

# Chapter 14

## Institutionalizing Distrust, Enculturating Trust

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**W**E HAVE all experienced how distrust can sour interpersonal relationships, how heavy-handed managerialist distrust can destroy a work environment. Yet the more trust there is in the world, the greater the opportunities for its breach. Corporate crime (Shapiro 1987, 1990), abuse of state power (Finn 1993; Grabosky 1989), and the abuse of women and children in families (Widom 1989) are preeminent examples of the centrality of breach of trust to the biggest problems contemporary societies face. This chapter explores how we might structure distrust into contemporary societies to protect against violation of trust. The idea is that if we can structure distrust deeply enough into our institutions, then in day-to-day life we can be maximally nurturant of trust; in short, we would institutionalize distrust so we can enculturate trust.

While citizens have good reasons for distrusting business and government, recent scholarship has helped us better understand how trust increases the efficiency of both (Casson 1991; Fukuyama 1995; Putnam 1993). Trust is undersupplied in contemporary societies, particularly in those that suffer from the deepest problems of poverty and corruption. How then do we maximize the benefits of trust while limiting the extent to which we fall victim to it? We will not resolve this dilemma by killing interpersonal trust with distrust, since that would deprive us of the benefits of trust. Moreover, I will argue that trust is the most important resource for combating breach of trust.

The solution proposed to the dilemma is to institutionalize distrust while seeking a culture that maximizes interpersonal trust and thereby

sustains a viable level of citizen trust in business and government. Institutionalizing distrust does not mean cultivating distrust of institutions; it means deploying sound principles of institutional design so that institutions check the power of other institutions. Both timidity about maximizing interpersonal trust and failure of robust institutionalization of distrust are paths to poverty, corruption, and maladministration.

A common mistake is to institutionalize distrust by making certain institutions weak because they are judged untrustworthy. When all the key institutions of a plural democracy are strong—state institutions, market institutions, and institutions of civil society—they are best able to nurture trust and exercise countervailing power against abuse of trust within other institutions.

The plan of this chapter is first to juxtapose two conceptions—trust as obligation and trust as confidence. I show that these are mutually constituting. As a result of the positive correlations among different types of trust, disaggregating them is not always analytically strategic, and in nonexperimental research, it is methodologically difficult. I then argue that trust, conceived both in the aggregate and in its various disaggregated forms, is undersupplied in contemporary societies. Finally, I discuss how interpersonal trust can be maximized while distrust is institutionalized behind the backs of actors.

## Two Conceptions of Trust

Legal conceptions of trust are strangely peripheral to the social science literature. The most important of these legal conceptions is of trust as a moral obligation of power: directors as trustees of shareholders, legislatures as trustees of the people (Finn 1993). Trustworthiness is the social science conception that comes closest to this legal conception. But trustworthiness is for most social scientists a thin concept. Trustworthiness can be a mere statistical probability that the trust we place in the trustee will be honored, excluding any notion of obligation or duty, which is included in the law's thicker conception. I call the legal conception trust as obligation. I take trustworthy actors to be those who cognitively accept that they have obligations and who act to honor them.

The dominant social science conception is of trust as confidence, as opposed to trust as obligation. In its thin version, trust as confidence means little more than the expectation that someone will do what we want. In its thicker versions, trust as confidence attributes goodwill, social solidarity, even shared group identity to the trustee (see, for example, Tyler and Degoey 1996). Again, I propose that these thicker conceptions of trust as confidence are positively correlated with thin

trust as confidence, because social solidarity or friendship builds bare confidence (thin trust) in others, while breach of confidence undermines friendship (thick trust). It is useful for certain analytic purposes to disaggregate trust into thicker and thinner conceptions, because thick and thin trust do perform different kinds of work in enabling social and economic systems to function. This chapter, however, is about the analytic advantages that can be secured by aggregating the competing conceptions of trust.

Trust as obligation and trust as confidence are mutually constituting. This is the claim I now flesh out. Both conceptions of trust have cognitive and behavioral counterparts. I can believe I should honor an obligation, or I can honor it behaviorally without believing it to be an obligation. I can be confident in my cognition that a person is worthy of trust, or I can act as if I trust him even though I do not believe that trust is justified. Both the cognitive and the behavioral counterparts of trust as obligation and trust as confidence are of empirical significance, as will be seen in the following exploration, under three propositions, of how one kind of trust constitutes the other.

