer to go to war or submit willingly to conscription generally trust government's claims that the war is justified, their service necessary, and the military apparatus relatively efficient (Levi in

[13] See, e.g. Greif, Milgrom and Weingast (1990); North and Weingast (1989); and Root (1989).

[14] It may also depend on the existence of a shared set of values, as some psychologists claim (V. Braithwaite 1995 and 1996; Tyler 1996), but my intuition is that psychological issues belong at a later point in the argument.

process). Both historically and contemporarily, citizens who quasi-voluntarily pay taxes credit government with generally doing the right thing with their monies (Levi 1988; Scholz 1994). On the other hand, those asked to comply with affirmative action regulations often doubt the goodwill of government and consider its goals as different than their own (V. Braithwaite 1993); consequently, they cannot be trusted to comply.

There are at least four important and quite different ways in which a state signals its fairness: coercion of those who are not compliant; universalistic policies; establishment of credible courts and other impartial institutions for arbitrating disputes and ensuring that those who lose can sometimes win; and the involvement of the citizens in the actual making of policy. Some of these are potentially in the toolbag of any kind of government; others are clearly democratic devices.

**Coercion**

One of the major findings in both my investigations of revenue and conscription systems over time and across place (1988; and in process) is that citizens are more likely to trust a government that ensures that others do their part. Those who choose not to be free riders are eager not to become suckers. Thus, the willingeness to pay taxes quasi-voluntarily or to give one's contingent consent to conscription often rests on the existence of the state's capacity and demonstrated readiness to secure the compliance of the otherwise noncompliant.

**Universalism**

A second signal is the reliance of government on universalistic criteria in recruitment and promotion of its agents and in regulating the institutions of both government and civil society. In the earlier section I discussed the advantages of a relatively honest and competent bureaucracy, but the selection of its personnel on the basis of merit is yet another indicator of its relative impartiality, as Weber (1968) clearly recognized. The privatization of social services and the consequent non-universalism and non-standardization in provision (Smith and Lipsky 1994) is likely to increase distrust in government as an institution that enforces impartiality.

**Impartial institutions**

As Tyler (1990) documents by investigating the responses of citizens to legal proceedings and as Frohlich and Oppenheimer (1992) demonstrate with experimental evidence, those who believe the process was fair and just are much more likely to accept individually unfavorable outcomes.

Recurring, competitive elections in which the outcome is never an absolute certainty are another signal that the state does not rig the game (Przeworski

1991). Citizens feel that they may lose on some issues but win on others, and that they will always get the chance to try again on those questions about which they feel strongly--and with some probability of success. The effect is trust in the institution combined with the continuing rehearsal of the same issues over and over. Thus, in the United States, abortion, states' rights, and many other questions keep coming up again and again. This, I suggest, is a sign of strong institutions in which the population has a deep trust.

On the other hand, apparently impartial electoral institutions, such as majority rule, are not a sufficient condition of trust in government. The fear of the tyranny of the majority is a recurring theme, and protection of minority interests through means of a unanimity rule or even a veto are among the solutions. There is the danger, however, that institutions meant to protect minorities are perceived by majorities as discriminatory against the majority.

Instructive is the consideration of cases where trust has broken down. Weingast (1994, in progress) has a series of papers in which he considers governmental arrangements that prevented conflicts among groups by structuring decision processes so that each had an effective veto against policies they would find particularly harmful. The balance rule in the pre-Civil War was one such institution. By ensuring that for each non-slave state permitted into the Union, there would be a slave state, the government ensured that the slave issue would not become the primary one in Congress. When the balance rule broke down, so did the Union. Although the absence of such institutions does not always lead to a major conflagration, it can perpetuate distrust of the central state. For example, the Quebecois know they will always lose on any issue in which there is a francophone-anglophone divide; they will always be outvoted and have no veto to prevent the imposition of a policy they strongly resent. Thus, it is not surprising that the Quebecois tend to distrust not only the Canadian federal government but also anglophone Canadians who persist in imposing such policies. Conscription is a case in point (Levi in process).

What this suggests is that impartial institutions, including some means to protect minority interests without unduly offending majority concepts of fairness, are a necessary but not sufficient condition for the perception of fairness.[15] There must also be some trust built up among the citizens themselves of each other. Whether such interpersonal trust is prior or whether it is a consequence of the institutional arrangements is an empirical question still to be explored.

