

The Economics of Trust

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In Denmark, farmers sell their produce using unattended roadside stands. People passing by easily could take goods for free – or even steal the money box. Yet they don't. By contrast, the U.S. pharmacy chain Walgreens implemented a lock-and-key policy, in which most items are locked up in cabinets and customers must contact an employee to retrieve the item for them. Shoppers are monitored using video cameras and security guards stand by the exits. These steps, designed to reduce out-of-control stoplifting, raise costs, inconvenience customers and reduce sales, which even caused some Walgreens locations to close. But trust extends past deodorant and Advil. High-trust societies have higher economic growth, investment, and reduced taxes and transaction costs. Trustworthiness is the backbone of our economy and our society.

The Nobel Prize winning economist Kenneth Arrow said, "Virtually every commercial transaction has within itself an element of trust." We deposit money in the bank trusting it will be returned to us. We buy groceries trusting they will be fresh and safe to eat. We purchase goods online trusting that our personal information will not be stolen. Every day, each of us takes others at their word that they will hold up their side of the bargain.

But trust in the economy extends beyond our everyday transactions. When people are trusted not to cheat on their taxes, tax rates are lower, and lower tax rates put more money in people's pockets, stimulating economic growth and reducing unemployment. When trust is high, contracts are made with a handshake rather than using a team of lawyers. Investment in factories or research will be higher if investors can trust the government won't take their property. The

social safety net for those who fall upon hard times can be stronger if citizens trust that others won't try to obtain benefits dishonestly.

Possibly the most important benefit of a trustworthy society is incentives to get an education: there is no reason for me to take the time, effort and money to pursue a college education if university spots, jobs and other opportunities will be given out based on who you know rather than what you know.

Researchers have tried to measure trust using surveys. For many years and across many countries, individuals have been asked a simple question: "Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?" Sometimes the question is framed in a different way: "Do you think most people would try to take advantage of you if they got the chance, or would they try to be fair?" In other surveys, people are asked, "Would you say that most of the time people try to be helpful, or that they are mostly just looking out for themselves?"

However the questions are asked, some countries have higher levels of trust than others. Four of the ten highest-trust countries are in Scandinavia. In data gathered by the Global Trust Research Consortium, the US ranks 28th out of 154 countries. That's pretty good, considering that, unlike Scandinavia, we're a large and diverse country that draws people from many different backgrounds and cultures. Within the United States, trust also varies from state to state. Washington, Florida and Maryland are high-trust states, while California, Ohio and New Jersey residents express much less trust in one another.

But surveys rely upon what people *say* about trust. Some researchers have gone further, trying to measure trustworthiness directly. They do this through the "wallet test." In 40 countries, researchers went to banks, post offices, hotels and other public institutions and handed in 17,000

wallets that they said they had found outside. The wallets contained money and identification. The researchers then calculated how many of these wallets were returned to their supposed owners. The wallet test measures if strangers can be trusted to treat you fairly or if they will instead take advantage of you.

Yet again, Scandinavian countries scored very high for social trust, with up to 80 percent of “lost” wallets being returned to their owners. The U.S. was at the middle of the pack, with almost 60 percent of wallets returned – a similar figure to Canada or the United Kingdom. Developing countries tended to rank lower. And in China, barely 20 percent of lost wallets made their way back to their owners, the lowest rate in the world.

Economists have long believed that higher levels of trust encouraged economic growth. Adam Smith, in his 1776 book *The Wealth of Nations*, reported that “of the nations of Europe, the Dutch, the most commercial, are the most faithful to their word.” The fact that the Dutch merchants kept their word made them reliable to trade with. In 1848, the early economist John Stuart Mill noted that the biggest impediment to economic growth in some European countries was finding a partner that you could trust. That the 13 British colonies grew so rich is evidence that early Americans could trust each other.

More recently, economists have used data from surveys and the wallet test to measure how important trust is to our economy. The Swedish economist Christian Bjørnskov summarized the international research saying that “the literature clearly supports a causal effect of trust on growth.” Other research published in 2010 found that U.S. states with higher levels of trust grew faster than low-trust states. And the four authors of the wallet test, who were split between American and Swiss academics, found that “wallet reporting rates outperform virtually every

survey measure in predicting country-level differences in GDP, total factor productivity and indicators of government effectiveness.”

In other words, trustworthiness isn’t just a moral virtue, as important as that may be. Honesty is the foundation on which our society and economy were built.

However, trust is steadily declining, with people growing increasingly skeptical of institutions, governments, and even one another. This sentiment isn’t limited to America. In the World Values Survey, the share of people believing that “most people can be trusted” has fallen by over 20 percent in recent years. Similarly, 48 percent of Americans in 1972 said that “most people can be trusted.” Those high levels of trust helped build our country into the greatest in the world, with strong industries, welcoming communities and generous charities. But by 2022, only 28 percent said that most people can be trusted. Today, 72 percent of Americans say “you can’t be too careful” when dealing with others.

We see that decline in trust all around us, and not only in drug stores where everything is locked in glass cabinets. For instance, a [study](#) from the Educational Testing Service shows that cheating in school has more than tripled since the 1940s. Today, 75 to 90 percent of high school students admit to cheating. Any student can tell you that they see it happening.

Given this, the biggest question to ask is “can trust be restored?” The answer is that we don’t know. Whether it’s at a personal level or across a country, trust is much easier to lose than it is to regain. But we have a duty to try.

The first players in restoring trust are social and governmental institutions. For instance schools can teach the value of trust by praising those who show good character and by punishing cheating. Nothing degrades the value of honesty more than seeing others get away with being dishonest.

Yet we all have a part to play. We need to be trustworthy ourselves, to speak out against dishonesty, and to show respect for honest politicians, even if we disagree with them. Although trust is essential to our society and our economy, it is still an individual virtue that each of us must develop.

When we trust each other, not only do our personal relationships improve, but our economy and well-being improves. Tax rates can be lower, investment increases, and education progresses. People can go about their lives feeling happier and more secure, and not having to look over their shoulders or double-check every interaction with other people. And they don't have to wait at the pharmacy for an employee to unlock their deodorant.

With all these benefits, there aren't any real downsides to a trustworthy economy. But trust is declining, which should worry us all. The society that my parents and grandparents could take for granted is not necessarily the one I and other students are growing up in today.

However, there are ways to increase trust. By repairing not only our institutions, but ourselves, we can restore trust and increase our prosperity.