1. *Trustees who honor their trust as obligation increase trust as confidence among their trusters.*

The City of London became a major financial center because investors could have confidence in the sense of obligation of chaps who went to the right schools and belonged to the right clubs (Clarke 1986). Its financial institutions were built by people who had been enculturated in these schools and clubs to believe in their obligations and to act on them. Conversely, in the 1980s when corporate crime scandals enveloped Australian entrepreneurs such as Alan Bond, investment confidence in Australian companies dropped for a time.

Trustworthy trustees are more likely to be trusted by trusters. An experimental psychology literature supports this hypothesis (Merluzzi and Brischetto 1985; Messick et al. 1983; Schwartz and Bless 1992), particularly studies of promise keeping in prisoner's dilemma games (Gahagan and Tedeschi 1968; Ayres, Nacci, and Tedeschi 1973; Schlenker, Helm, and Tedeschi 1973).

2. *Trusters who communicate trust as confidence in trustees will thereby increase trust as obligation among trustees.*

Toni Makkai and I found empirical support for this claim in research on nursing home regulation in Australia (Braithwaite and Makkai 1994). Nursing homes are fiduciaries for our most vulnerable, least powerful citizens. As Joel Handler once said, even prisoners can riot, but nursing home residents have neither muscle nor voice and rarely have effective power to vote with their feet by moving to an-

other facility. In the worst cases of abuse of this trust, residents are tied up, drugged to keep them quiet, physically maltreated, and allowed to die from neglectful care. The trusteeship of nursing homes is held accountable by government inspections; Australian proprietors are required to comply with thirty-one quality-of-care standards, including standards about empowering and respecting the rights of residents.

One of the important findings from our multivariate analyses of compliance with these standards by 410 Australian nursing homes concerned trustees' believing that they are trusted. When chief executives of nursing homes believed that they were treated as trustworthy by inspectors, their nursing homes experienced a significant improvement in compliance with the law during the two years following that inspection (Braithwaite and Makkai 1994). These were chief executives who agreed with the attitude statement "[The inspectors] treated me as a person who could be trusted to do the right thing." Conversely, when chief executives agreed that "[The inspectors] treated me as someone who would only do the right thing when forced to," their compliance with the law was reduced. We found that trust as confidence increased compliance even after controlling for what we assessed to be the objective trustworthiness of nursing homes. This finding generalizes to trust as *self-confidence*. My colleague Anne Jenkins (1994) found that managers with high self-efficacy—that is, high confidence in their own ability to meet the standards—are more likely to actually meet the standards, after other influences on compliance are controlled. We concluded that trust by others and self-trust build cognitive capacity to meet fiduciary obligations to nursing home residents. The psychological theory our research team draws upon here is the social cognitive theory in Albert Bandura's *Social Foundations of Thought and Action* (1986).

3. *When trust as confidence increases among trusters, trust as obligation is increased after the trusters themselves become trustees.*

All of us participate both in roles where we trust others and in roles where we are trusted by others. Child abuse is a simple illustration of what can happen when trust as confidence is crushed. When parents abuse their trust as parents through violence against their children, those children are much more likely themselves to become violent adults (Dodge et al. 1990; Dutton and Hart 1992; Widom 1989). So a cycle of parental abuse of trust is passed from generation to generation, particularly among males. John Scholz, in chapter 6, reports compliance with tax law to be higher among upper-middle-class New Yorkers who agree that "we can trust the government." I trust therefore I pay. This is also a message in Margaret Levi's histori-

cal analysis of tax compliance and resistance in twentieth-century Australia, republican Rome, renaissance France, and elsewhere (Levi 1988). Scholz found high tax compliance not only when the government was perceived as trustworthy but also when other taxpayers were perceived as trustworthy. When citizens believe that other citizens can be trusted to pay their taxes honestly, they are more likely to be honest taxpayers themselves.<sup>1</sup> These findings are an obverse of the nursing home results, which show that trust *by* the state increases citizen trustworthiness; the tax results show that trust *of* the state increases citizen trustworthiness.

