Institutions and Mid-Level Explanations of Trust

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Introduction

The last fifteen years have seen an explosion in research on trust, but there are still important gaps in our understanding of its sources and consequences.[1] In particular, we know relatively little about the relationship between trust and the other sources of cooperation that social scientists have identified, most prominently institutions, sets of rules that shape the behavior of communities of actors through providing individuals with information about the likely social consequences of their action. How may we map out the relationship between mid-level phenomena, such as institutional rules, and micro-level expectations, such as those involved in trust?

It is hard to answer these questions because debates about trust have emerged in partial isolation from broader social science debates about the respective roles of institutions (Knight 1998) and other mid-level social phenomena in supporting cooperation. The result is that even though scholars of trust are surely interested in the empirical question of how trust operates within environments shaped by institutions they lack intellectual tools that would help them investigate this, and related questions, easily.

On the one hand, it is surely appropriate to draw distinctions between trust-based cooperation and other forms of cooperation where such distinctions are warranted. Scholars in the broad rational choice tradition have articulated a powerful critique of the overly broad and

[1] This paper draws both on my own work and ideas, and on ideas developed in joint work with Jack Knight (especially, Farrell and Knight unpublished).

simplistic accounts of trust that are found in, for example, the economics literature. For example, Karen Cook, Russell Hardin and Margaret Levi (2005) speak to the utility of distinguishing between trust and mere institution-induced cooperation. Many forms of cooperation in modern societies rest on institutions but don't involve trust. For some purposes (e.g. Carruthers, this volume), it may be useful to refer to the contractual relationship between a bank and a firm that it lends to as involving trust, but there is a clear difference between the kinds of expectations that depend on contract, and the expectations that depend on personal relationships. The kind of expectation that the bank might have of the firm will be rather different from the kind of expectation that my brother or sister might have if they extended a loan to me.

On the other, there is considerable murkiness and confusion about where institutions (and other structural forces) end, and where trust begins. The encapsulated interest account, as it is currently formulated, says relatively little about how institutions might affect the more personal and intimate forms of trust that it is most directly concerned with. Political culture theorists, for their part acknowledge that institutions and the set of cultural values that includes trust shape each other. However, they remain quite vague about what this involves in practice, either stating that they co-constitute each other without seeking to disentangle the relationships further (Inglehart 1990) or lumping trust and institutions together under the generalized rubric of "social capital" (Putnam 1993)

These and other confusions stem from gaps in our underlying theory. We don't have a properly developed theoretical account of how trust and institutions interact. Ideally, such an account would do three things (at least). First, it would distinguish clearly between trust and institutions as sources of cooperation, disentangling their relative causal roles. Second, it would identify possible interaction effects between trust and institutions, identifying circumstances under which these effects are likely to support or to undermine trust. Finally, it would provide an explanation of those *mid-range* forms of trust, which are poorly served in the current debate - forms of trust that are neither purely individual, nor at the highly abstract level of generality that, say, political culture accounts of diffuse interpersonal trust invoke. Mid-range expectations of this kind play a key role in most complex societies, allowing actors from different social groups to navigate relations in contexts where broadly based impersonal institutions only offer imperfect guidance as to what they should or shouldn't do.

Rational choice accounts of trust in particular would benefit from such an approach. Currently, the most sophisticated rational choice accounts of trust are vulnerable to the critique that they don't encompass forms of trust extending beyond the purely personal, and don't explain how broad factors such as social and political inequality can affect trust (Uslaner 2004). While there is no reason that rational choice is *incapable* of explaining such relationships, these critics rightly point to the need to develop an approach that can link aggregate social factors to trust and distrust between individuals.

In this paper, I map out the beginnings of a mid-range rational choice approach that would allow us both to draw the necessary distinctions between trust and simple institution-induced expectations as sources of cooperation and to identify possible relationships between institutions and trust. I call this a mid-range theory because it both (a) emphasizes the importance of mid-range factors such as institutions to the explanation of trust, and (b) discusses how trust may itself be a mid-range expectation among individuals who don't know each other personally, but who trust each other in more specific ways than political culture accounts of diffuse impersonal trust might suggest. I do this by building on the foundation of existing work on trust (specifically the ‘encapsulated interest’ account of trust developed by Russell Hardin and his colleagues), while seeking to modify their arguments somewhat so as better to incorporate the effects of institutions on trust.

In the first part of the paper, I outline two closely related causal accounts of the sources of trust. One is the traditional encapsulated interest account of trust; the second is an adapted version which incorporates information about the likely trustworthiness of *types* of actors. In the second part of the paper, I show how the second causal account allows us to understand how institutions (and in particular informal institutions) may affect trust between actors. By incorporating broader forms of social expectation into the encapsulated interest account, it is possible to explain how institutions shape trust, without forgoing the valuable conceptual distinctions that the encapsulated interest account draws between trust and more direct forms of expectation formation. In the final section I examine the broader consequences of these arguments for current debates over trust and cooperation, arguing that this account of trust can explain causal relationships between inequality and trust that extend beyond the purely personal.

Thus, by showing how institutions may affect trusting expectations, I seek to make two contributions to the literature. The first is to extend the reach of rational choice based accounts to encompass mid-range forms of trust and related social expectations. The second is to set out an account of the relationship between social structure and trust, which will show how social structures may indeed affect trust, while still allowing one to distinguish between trust and the more impersonal forms of social expectation that underpin many forms of exchange in advanced industrial societies. This would preserve valuable conceptual distinctions while providing the theoretical means to bridge a set of literatures that have remained largely disconnected from each other.

2 - Two Related Accounts of Trust

Trust is a notoriously difficult concept to pin down. In the following discussion, I start from Russell Hardin's (2002) argument that trust is a kind of *expectation*, grounded in reason, about whether another party or parties will cooperate in future. Treating trust as an expectation allows us to make two important distinctions. First, we can distinguish between trust itself, and cooperation on the basis of trust; while trust facilitates certain kinds of action, it is not an action itself. Second, we may distinguish between trust and trustworthiness. Trust is a set of expectations over whether another party may be expected to behave in a trustworthy manner over a particular issue or set of issues.