[15] Fritz Scharpf pointed this out.

**Participation**

A state can further enhance its reputation of fairness is by involving citizens in the policy-making process itself so that they become aware of what is at issue and are included in the give and take that leads to compromise. There is, of course, always the danger that they will come to distrust government, particularly if government proves itself untrustworthy. A situation in which trust in government was recreated is instructive. For example, in Australia in the 1970s, evidence of considerable tax evasion undermined tax compliance and evoked tax revolts. To reconstruct contingent consent with the tax system, Prime Minister Robert Hawke held what amounted to a mini-constitutional convention to rebargain the government-citizen tax policy (Levi 1988).

Once trust has been destroyed, its rebuilding often requires extraordinary efforts--of even greater proportions than that described in the Australian tax case. The francophones in Canada, the Irish in Britain, the blacks in the United States, the aborigines in Australia, and many others who have experienced discrimination (or worse) require compensatory programs and iron-clad commitments to ensure them that--this time--policy promises will be upheld. The effects may be counterproductive, however. Affirmative action programs and special dispensations may inflame the distrust of those who do not receive the benefits and who consequently believe government is acting unfairly to them.

**Reciprocal Trust**

Reciprocity is the third aspect of trustworthiness. When government has a good track record of delivering on its promises, especially those for which its commitments are not credible, citizens are more likely to trust the government and respond with trustworthiness--even in situations where it is extremely difficult to monitor them. Weatherley (1991) offers a very interesting account of beneficiaries of unemployment insurance who reported income earned over $100 because they felt that they should honor their part of their contract with a government that had acted in a trustworthy fashion to them. However, not all citizens have such confidence in their governments. The experience of the francophones with broken promises by the Canadian federal government leads them to resist a large range of federal policy initiatives.

Perceptions that a government is untrustworthy is a function of not only its failure to fulfill promises but also of evidence of the distrust by government agents of those from whom it is demanding cooperation and compliance. The hostility of street-level bureaucrats towards clients (Lipsky 1980) and of regulators towards the regulated (Ayres and Braithwaite 1992) can be extremely counterproductive. Mark Peel's account of Elizabeth in Victoria (1995) offers a striking case of how a neighborhood that is badly treated by government comes to resent and distrust all agents of government. There is considerable evidence that reliance on sanctions tends to breed the opposite of the result intended; instead of deference and compliance, there is nonconformity with the rules and even resistance (J. Braithwaite 1989; J. Braithwaite and Makkai 1994; V. Braithwaite 1995). The alternative is cooperative regulation in which there is a pyramid of strategies, beginning with treating the regulated as equals and trusting them and becoming increasingly interventionist and punitive in response to failures to comply (see, esp, J. Braithwaite 1989; also, Scholz 1984).

## HOW THE STATE CREATES TRUST

What I have offered so far is a description of state institutional arrangements, on the one hand, and actions by state agents, on the other, that appear to correlate with increased levels of generalized trust within a society. The next step is to investigate the mechanisms that make such institutions and actions successful. This will then enable the analyst to consider alternative arrangements as well as to be able to better understand variations in trust. All of the mechanisms I shall describe assume that the actors are rational in the sense that they will trust only in conditions of encapsulated interest, but I also assume they are ethical in the sense that they want to do the "right thing", which in this case means thinking well of others and contributing to the general good. That some of the mechanisms have a strong psychological dimension denies neither rationality nor ethics.

### Trust Responsiveness[16]

Being trusted makes one more trustworthy. This is the philosophical (Pettit 1995) and empirical (J. Braithwaite 1989) claim that lays at the basis of republican theory. It is also the foundation of recent policy prescriptions that involve community shaming and reintegration of criminal offenders (Braithwaite 1996), of revised urban and poverty programs (Peel 1995), and of cooperative regulation generally.

[16] This lovely term is Philip Pettit's.