To summarize so far, the social science literature provides a variety of kinds of evidence that trust as confidence increases trust as obligation, and vice versa, and that the trustworthiness of trustees increases the trustworthiness of trusters, and vice versa. These findings lead in turn to a general characteristic of trust that distinguishes it from most other assets studied by social scientists: Trust is not a resource depleted through use. In fact, trust is depleted through not being used (Gambetta 1988, 224–25; Hirschman 1984, 91–92). There are important qualifications of this general claim; these arise from the fact that in an environment of low trust as obligation, while trust as confidence still increases trust as obligation, trust as confidence is more likely to be crushed when the trust as confidence is proved to be misplaced. I argue, however, that we can protect trust as confidence from sliding to a low-trust equilibrium by sensible institutionalization of distrust (as well as by nurturing trust as obligation).

The proffering of trust can transform what looks to the rational-choice theorist like a low-trust equilibrium into a high-trust equilibrium. As Valerie Braithwaite explains in chapter 3, citizens have multiple selves. In contexts where people's untrustworthy or exploitative selves are to the fore in an encounter, switching tactics are available to persuade them to switch to a trustworthy or public-regarding self. Trust as confidence is a most important switching tactic. The more it is transparent that an exploitative self dominates in a particular situation, the more trust as confidence will be seen as an act of grace. Turning the other cheek can be conceived as a switching technique for reversing a situation that is spiraling toward a low-trust equilibrium. The most fruitful research strategy on trust is to study situations with the lowest possible levels of trust—a meeting between a mugger and his victim, for example—to discover the conditions for rituals that flick the switch from tracking down to low trust to tracking up to a high-trust equilibrium. This search has been at the center of our research on nursing home regulation and conferences for criminal offenders and victims (Braithwaite and Mugford 1994).

The most important mechanism for enculturating trust is deadly

simple; it is to trust others. Societies do better with an interpersonal associational order that provides venues for the proliferation of this interpersonal mechanism. This means a rich civil society. We learn to trust and be trustworthy by being trusted in families, schools, churches, community groups, sporting clubs, and institutions of civil society generally (Putnam 1993).

It follows from this perspective that trust should be seen as a virtue. Our presumption should be to trust until others give us reason not to. Institutions such as families, schools, and clubs enculturate trust by teaching our culture's stories about trust as a virtue. But more important than teaching us the story of the prodigal son, they enculturate trust simply by extending trust to us as we grow.

## The Undersupply of Trust

The previous section has showed how both trust as confidence and trust as obligation can contribute to controlling the abuse of power, be that tax cheating, child abuse, traders failing to honor their word, or the neglect of vulnerable nursing home residents. A feature of most standard means of controlling abuse of power is that they reduce power and involve a cost. Auditors-general and courts tackle the abuses of bureaucrats by limiting their power; they are also an expense to taxpayers. Trust differs from such institutions because trust increases both power and wealth as it does the work of controlling abuse of power.

For example, trust increases the power of traders in markets. You will become an influential trader if you are trusted by others who give you power. London continues to be a center of financial power out of proportion to the economic and military might of its host state because of the fabric of trust of the City. Lloyd's of London might have experienced shaky times, but Lloyd's is in fact a good example of a nuanced, informal architecture of trust that could not be erected at all in Moscow or New Delhi. We should wonder less at why its foundations have been shaky at times, more at how it can work at all. It is a miraculous thing to stand on the Lloyd's trading floor and observe within a matter of minutes the reinsurance of something as risky and massive as an off-shore oil rig, efficiently transacted on the floor through a process in which people who trust the signature of fellow agents agree to share huge risks. I trust you to be a "respected lead" underwriter on oil-rigs; you trust me to be a "respected lead" on oil tankers.