However, it is important to note that not all reasoned expectations about the propensity of others to cooperate fall under the rubric of trust. When actors have good reason to be *certain* that others will cooperate, these expectations can't really be described as trust. More specifically, as Edward Lorenz (1999) argues, trust involves the expectation that another will cooperate *ex post* in circumstances that cannot readily be anticipated *ex ante*. This is key to the distinction between confidence and trust. When I know that another will behave honestly in a pre-determined and well anticipated situation, this knowledge is better described as confidence than trust. Trust is only really implicated where there is the possibility of an unanticipated, or only imperfectly anticipated, situation arising, in which there is a real risk of default.

What are the sources of trust? In this paper, I lay out two complementary mechanisms through which individuals may come to trust each other. The first is a somewhat simplified version of the standard encapsulated interest account of trust, in which personal relationships provide a grounding for trust. The second is a variant of the encapsulated interest account in which broader social expectations over the likely behavior of *classes* of actors serves as the necessary grounding.

First, the encapsulated interest account of trust developed by Russell Hardin and his colleagues (most particularly Margaret Levi and Karen Cook) focuses on forms of trust that are derived from personal knowledge and experience. Under this account, I trust you with regard to a particular matter to the extent that I believe that your interests encapsulate my own with regard to that matter (more formally, I, as actor *a*, trust another actor *b*, with regard to matter *x* to the extent that *b*'s interests encapsulate my own).[2] In other words, I trust you to the extent that I believe that you have a *particular* reason to pay attention to *my* interests. Typically, that interest will arise from our ongoing relationship. I may know (or at least believe) that you have an interest in respecting my interests with regard to a specific matter because you know that untrustworthy behavior will cause me to break off our relationship, and because our relationship is valuable to you. This will cause me to trust you; I will believe that your interests encapsulate

[2] In this paper, I adopt slightly unorthodox notation. When referring to *particular* actorss, matters or situations, I use lower case letters, e.g. *a*, *b*, *c*, *x*. When referring to *classes* of actors that may encompass these individuals, matters or situations, I use capitalized letters e.g. *A*, *B*, *C*, *X*.

my own with regard to the relevant matter. If the relationship is similarly valuable to me too, you may trust me over a specific matter (or a variety of such matters) too.

As Hardin argues, the encapsulated interest account of trust is *relational*; that is, it suggests that trust is primarily grounded in ongoing personal relations between individuals who know each other well. Relationships may provide both the appropriate incentives and the appropriate knowledge to support trust. The appropriate incentives will arise if an ongoing relationship is sufficiently valuable, and is likely to be terminated or otherwise made less valuable should one party behave untrustworthily. The appropriate knowledge will arise among actors who have engaged in repeated personalized interactions, and should know each other well enough to underpin trust (although this knowledge surely will not be perfect; trust may always be mistaken).

A few important features of the encapsulated interest account are worth highlighting. First, in contrast to many theories of trust, it focuses relentlessly on the specific, rather than seeking to explain diffuse forms of interpersonal trust in which the identity of actors and of the matter being trusted over are discounted (indeed, it suggests that a high degree of skepticism regarding such concepts is warranted). Because of this specificity, it allows for variation in the trustor, trusted, and matter of trust. To adapt Hardin's notation slightly, actor *a* may trust actor *b* with regard to matter *x*. Actor *a* may not trust actor *b* with regard to another matter, *y*. However, another actor, *c* may trust *b* with regard to *y* (but may not trust *b* with regard to *x*). Thus, the theory can capture quite fine-grained trust relationships.

Second, while the encapsulated interest account is broadly compatible with a rational choice account of human behavior, it doesn't require that individuals be 'narrowly rational;'

(Hardin 1982) that is, concerned only with material gain. The theory suggests that individuals will trust each other when their trust is anchored in valuable relationships. However, the relationship may be valuable to the trusted party because of affective ties rather than material interests. One may perhaps trust a family member or close friend with regard to a wide variety of issues because one knows that your relationship is emotionally valuable to the other person; there need not be any material benefits involved in the relationship. The other person may trust you for similar reasons.

Finally, the degree to which one party trusts another may vary according to the power relations between them. This is an argument that I have developed at length in earlier work (Farrell 2004). There is no necessary reason that both actors should place the same value on a relationship for them to trust each other, and the actor which values the relationship less is likely to have more power *ipso facto*. Here, power is best conceived of as bargaining power, which is turn the product of the attractiveness of the options that each actor possesses if they don't reach an agreement. Actors with better options are likely to be more indifferent as to the success or otherwise of a particular instance of bargaining than are actors with worse ones. Actors with more bargaining power are in a better position both (a) to demand trustworthy behavior from other less powerful actors, and (b) to behave untrustworthily themselves and to get away with it.

However, we may envisage circumstances under which power asymmetries are so extreme that trust is driven out. If one actor is so much more powerful than the other that she has no need to take account of the other's interests, then the less powerful actor has no reason to trust her under a straightforward encapsulated interest account. Less obviously, the more powerful actor will have no reason to trust the less powerful one; since their future relationship is valueless to the less powerful actor (the more powerful actor has no reason to respect the less powerful actor's interests), it doesn't serve as an anchor for trustworthy behavior for the less powerful actor either. We may expect the less powerful actor to cooperate with the more powerful one only to the extent that is absolutely necessary.

The encapsulated interest account of trust draws some very valuable conceptual distinctions. However, in order to draw a clear line between trust and institution-induced cooperation, the encapsulated interest account focuses overwhelmingly on the personal. Hardin and his colleagues argue that as broadly based institutions to support impersonal cooperation have developed in advanced industrial democracies, the citizens of these democracies have less need for trust. Thus, Cook, Hardin and Levi argue that scholars should pay less attention to trust, and more to "cooperation without trust."