## Trust Transference

Trust in one domain may be transferable to another. For example, citizens who trust the government or a major agent as a protector of legal rights may also trust the government as a fair conscripter of men for the military. This mechanism seems to lay at the heart of Hirschman's (1994) claim that use of trust increases trust and its nonuse diminishes it. It is certainly at the heart of Putnam's claims (1993, 1995) that those who learn to trust individuals in their soccer clubs, bird watching societies, or bowling leagues may find themselves more willing to trust strangers. The logic behind this claim is that individuals learn that cooperation pays and thus choose to cooperate in other spheres in which they have little information--at least until proven wrong. Finding themselves in an iterated prisoner's dilemma, they refer to past experience and choose the "nice" strategy. There are, of course, other possible explanations, such as shared beliefs and social bonds (Dawes et al. 1990; V. Braithwaite 1996; Tyler 1996) or satsificing with heuristics (Orbell and Dawes 1991, 1993; Scholz 1994; Pinney and Scholz 1995).

There seems to be as much evidence for the non-transference as for the transference of trust, however. Jennings (1995), for example, finds that Americans trust local government more than state government more than federal government. Citizens in the Anglo-Saxon democracies, at least at the start of World War I, seemed to trust their governments to enforce property rights but were not so willing to trust them with the power to conscript (Levi in process). A citizen may reasonably trust a government taxing authority to be honest and fair but not trust the tax policy-making of government actors; one can trust one's neighbors but not one's state, or vice-versa; one can trust banks to safeguard one's money but not oil companies to safeguard one's environment.

The bottom line here is that individuals may trust each other and their governments even in the absence of direct or complete knowledge of the other's trustworthiness if they assign a high enough probability to a positive payoff from cooperation. When this mechanism operates is not transparently obvious, however.

## Trustworthiness Transference

The trustworthiness of one set of actors may produce third party trust of those whom they trust. If one's friend tells you to trust a friend of her's that you have never met, you are likely to. If a trustworthy government vets an individual or institution as trustworthy, this facilitates third-party trust. The obverse is obviously also the case. Because of your confidence in the first party, you rely on their information about the third party. Should the information prove false, the result is likely to be a reevaluation of the initial party as trustworthy.

### Trust Entrepreneurs

Political entrepreneurs can affect the capacity of a group to trust government. Reminding citizens of past broken promises by government, oppositional leaders can feed distrust. On the other hand, government leaders who wish to regain the trust of the people can sometimes do so. This usually requires making themselves personally and politically vulnerable. Historically, this often meant quite literally leading battles. In modern times, trustworthy leadership is an effect of charisma, demonstration of effectiveness, and the willingness to take an ethical stance in spite of determined and vocal opposition and potential costs. Examples of this last include Dwight Eisenhower's willingness to send federal troops to Arkansas or Mackenzie King's willingness to reconsider his promise not to impose conscription by running a plebiscite asking the public to release him from his earlier pledge.

### The Coercive Basis of Trust

Trust is a civic virtue, at least when it is used as a means to lubricate productive economic relationships and democratic politics.[17] There is a tendency in some of the recent literature on trust and on ethics generally to pose a false dichotomy between rationality and ethics, on the one hand, and coercion and altruistic behavior, on the other. Rather, one of the critical mechanisms for producing trust and socially ethical citizens is a coercion that ensures that others will reciprocate and do their part. In other words, under the right circumstances (an important issue, of course), coercion supports and reinforces civic virtue.

## DEMOCRACY AND TRUST

Trust can exist even in a large polity. Its requirements are either networks that create on-going dyadic relationships or institutional arrangements that make for credible commitments by government actors and other citizens, fair procedures, and reciprocity. It also may involve an ethical commitment to trust until proven wrong. If these are indeed the requirements, then many of the institutional and ethical features involved in creating generalized trust are more likely to thrive in a democracy than not.

[17] It may, of course, also be a civic vice, as recent ethnic conflicts so well demonstrate. See, for example, Hardin (1995) and Fearon and Laitin (1995).

The defining aspects of democracy are effective enfranchisement, civil liberties, and the right of citizens to influence governmental decision-making through political parties, corporatist arrangements, and other forms of legal pressure. Democracy, so defined, influences the behavior of citizens in at least three important ways. First, it facilitates the ability of citizens to act on stable preferences. For example, the American subjects of George III of England wanted a voice in the imposition of taxes; witness the behavior of the participants in the Boston Tea Party. However, only with the advent of democratic institutions did some of the subjects (white, male, and propertied) become citizens with representation in taxation decisions. They acquired an active participatory role in the choice of representatives who determined the taxes that affected them.