Japanese corporations may have a comparative advantage in the modern world because intra-corporate and intra-keiretsu trust have deeper cultural roots than elsewhere.<sup>2</sup> Equally, many Third World

businesses may be hindered in the acquisition of power because, although trust works well in their cultures among kin or tribal affiliates, it does not work when those affiliations are lacking (Gambetta 1988, 229; Hart 1988). Hence, Kenneth Arrow (1972, 357) contended: "It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence" (357)—that is, the undersupply of trust. Lord Vinson has cited as one of the ten commandments of his successful entrepreneurship; "Trust everyone unless you have a reason not to" (*The Economist*, Jan. 7, 1994, 93). Yet prior to the emergence of merchant codes of trustworthiness in eighteenth-century England, this may have been bad advice to the English entrepreneur.

John Maynard Keynes understood the importance of trust (Barbalet 1993, 235–38). In *The General Theory of Employment, Interest and Money* (Keynes 1936), he lamented the theoretical neglect of confidence, and the discipline of economics has perpetuated this neglect by ignoring this aspect of the *General Theory*. Keynes's theory of the marginal efficiency of capital turns on subjective expectation of yield, which renders confidence critical to the propensity to invest. It follows from Keynes that economic growth depends in part on a rationality based on trust rather than on certainty of calculation—"spontaneous optimism rather than on a mathematical expectation" (Keynes 1936, 161). Yet contemporary economics is about mathematical expectation, leaving the study of business confidence to journalists and political practitioners. Sociologist Jack Barbalet (1993) thinks economics must grapple with how architectures of trust generate emotions and cognitions of confidence that enable actions like investment. As we recover from the deregulatory excess of the 1980s, which was a myopia of mathematical expectation, we now see once again that prudential regulation is about prudence, that securities regulation is about security. Regulation is partly about mooring emotions like panic against the turbulent currents of the market.

Transition in Eastern Europe has also helped us see what social scientists had been blind to in the West. A tragedy of Communism was that it set out to destroy the institutions of civil society—all those institutions intermediate between the individual and the state. It is in these institutions—professions, industry associations, unions, self-regulatory organizations, business schools, churches, families—that the fabric of trust is woven (Krygier 1996). When we destroy the institutions of civil society, trust and many other forms of civility are destroyed. Once the fabric of trust unravels, a society suffers in two ways—from abuse of power and from a want of the confidence necessary for a flourishing economy.

Put more optimistically, by nurturing institutions of trust we can

simultaneously contribute toward controlling the abuse of power and promoting economic growth. Trust does more than enable efficiency and investment in business; when we have a more trust-based society, we can enjoy the benefits of a more efficient public sector as well. When politicians win elections in societies where trust works, they can get on with the job of governing without distracting their energies into ensuring that the military does not reverse the election result. When judges make decisions in western Germany, litigants normally accept them; when judges make decisions in eastern Germany, the decisions tend not to be accepted, because judges are not to be trusted. As Niklas Luhmann (1979) argues, the benefits of trust progressively increase during modernity as the world becomes more complex and uncertain—a risk society, as the German sociologists say (Beck 1992).

Economist Mark Casson (1991), in a book that does not cite Keynes, has reached the same conclusion from a game theoretic analysis. Casson says that transaction costs are the largest costs in a modern economy and are increasing: "Overall economic performance depends on transaction costs, and these mainly reflect the level of trust in the economy" (1). John Wallis and Douglass North (1986) have shown empirically that transaction costs in the U.S. economy have increased from 25 percent in the late nineteenth century to 45 percent in the late twentieth century. Moreover, changes in the nature of postindustrial work and trade mean that more people are involved in endeavors that are difficult to monitor. Hence, the information asymmetry that makes trust superior to monitoring becomes progressively more profound. This information asymmetry is that people know their own plans and actions better than others do, conferring a decisive advantage for self-discipline over discipline by others.

With a broad historical sweep, Douglass North has contended that secure property rights and trust nurtured by merchant codes of behavior enabled a striking decline of interest rates in the Dutch capital market of the seventeenth century and then in the English capital market in the early eighteenth century (North 1990, 43). There is an open debate, however, over whether it was the moral force of such codes or the monitoring and use of sanctions they enabled that were the more important influence (Greif 1989). With equal sweep, Robert Putnam (1993) has shown that fabrics of trust arising from rich traditions of civic engagement characterize the regions of Italy that have flourished economically. Furthermore, the more economically backward regions, where distrust dominates, are also the regions where political corruption festers. Putnam has been able to show that the direction of historical causality operating here is not that economic



success generates a trust-based culture but that a strong fabric of trust, woven in strong institutions of civil society, has economic benefits. Putnam's results are the most tantalizing empirical evidence we have that resilient trust simultaneously limits the abuse of power and expands economic growth.