This emphasis means that the encapsulated interest account is not ideally suited in its current form to explaining those broader forms of trust within society which seem neither to be entirely personalized, nor yet to resemble the purely impersonal expectations of cooperation grounded in institutions such as contract law or the kinds of diffuse impersonal trust that scholars of political culture refer to. It can surely accommodate some institutional effects, even in its unmodified form. Institutions can certainly mitigate or eliminate distrust by raising the costs of untrustworthy actions, and thus perhaps contribute indirectly to trust formation. However, it is unclear how or whether institutions can play a direct causal role.

Thus, I suggest that Hardin's encapsulated interest account of the sources of trust, should be supplemented by a second account, which modifies encapsulated interest to focus on the ways in which individuals may come to trust actors who belong to broader *classes* (for convenience, I dub the usual encapsulated interest account the ‘relational’ version of encapsulated interest, and the second, the ‘class-based’ version of encapsulated interest). Consider a situation where *b* is personally unknown to *a*. Under these circumstances, *b* doesn’t have any reasons grounded in an ongoing relationship to take *a*’s interests into account with regard to *x*, or indeed to any other matter. Hence, the relational account would suggest that *a* will not trust *b* on the basis of their relationship; she has no reason to believe that *b*’s interests encapsulate her own.

However, there is a related mechanism through which *a* may come to trust *b*. She may consider whether *b* belongs to a broader *class* or *type* of actor, which we will dub *B*, which has some reason to behave in a trustworthy fashion to members of the broader class of actors, *A*, to which *a* herself belongs. More precisely, if *a* knows that actors of type *B* have good reason to behave trustworthily towards actors of type *A* in situations that resemble *x*, she may infer that actor *b* is likely to behave trustworthily towards her in this specific instance. Hence, she may come to trust *b*, not because of a specific relationship between *a* and *b* but because she knows that actors of type *B* behave trustworthily towards actors of type *A* with regard to situations that resemble *x*.

Under this *class-based* account, individuals can indeed trust each other without previously having known each other. To take one example - well dressed Caucasians driving expensive cars in the US are usually not pulled over by the police without good cause. They furthermore have good reason to believe that the police will behave trustworthily to them across a wide variety of situations. They know that they belong to a type of actor (well-to-do Caucasians) whom the police have reason to behave trustworthily towards across many situations. More formally, each member *a* of the larger class of well-to-do Caucasians *A* knows that individual members *b* of the police force, who belong to the broader class of police officers *B* will have good reason to behave trustworthily across a wide variety of situations $x_1 \ldots x_n$.

However, we may expect that members of a different class of actors, those who belong to specific ethnic minorities, will have quite different expectations to well-dressed Caucasians. They may expect to be pulled over by the police, often without good reason, and perhaps especially often when they are driving expensive cars. More generally, they will have less reason to trust the police across many situations than well-to-do Caucasians. Indeed, they may expect that any cooperation they offer will be abused under many plausible circumstances. More formally, each member *c* of a relevant ethnic minority may expect that an individual member of the police force *b* will behave untrustworthily across many situations because *b* is a member of *B*, *c* is a member of *C*, and members of class *C* habitually abuse the trust of members of class *B* across a variety of situations *X*.

Habyarimana, Humphries, Posner and Weinstein (this volume) provide another example when they discuss trust relations within and between different ethnic groups in Uganda. As they describe it, a member of a particular ethnic group is likely to behave more trustworthily towards co-ethnics than to non-co-ethnics, because of informal norms. Strikingly, they find that subjects playing the Dictator Game give no more to co-ethnics than to non-co-ethnics when their behavior is unobservable, suggesting that this informal norm depends on the two-way provision of information, rather than, say, being a particular internalized concern for the well-being of co-ethnics. In the language of this chapter, co-ethnics of group *A* expect that when they cooperate (by providing a larger reward) with other co-ethnics of group *A* that their cooperation will be rewarded (or not punished), *as long as their cooperation is observable to the relevant co-ethnics*.

Thus, I argue that individuals' trust or distrust of each other can be grounded in other kinds of expectations than those stemming from personal relationships. It can also be grounded in broader forms of social knowledge regarding the ways in which various classes of actors are likely to interact with each other across various social situations. Individuals may instead reason that (a) they themselves are members of a specific class of actors, (b) that they are dealing with an individual or individuals who are also identifiably members of a specific class, and (c) that they possess knowledge of how these two classes of actors may be expected to interact with each other across a variety of social situations. This may be sufficient knowledge to ground trust relationships (when social knowledge regarding the relevant class of actors suggests that members of one class may be expected to behave trustworthily towards another in relevant situations), or to create grounds for distrust (where social knowledge suggests that members of one class are likely to betray the interests of members of another in relevant situations).

I note in passing that these two forms of encapsulated-interest based trust may interact in interesting ways. For example, Stepanikova, Cook, Thom, Kramer and Mollborn (this volume) find evidence that some doctors working in HMOs seek to combat patient distrust in them as members of the general class of doctors who work in HMOs, by building specific relationships with patients based on their willingness to fight the HMOs for benefits.

Institutions and Social Knowledge over Classes

Where are individuals likely to discover how different classes of actors should behave towards each other across a variety of social situations? The most plausible answer is that they will find it in the plethora of institutional rules which govern a host of interactions in all societies of even moderate complexity. Institutional rules, properly considered, are important to the understanding of human behaviour *precisely because they instantiate knowledge about how different classes of actors are likely to behave towards each other.* Under the best developed rational choice accounts, institutions have no independent causal force in the shaping of human action beyond their informational aspects.[3] Instead, they are important because they provide individuals with information regarding how others are likely to respond to their actions across a variety of circumstances. They are thus important because they guide strategic behaviour by informing individuals of how others are likely to respond to their own actions.