Second, democracy can actually change preferences. By delimiting behavioral choices, institutions, democratic or not, reveal what actions the collectivity believes are acceptable. They set new standards of behavior for both government and citizens. The institutions may, in such cases, be simply constraints, but I want to claim that they may also change what people want. A predilection that may initially result from cognitive dissonance becomes the preference over time. For example, once common American practices such as slavery, discrimination against women, smoking, and gun-toting have become either beyond the pale or, at the least, socially questionable. The fungibility of certain values becomes unthinkable; there develop what Philip Tetlock labels "taboo tradeoffs".[18] For example, the sale of human beings, the sale of offices, and or the purchase of substitutes for military service or jail time are no longer within the realm or legal, ethical, or even cognitive (except possibly for economists) possibility. The democratic element in democratic institutions may have the effect of changing preferences in regards to what constitutes fair influence over government, equitable policies, or standards of behavior for governmental actors (also see Frohlich and Oppenheimer 1992). What begins as a norm of the few becomes the norm for the many. What is becomes what ought.

Third, democracy fundamentally changes the behavior of governmental actors. By providing citizens with a variety of effective means for sanctioning government actors, for interacting with them in the creation of policy, and for reducing the costs of citizen monitoring of governance, democratic institutions create a new basis for cooperation between government officials and citizens. They make possible credible commitments by government actors and thus reduce citizen concerns that government actors will break their policy promises. The effect is to increase the probability that citizens will approve governmental

[18] Conversation. Also, see his piece with Peterson and Lerner (forthcoming).

regulations and obey them. As Dasgupta (1988: 50), points out, you will not trust government "to do on balance what is expected of it if you do not trust that it will be thrown out of power...if it does not do on balance what is expected of it".

Fourth, democratic institutions legitimize coercion and, more importantly, are necessarily constrained in their use of coercion. Thus, democracies can more effectively use coercion to enhance the tendency of individuals to be both rational and ethical (Stoker 1992; Levi in process).

**The contribution of democratic institutions to distrust**

Democracy creates as well as solves problems for building citizen trust in their government. The free press and oversight institutions of democracies put government actors under extraordinary scrutiny. Open discussion about government actions contributes to its trustworthiness by providing a check on obfuscation and secret promises (or promise-breaking). Free speech permits a level of public and scientific debate that eliminates certain abuses by lowering the costs to the normal citizen of both information-gathering and monitoring. It is impossible in this day and age, for example, to hide nuclear testing or to make the claim that it is safe. The current government of France has promoted distrust of itself by failing to understand these simple facts.

Revelations of falsifications, incompetence, corruption, or promise-breaking erode citizen confidence in government. Thus, the very institutions that reduce monitoring costs may increase distrust. Government actors walk a thin line in publicizing their actions. For example, revelation of tax evasion schemes may convince the public of government's commitment to equitable enforcement, or it may induce more non-compliance as a result of the evidence provided of the extent to which government has permitted exceptions.[19]

Trustworthiness of government involves several levels of trust. Those whose trust is being elicited may trust the actors but not the institutions, or the institutions and not the actors. In the best of all worlds, the truster trusts both. The democratic rules of the game may make that difficult in the case of bureaucrats and politicians, however. If the first is maximizing budgets or power and the second votes, their individual interest may trump their public interests.[20]

Complete trust, as measured by a complete absence of personal investment in monitoring and sanctioning government, would be as problematic for

[19] This is a case I explore in some detail (1988).

[20] Michael Smith made this interesting point.

democracies as complete distrust, however. Democratic institutions, if they work well, increase the healthy skepticism of citizens. Citizen trust of governance should be and is conditional. The very trust of government in democracies is grounded in institutions that are constantly scrutinizing the performance of government actors and that permit punishment if necessary. This means that at times there will be a very high personal investment in monitoring and sanctioning in the form of active political participation. In fact, the very nature of democratic governance suggests there should always be at least some personal investment in keeping up with the news or in cooperative regulation.

Democratic institutions have enabled citizens to trust government by making government more trustworthy.[21] The existence of a greater societal capacity for trust has all the positive implications so well-described in the literatures on both social capital and trust. A trusting citizenry and a trustworthy government are the sine qua non of democracy and consent (see, e.g. Dunn 1988, Pagden 1988, Putnam 1993), but democracy may well be the sine qua non of a trusting citizenry. Certainly, it is a necessary, if not sufficient, condition for contingent consent.

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[21] See Hardin (1993: 512-13) for an elaboration of this distinction.

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