Putnam's work shows how we can be both freer from want and freer from organized crime and corruption when trust is in plentiful supply. Yet, undersupply is standard, unfortunately, because we all have an interest in free riding on the efforts of others who work to build a rich civil society. Trust creates more wealth to tax and causes people to pay their taxes more honestly. Trust, for Putnam, is the most important resource for social capital—features of social organization that facilitate coordination to solve collective action problems. Putnam (1995) has also shown across thirty-five nations a strong positive correlation between "social trust" and "civic engagement" (the density of associational membership). Networks of civic engagement are where trust and norms of reciprocity and cooperation are learned and enculturated. Enculturating trust is the only technique for controlling abuse of power that not only averts a major drag on economic efficiency but actually increases efficiency. We want more trust as obligation because it both controls abuse of power and increases trust as confidence. We want more trust as confidence because it increases both efficiency and trust as obligation.

## The Regulatory Pyramid

There are grave dangers in following the advice of Thomas Hobbes ([1641] 1949) and David Hume ([1875] 1963) and designing institutions that are fit for knaves, based on distrust. The trouble with institutions that assume that people or business organizations will not be virtuous is that they destroy virtue. The research discussed earlier in the chapter was illustrative: treat nursing home managements with distrust, and they do become less virtuous in discharging their care of vulnerable people.

But what about when citizens *are* knaves, or just rational calculators, rather than virtuous citizens? Trust will be abused; vulnerable victims will suffer. Like Philip Pettit in chapter 12, Ian Ayres and I have argued for the development of dynamic regulatory institutions to confront this problem (Ayres and Braithwaite 1992). By dynamic regulatory institutions, we mean institutions that try to effect change through dialogue and persuasion as a first strategy. One rationale for this approach lies in the strong body of empirical evidence that dialogue increases trust, particularly through increasing a sense of "we-

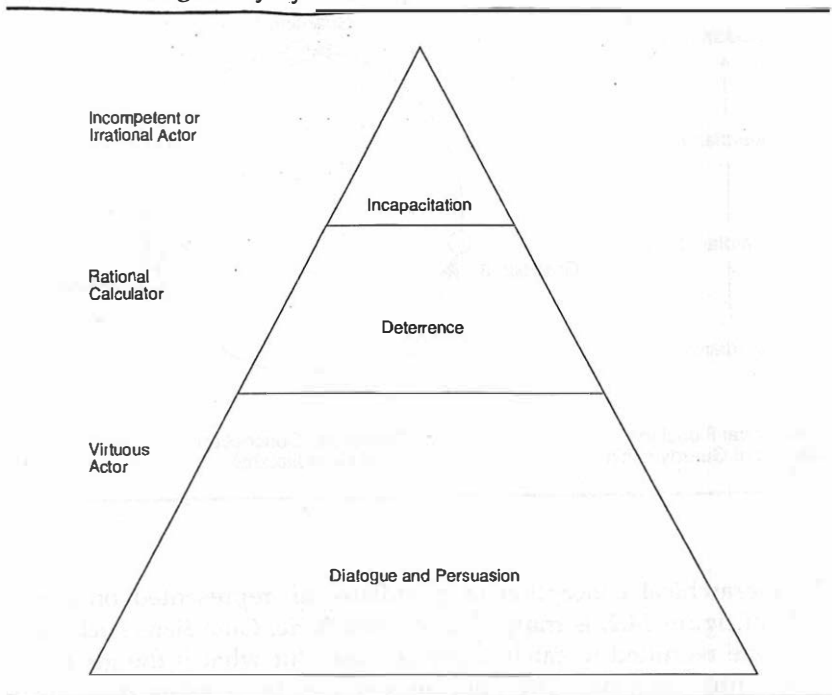
ness," a preference for collective welfare over individual welfare (Messick and Brewer 1983; Dawes, McTavish, and Shaklee 1977; Orbell, van de Kragt, and Dawes 1988). When experience proves this trust to be misplaced, the strategy changes from assuming that the regulated actor is a virtuous citizen to assuming that she is a rational calculator (see also Kagan and Scholz 1984). At that point a deterrence strategy—such as the imposition of fines—might be mobilized. Often, however, the rational-actor assumption will prove just as flawed as the virtuous-citizen assumption. For example, it might be incompetence that is the cause of noncompliance (perhaps the firm's environmental engineers lack knowhow). Deterrence will not cure incompetence, but a consultancy strategy, or a transfer of technology, might. In the worst cases of incompetence, incapacitation from further law-breaking may be required; production lines may have to be shut down, or a license to operate a nursing home may have to be revoked.