The kind of information that institutions provide is quite specific. Institutions don't provide information about how specific named individuals behave (a rule of thumb that one shouldn't bother Henry before his morning coffee because he's liable to snap at you is not an institution under any reasonable definition of the term). Instead, they provide knowledge regarding broader social categories or classifications. They shape strategic behavior by allowing individuals (a) to identify specific individuals, acts and situations as belonging to broader

[3] Some rational choice accounts which treat institutions as part of the game tree duck this issue - but don't have any good account of why institutions should be considered to be an unconsidered part of social structure. See further Calvert (1995). Other approaches than the rational choice approach suggest that institutions can constitute actors and their choices in more profound ways. I bracket these issues for the purporses of present discussion.

categories, (b) to identify any relevant rules governing behavior thus classified, (c) to recognize how others are likely to respond to specific actions given the existence of these rules, and (d) to tailor their own actions accordingly. As H.L.A. Hart (1994) says of the law (which may be considered to be a body of formal institutions):

> its successful operation over vast areas of social life depends on a widely diffused capacity to recognize particular acts, things, and circumstances as instances of the general classifications which the law makes.[4]

Hart's point extends beyond the law (it also extends to cover classifications of persons, which he does not mention). Institutions are rules over how broad categories of actors should interact in specific situations. Thus, institutions commonly take a form something like the following: when actors of class A and actors of class B interact in situation X, the appropriate action for the actor of class A is H, and the appropriate action for the actor of class B is I.[5]

This shows us how institutions may affect trust between actors under the class-based version of the encapsulated interest account. Actors may refer to the social knowledge

[4] p.124, Hart (1994).

[5] One may imagine more simple institutions, governing instances where actors of the same class interact. One may also imagine more complex ones in which actors from many different classes interact. While such institutions would require some reformulation of the arguments that I make here, they would have no substantial consequences for my basic claims.

instantiated in institutions to understand how broad classes of actors are supposed to interact. They may then infer from this that others belonging to specific classes of actors are likely to be trustworthy or untrustworthy. For example, if actor *a* belonging to class *A* and actor *b* belonging to class *B* find themselves in a situation *x* of type *X* where there is a relevant institutional rule providing guidance that actors of class *A* should take action *H* and actors of class *B* should take action *I*, they may have grounds for trust or distrust of each other.[6] If action *I* involves behaving trustworthily, then the institution may allow actor *a* reasonably to surmise that actor *b* will act in a trustworthy fashion and thus perhaps will give *a* sufficient reason to trust her.

However, not all forms of institution-based expectations will involve trust. Most obviously, where action *I* involves untrustworthy behavior, *a* will have strong grounds to distrust *b* rather than to trust her. However, even where institutions conduct to cooperative behaviour, they may not produce trust as such. Recall Lorenz's claim that trust is an expectation that another will cooperate *ex post* in circumstances that cannot readily be anticipated *ex ante*. Many forms of institution-induced cooperation will involve circumstances that *have* been anticipated *ex ante*, and that are fully spelled out under the existing institutional rules. Thus, to return to the example of a bank loan, the bank providing a loan to a firm doesn't trust the firm; instead, it relies on a contractual agreement that is densely specified, that is backed up by a court system, and that

[6] I deliberately leave the term "relevant institution" vague here, but develop it below. Suffice to say for now that a "relevant institution" to the development of trust is not one that precisely and unambiguously covers the situation and actors, but rather one that is only somewhat ambiguously applicable.

seeks to cover a very extensive range of possible contingencies in order to provide the firm with sufficient incentive to pay back the loan. It has sought to leverage contract law to anticipate the future as fully as possible (given the impossibility of drafting a complete contract) so as to ensure that unforeseeable situations (in which the borrower might perhaps be able to wriggle out of the loan) don't develop. Trust isn't usually implicated - instead, the bank seeks to induce cooperation *directly* through appropriate institutional structures. As Bruce Carruthers argues (this volume), this is a relatively recent historical development; lending practices used to be grounded in trust relations at the community or personal level.

In order to understand the circumstances under which institutions directly induce cooperation, and under which they instead work through trust, it's necessary to return to (or, more precisely, to reinvent[7]) Hart. In *The Concept of Law*, Hart distinguishes between the 'core' of a law; that is, the area in which it has direct and uncontroversial effect, and the 'penumbra' of a law; that is, the shadow that it casts over situations where it may be relevant but isn't unambiguously applicable. Hart also refers to the persistent difficulties of reasoning from abstract rules to concrete situations; general rules about classes of events, actors, actions and circumstances are by no means necessarily unambiguous when applied to concrete situations.

Hart's focus on the ambiguity of applying rules, and his distinction between core and

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[7] I had developed the conceptual distinction between "core" and "penumbra" discussed below in early conversations with Jack Knight, before reading Hart and discovering that he had used identical terms to cover closely related ideas. I am grateful to Melissa Schwartzberg for pointing out to me that I had been speaking Hartian all my life without knowing it.

penumbra allow us better to distinguish between situations where institutions (including but certainly not limited to laws) have direct consequences for cooperation, and those where their consequences are better understood in terms of how they affect the potential for trust between actors. Adapting Hart, we may say that the *core* of an institution is that body of situations where the relevant institution applies more or less unambiguously, and where its implications for social action are relatively clear cut. The *penumbra* of an institution, in contrast, is that body of situations where the relevant institution applies only ambiguously, and where its implications for social action are to some degree uncertain.

Given this definition, we may say that situations falling within the core of an institution do not invoke trust in any significant sense. Where the institution applies unambiguously, it directly affects the scope for cooperation between individuals. There isn't the uncertainty over *ex post* behavior that is necessary to provide scope for trust to develop between actors.

The "penumbra" of institutions, in contrast, provides quite significant scope for trust to develop. In the penumbra, institutions do not induce cooperation directly; instead, they provide guidelines that may allow actors to interpret a situation in particular ways, and thus to come to trust each other. Consider the case where actors *a* and *b* find themselves in situation *x**, which is somewhat similar, but not identical to a situation covered by an institutional rule regarding how actors of classes *A* and *B* are supposed to cooperate in situation *X*. Under these circumstances, cooperation will not be *induced* by the institution; it won't be automatic or anything like it. However, the institution does provide information regarding how actors of *A* and *B* are supposed to behave, which will provide valuable guidance for *a* and *b* in their efforts to figure out how to behave (and how others are likely to respond to their behavior). Here, the relevant institution is likely to work in the same way as the forms of corporate culture described by David Kreps (1990). It provides an important *focal point* (Schelling 1960) guiding behavior, without at the same time itself producing anything approaching certainty regarding how others are likely to behave. Unless there is some other, more compelling focal point, actors *a* and *b* may reasonably be expected to draw upon their knowledge of how actors of class *A* and class *B* are supposed to behave under the given institution. If the institution prescribes that actors of class *B* behave in a trustworthy manner, actor *a* will have some grounded reason to believe that *b* will behave trustworthily, and thus to trust her. Under this account, the institution doesn't induce cooperation, but instead provides actors with guidelines which are likely to lead them to cooperate in the absence of other compelling information about how they and others are supposed to behave.

One implication of this set of arguments is developed further in collaborative work with Jack Knight (Farrell and Knight unpublished) - different kinds of institutions are likely to vary with respect to the relative importance of their cores and penumbrae. In particular, we may expect that formal institutions - written regulations, laws, bureaucratic codes and the like - will usually but not invariably have relatively large cores and relatively narrow penumbrae. Such institutions are designed to provide a high degree of certainty to actors dealing with each other in well defined situations. Informal institutions, in contrast, are likely to have relatively small cores, and relatively wide penumbrae. Their precise extent and meaning is likely to be uncodified and relatively diffuse - but by the same token they cast their shadow over a broad range of situations which appear to resemble those covered by the relevant rule, even if the precise extent and effect of the rule is uncertain.

Another is perhaps more directly relevant to the task of showing how macro- and meso-level social factors may shape trust between individuals. If social institutions reflect these factors, so too may we expect the ways in which individuals do or do not trust each other to reflect them. For example, as Terry Moe (1990) argues with respect to formal institutions, and Jack Knight **(**1992, 1995**)** with respect to informal ones, we may expect that institutions will reflect both the power asymmetries and divergent distributional preferences of different classes of actors in a given society or community. Institutions here act as a key intermediating variable, translating differences of power between classes of actors into expectations over trustworthy and untrustworthy behavior between individuals.

This is clearly the case with regard to formal institutions, where actors bargain with each other directly over institutional rules, and where their bargaining strength may be expected to have direct and substantial consequences for the agreed outcomes. However, it is also, as Knight demonstrates, likely to be the case for informal institutions which emerge through decentralized processes too. Informal institutions are likely to emerge from independent instances of social bargaining between actors of different classes in a manner that reflects the power relations between them. If actors belonging to one class are repeatedly better able to get their way (because they are in a better bargaining position) in bargaining interactions with members of another class, then we may actors' expectations to crystallize over time in an informal institutions that will tell them how they are supposed to behave. Thus, informal institutions are likely to crystallize existing imbalances of power.

An example may help clarify how this is likely to work in practice. African-Americans in the pre-Civil Rights South faced a variety of forms of informally institutionalized discrimination in addition to formal laws. Bertram Doyle (1937) offers a useful contemporary account of these informal institutions, which he dubs the “etiquette” of race relations, even while he glides over the brutal means through which this etiquette was maintained. As he notes, institutions of this kind emerge in a decentralized fashion:

> [f]orms of deference and recognition, repeated and imitated, soon crystallize into those conventional and obligatory forms of expression we call "etiquette," or social ritual.

These rules of ‘etiquette’ instantiated a social equilibrium, based on the threat of violence, in which African-Americans were treated systematically as inferiors, expected to show deference, and to accept manifestly unfair treatment from white people without complaint. Both African-Americans and white people knew and understood these informal institutions, without necessarily internalizing them. African-Americans could reasonably have inferred from these institutions that they could expect little in the way of respect or trustworthy behavior from white people across a range of situations, including those that were only imperfectly covered by the rules. Hence, these institutions gave them good *prima facie* reason to distrust white people in these situations. Feagin (1991) argues on the basis of contemporary interview evidence that more subtle, forms of informal discrimination against African-Americans continue to make it difficult for African-Americans to trust the good intentions of white people across a variety of social settings in post-Civil Rights America. These institutions plausibly instantiate continuing power asymmetries between African-Americans and whites.

Thus, to summarize, institutions provide a key source of social knowledge regarding how different classes of actors are supposed to interact with each other. This may in turn have consequences for trust. In situations (the ‘core’ of institutions) that are unambiguously covered by the relevant social institutions, and where those institutions have clear consequences for behavior, we may expect institutions to have direct consequences for cooperation (or lack of same). Here, there is no need to refer to the concept of trust; the impact of institutions is unmediated. In contrast, in situations (the ‘penumbra’ of institutions) where institutions have some relevance, but are ambiguous either in their scope or their consequences, appropriate institutions (those that suggest to actors that they should behave trustworthily to another) may guide them towards trust, whereas inappropriate ones are likely to produce distrust. Furthermore, by examining institutions, and the forces that shape them, we can better understand how factors such as the distribution of power in society may have substantial consequences for the ways in which individuals do or do not trust each other.

Applying a Mid-Range Theory of Trust

By examining how trust between individuals may emerge both from personal relationships and from the broader information about classes of actors that is instantiated in social institutions, we may better understand how trust works in complex societies. Specifically, as discussed at the end of the last section, we can develop better accounts of how macro- and meso-level social factors shape the ways in which individuals trust each other at a lower level of aggregation. Under the class-based version of the encapsulated interest account, institutions become a key intervening variable between broader social factors and specific forms of trust at the individual level.

This allows rational choice scholars to extend the reach of their explanations and to respond to critics who claim that the rational choice account cannot explain trust that goes beyond specific relationships with known others. Consider, for example, Eric Uslaner's (2004) claim that strategic trust is based on individual experience, and just as it "can only lead to cooperation among people you have gotten to know, so it can only resolve problems of trust among small numbers of people." Scholars who use the standard encapsulated interest account might reasonably reply that their definition of trust refers not only to individuals' past experience, but to their knowledge about how ongoing relationships may give individuals incentives to behave in a trustworthy fashion.[8] However Uslaner does point to a gap in the rational choice literature - there is a clear need for a better account of how broad social factors translate into specific forms of trust and distrust among individuals.

Such an account would allow rational choice scholars better to engage with the growing body of literature that discusses trust at broader levels of aggregation. Much of this literature (e.g. Fukuyama 1995) is rather impressionistic and of dubious social-scientific value. However, a more recent body of work (You unpublished, Leigh 2006, Rothstein and Uslaner 2005, Zak and Keefer 2001) has sought systematically to link trust (as measured through survey instruments) to macro-level variables such as inequality, corruption, economic growth and ethnic heterogeneity.

[8] See in particular the reading in Russell Hardin (2002 pp.1-3) of the story of Trifonov in Dostoyevsky's *The Brothers Karamazov*.

While currently available aggregate survey data is far from perfectly suited to the study of more particularized varieties of trust, a developed account of *how* broad factors may affect trust and cooperation among individuals would at least allow rational choice social scientists better to participate in these debates.

It would furthermore allow rational choice scholars to exploit their comparative theoretical advantages. Much macro-level scholarship starts from the assumption that *diffuse, generalized* trust (the willingness of individuals to trust their fellow citizens in general) is key to understanding social outcomes. Sometimes trust of this kind is contrasted with *particularized trust* (the propensity of respondents to trust only those who are members of their sub-community). This emphasis is in part the result of theoretical commitments, in part the product of survey instruments (which tend to ask rather generic questions about individuals' propensity to trust others in general). However, the exact causal relationship between diffuse generalized trust and cooperative outcomes is at best rather unclear. We know from everyday experience that individuals tend not to trust or distrust others in their country or subcommunity indiscriminately; instead they are usually quite particular in their willingness or unwillingness to trust others over particular matters. One may go farther; the diffuse generalized truster, who is willing to trust other community members or citizens over a very wide range of matters without reference to who those others are, or what value she places on those matters is very possibly a chimera. This is certainly not to say that data on generalized trust is worthless - the existing literature demonstrates some real correlations, and suggests (in very broad terms) some highly intriguing causal relationships. It is to say that it isn't at all clear whether survey questions about generalized trust are imperfect measures of a discrete propensity, some rough average of respondents' willingness to trust a range of others over a range of situations, or something else entirely (see further Cleary and Stokes, this volume).

The modified version of the encapsulated interest account that I set out in this chapter provides a way for rational choice scholars to examine not only specific forms of trust between individuals who know each other, but also mid-range forms of trust between individuals belonging to specific classes of actors. The latter forms of trust are more specific in their application than diffuse generalized trust - they allow individuals to discriminate both with regard to the person (or, more precisely, class of persons) being trusted, and the matter being trusted over. However, they are also better able to account for the effect of macro- and meso-level variables than purely relational forms of interpersonal trust.

In the rest of this section, I build on the claims of the last section to argue that the class-based version of encapsulated interest provides a highly plausible explanation of how high levels of inequality is likely to lead to higher levels of distrust across society. The most prominent alternative explanation (Uslaner 2004; Rothstein and Uslaner 2005), argues that we need to refer to the kind of generalized trust found in a community of shared moral values in order to explain this causal relationship. I show that at a minimum, a class-based account of trust provides an alternative account of the relationship between inequality and trust that fits with the empirical evidence. While a proper test of the respective merits of the two approaches would require a separate paper (and substantial new data and research), my arguments suggest at the least that a strong sense of moral community *isn't necessary* as a basis for widespread social trust. If this is true, it offers cautious grounds for optimism regarding the possibilities for increasing trust among individuals.

We know from a variety of sources (see further Sampson and Graif, this volume), that mistrust can be historically resilient, even over the longer term. We also know (ibid, Hardin 2002) that deeply rooted forms of mistrust are strongly associated with structural inequality. However, we are still in the early stages of theorizing the mechanisms underlying this relationship, and the degree to which historically rooted forms of distrust can be redressed (in social contexts where distrust has negative consequences).

In an important recent article, Bo Rothstein and Eric Uslaner (2005) point to a strong empirical relationship across countries between trust and levels of economic equality. Societies with high levels of economic inequality are likely to have low levels of trust. Societies with low levels of inequality are correspondingly likely to have higher levels of trust. Other scholars (e.g. You unpublished) arrive at similar conclusions from the aggregate statistical evidence. In order to explain these and related findings, Uslaner (2004) argues that we need to refer to *moral* trust - the kind of trust generated in a shared moral community. The concept of moral trust allows us to understand how collective, rather than individual experience shapes individuals' propensity to trust or distrust each other. More equal societies are likely to be those where individuals feel that they are part of a shared community of fate; they are correspondingly more likely to trust each other in the rich ways that support broadly based (rather than particularistic) forms of civic engagement and mutual respect. To quote Rothstein and Uslaner:

> When resources and opportunities are distributed more equally, people are more likely to perceive a common stake with others and to see themselves as part of a larger social order. If there is a strong skew in wealth or in the possibilities for improving one's stake

> in life, people at each end may feel that they have little in common with others. In highly unequal societies, people are likely to stick with their own kind. Perceptions of injustice will reinforce negative stereotypes of other groups, making social trust and accommodation more difficult.(p.52, Rothstein and Uslaner 2005)

The set of mechanisms that Rothstein and Uslaner identify are plausible ones. It is quite likely that individuals do see themselves, at least in some contexts, as belonging to a larger whole, and that a sense of collective solidarity may inspire them to trust each other in circumstances where they otherwise would not. It is also highly plausible that high levels of inequality will corrode whatever sense of collective solidarity there is. Yet their counsel is one, if not of complete despair, of quite considerable pessimism. They argue that "[w]hen people do not see themselves as part of the same moral community with a shared fate, they will not have the solidarity that is essential for building up social trust." (p.61, Rothstein and Uslaner 2005), but find little hope that societies which do not have a sense of shared fate can build it up. These societies are trapped by a mutually reinforcing combination of low trust, inequality and dysfunctional institutions, and it is very difficult to see how they can work their way out of it. Constructing a genuine moral community of shared fate from scratch is at best extraordinarily difficult.

A strategic account of trust allows us to focus on some of the same variables as Rothstein and Uslaner; but arrives at a different diagnosis and different results. Specifically, we may see how both economic and political inequality may have a powerful effect both on relationships between individuals (the relational encapsulated interest account) and on trust between different classes of actors, via intermediating institutional mechanisms (the class-based encapsulated interest account). Rather than shaping perceptions of shared political fates, persistent inequalities of resources are likely to shape trusting relations through realigning specifically individual perceptions of the degree to which others can be trusted.

First, we may see that inequality is likely to shape the specific relationships that individuals have with each other. Inequalities in *economic resources* of the kind that Rothstein and Uslaner discuss are likely to manifest themselves as inequalities in *bargaining power*. Individuals who are relatively poor will find themselves at a disadvantage when dealing with those who are more affluent than they are. Richer actors in unequal societies are likely to have many more attractive options to a given relationship with a poorer actor than vice-versa, granting them much greater bargaining power, so that they are likely to be relatively indifferent to the cessation of a particular relationship. Furthermore, economic resources are relatively fungible; they may be translated into other forms of coercion or control that allow richer actors to prevail more easily over poor ones.

This means that poor actors are likely to have relatively little reason to trust richer ones over a wide variety of possible relationships. Indeed, if inequality becomes very high, rich actors may have less reason to trust poor ones too. As more economically powerful actors become nearly completely indifferent regarding the question of which poor actor they have a relationship with, relationships with these actors become less valuable to poor ones, making poor actors correspondingly less likely to behave in a trustworthy fashion when they can get away with it (Farrell 2004).

However, as Cook, Hardin and Levi (p.1, 2005) point out, relational trust is “no longer the central pillar of social order, and ... may not even be very important in most of our cooperative exchanges." Thus, the second mechanism of trust generation, the class-based version of encapsulated interest, plays a role that is arguably even more important than that of personal relations. Different expectations regarding classes of actors may be shaped by power relations too, with knock on effects for a variety of institutionalized relationships that are much more central to the functioning of complex societies. Institutions - and especially informal institutions - are likely to reflect inequalities of wealth and power where such inequalities are pronounced, and to generate increased distrust among actors who correctly perceive that they belong to categories that are unlikely to be treated in a trustworthy fashion either (a) by actors belonging to more powerful categories, or (b) by purportedly neutral actors such as state bureaucrats that are likely to be responsive to the needs of the powerful.

More generally, under the class based account, we may see how actor *a*, as a member of class *A*, will refer to existing institutional rules for information about how she may expect to be treated in interactions with actors from other classes, such as *B*. If these institutions instantiate substantial inequalities of power, such that actors of class *B* are much more powerful than actors of class *A*, and use their power in order to secure distributional outcomes that are favourable to them (and not to actors of class *A*, except accidentally), she is likely to reason that she is unlikely to be treated well across a variety of situations that are only imperfectly covered by existing institutional rules. These institutions will communicate to her that actors of class *B* have no substantial reason to take the interests of actors of class *A* to heart across such situations. Accordingly, we may expect that *a* will conclude that she has little reason to trust actors of class *B* across a wide variety of situations that are partly covered by the relevant institutions, and many reasons to distrust them.

If, in contrast, there are no or moderate asymmetries of power between actors of Class *A* and Class *B*, we may expect trust and trustworthiness to be much easier to achieve across many situations. The interests of actors of Class *A* and Class *B* will still very possibly clash over some matters; asymmetries of power are far from the only possible source of distrust between actors. However, at the least, actors from class *B* will potentially have some reason to take the interests of actors of class *A* into account; the power disparities between them will not be so grave as to rule trust out in the first place.

These mechanisms potentially help explain a number of empirical phenomena; I briefly canvas two. The problem of corruption has persuasively been linked to problems of power asymmetries; more corrupt societies *ceteris paribus* tend to be those societies with high degrees of resource asymmetry between wealthy and poor, and power asymmetry between ruler and ruled. Thus, for example, Michael Johnston (2005) documents the existence of four 'syndromes of corruption;' conceptually distinct forms of corruption in which the degree of power asymmetry largely determines the severity of the form of corruption. As Johnston notes, highly corrupt societies tend to have low levels of trust. My account points to mechanisms that are likely to promote exactly this causal relationship. Corrupt societies are those in which bureaucratic norms of impartiality and fairness are effectively supplanted by informal institutionalized expectations that it is necessary to pay powerful actors off in order to get results. In such societies, rich individuals (who have more resources to bribe others and otherwise smooth their way) will naturally be able to do better than poor individuals, and furthermore will often be able to take advantage of poor individuals without any real risk of punishment by legal authorities. It is unsurprising that under these circumstances individuals who are rich, or who belong to classes that are protected by the state, will have little reason to take into account the interests of others. This may translate not only into poor people distrusting rich people, or powerless people distrusting powerful ones, but the reverse too; to the extent that broad classes of people are effectively excluded from most of the benefits of cooperation, they will have little incentive to behave trustworthily in circumstances where they are not under immediate supervision or control.

A similar logic may characterize the contrast between Northern and Southern Italy, which has received much discussion in the academic literature in the wake of Robert Putnam's (1993) work on regional differences in Italy. Many of these differences have less to do with aggregate differences in social capital than with the degree of hierarchy within local communities. The economically successful communities in northern and central Italy that Putnam discusses also tend to have quite low degrees of power asymmetry between different economic actors (Farrell 2005, forthcoming). Typically, they have highly decentralized economies, dominated by small firms, in which no single set of economic actors predominated. This has allowed firms to rely on trust-based relationships, anchored in local institutions of fair dealing, to organize production, rather than formal contracts.

Matters are very different in the South, and especially in localities dominated by the Mafia. Rocco Sciarrone, details how the Mafia (which he considers to be a loose organization bounded together by a set of common informal rules; see Sciarrone 1998) reproduces power relations within commercial communities. For example, in a part of Calabria that Sciarrone has studied intensively (Sciarrone 1993), he finds that members of the Mafia and their very close allies enjoy a privileged position, using their penetration of state bodies and their ability to offer differential protection to extract rents on economic activity. Building on Gambetta's (**1993**) arguments, Sciarrone argues that the Mafia "dedicate themselves to increasing distrust that they are then able to alleviate, so as to maintain high demand on the market for the protection that they are selling" (Sciarrone, 1993 p.71, my translation). Most notably, the Mafia distributes their protection in a *differentiated* fashion. Some businesses are entirely 'subordinate' to the Mafia, and pay protection money without receiving any benefits. Other, better positioned businesses, can collude with the Mafia to a greater or lesser extent, and can expect to have their commercial dealings with others protected.

The result is substantial power asymmetries, in which less advantaged businesses have no effective recourse against either the Mafia or its favoured clients should they be cheated (beyond fantasies of flight to other regions of Italy). Local community rules about what you can and cannot do mean that everyone understands how they are supposed to behave with respect to the Mafia. However, where situations are only ambiguously covered by informal community rules in localities dominated by the Mafia, we may expect that these institutions will tend to conduct actors towards distrust rather than trust in each other. Accordingly, these disfavored entrepreneurs (who are in the majority) have little reason either to trust each other or those more powerful than them. As Sciarrone describes it:

> In this situation, the Mafia may represent the only guarantee of trust[worthiness] and entrusting oneself to the Mafia - even if it is certainly disastrous from the collective point of view - may be rational from the point of view of the individual actor (Sciarrone 1993, p.91, my translation).

Here again, we may see how substantial power asymmetries go together with high levels of distrust across many classes of actors. Furthermore, in both these cases, cursory examination suggests that the encapsulated interest account (in both variants) provides a better understanding of what is going on than do accounts based on generalized trust, even if a more comprehensive test is still necessary properly to determine their respective merits. Most particularly, by examining actors' encapsulated interests, we can disentangle the *specifics* of trust relations, in a way that isn't really possible under the assumptions of generalized or moral trust. This is especially evident in the contrast between Northern and Southern Italy. The problem in the South isn't so much that people don't trust each other in general because of the lack of a proper moral community, as that informal institutions promote specific forms of distrust between specific classes of actor that make important forms of economic and political cooperation more difficult.

Finally, I note in passing that the rationalistic theory of trust that I outline provides grounds for some qualified optimism that actors can indeed escape from low trust equilibria. If institutions are the key intermediary variable translating between power relations and outcomes in terms of trust and cooperation, we may expect that changes in power relations, and associated changes in institutions, will have knock-on consequences for how actors trust and cooperate with each other. This is not to say that institutional change will be easy or straightforward, especially if informal institutions (which are relatively poorly understood) are key to the ways in which actors trust each other. It is to say that meaningful action to improve levels of trust is not beyond the scope of human agency.

More generally, to the extent that formal institutions and enforceable state rules may sometimes counteract malign informal institutions, the agenda outlined in Margaret Levi's (1998) discussion of the relationship between state institutions and trust provides a very useful starting point for thinking about *which* institutional changes may be best suited to increasing (appropriate) trust relations among actors. Robert Sampson and Corina Graif (this volume) supplement Levi's arguments by pointing to the likely importance of learning processes in increasing trust. If the arguments in this chapter are on target, one may see why learning may be valuable, when supplemented with meaningful structural change. If informal institutions involve learned expectations about the ways in which different classes of actors will interact, then they may persist even when underlying power relationships have shifted, causing actors to continue to behave 'as if' the old inequalities still applied.

Conclusions

In this paper, I've argued that there is an important gap in our theories regarding the relationship between trust and institutions. This goes hand-in-hand with another, more specific problem for the encapsulated interest account of trust, which is the best strategic theory of trust that we have. There is a relative dearth of work by scholars employing this approach on the relationship between macro- and meso- level causal factors and the kinds of trust and cooperation to be found among individuals. I suggest a way of tackling these problems - developing a modified version of the encapsulated interest account that examines how trust may be based on knowledge over how classes of actors are likely to behave in given contexts, and linking this account to a theory of institutions. Finally, I provide some plausible evidence to suggest that such an account may help us better to explain the broad relationship between inequality and trust.

The modified version of encapsulated interest that I describe is not a substitute for the original formulation, but a complement. It (a) shows how different forms of expectations than those over purely personal relationships may be described as trust, while (b) continuing to draw a distinction between trust and those expectations that are directly induced by institutions. Institutions may affect trust between individuals, but the 'core' of institutions - the set of situations where institutions produce a high degree of regularity and predictability - doesn't implicate trust as such. Thus, it doesn't either replace or encompass the original formulation, but it does show how this formulation may be adapted to cover new causal relationships, without diluting the concept of trust to the point where it can't be distinguished from simple institutional compliance.

Finally, I suggest that the arguments canvassed here provide the beginnings of an important and interesting new research agenda - a more systematic effort to discover how institutions affect trust and trustworthiness. Some elements of this research agenda are already in train (Farrell unpublished, Farrell and Knight unpublished). Others may be discovered in the (I believe) complementary work of other scholars (Levi 1998). However, these only present a quite early set of arguments and results concerning a line of enquiry that has very considerable promise over the longer term.

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