This is the basic idea of the regulatory pyramid: Trust first, and thereby get the efficiency benefits of trust in most cases, but motivate trust as obligation by signaling very clearly a preparedness to escalate intervention to progressively less trusting interventions when trust is abused. The paradox of the pyramid is that by signaling a willingness to escalate to draconian strategies of total distrust (such as corporate capital punishment for nursing homes—license revocation), one can increase the proportion of regulatory activity that is based on trust. Desire to avoid severe sanctions channels more of the regulatory game down to the base of the pyramid (see figure 14.1).

These principles apply as much to private firms regulating other private firms, or to environmental groups regulating other organizations of civil society, as they do to states regulating such actors. The regulatory pyramid is a general model of how civil and state actors can move toward a more trust-based culture because fail-safe regulatory mechanisms swing into play when trust is abused. It is a strategy that assumes the motives that underlie abuse of power are diverse—sometimes failure to understand why the law is important, sometimes calculative utility maximization, sometimes incompetence, sometimes irrational resistance to reason (as with a psychopathic murderer). The weaknesses of the trust model are covered by the strengths of the rational-actor model, the weaknesses of the rational-actor model by the strengths of the incapacitation model. But the trust model is privileged in time and through coordination of the other strategies so as to maximize channeling into trust-based problem solving.

Institutionalizing regulatory pyramids institutionalizes distrust; a culture that nurtures interpersonal trust as a virtue educates its citizens to persevere with trust at the base of the pyramid until they are given reason to escalate to deterrence or incapacitation. In other

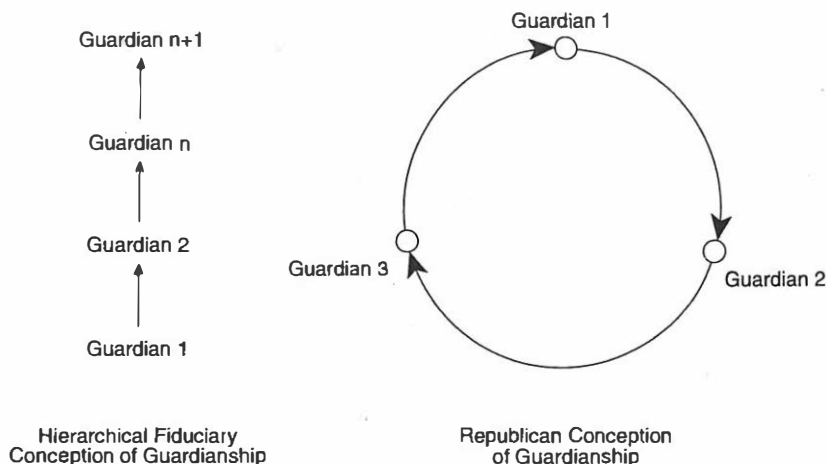
**Figure 14.1 Three Types of Actors and Three Strategies, Ordered in a Regulatory Pyramid**



words, the pyramidal institutionalization of distrust cannot work without an enculturation of trust that persuades citizens to prefer starting at the base of the pyramid.

## The Republican Architecture of Trust

Civic republicanism is one body of political theory that helps us to think more clearly about how to move toward a culture that takes trust more seriously. A clue is found in the fundamental tenet of republicanism that a parliament should not be viewed as sovereign over the people. The empirical claims made in the first part of this chapter concerning the reciprocal relationships between trust as obligation and trust as confidence undermine any hierarchical architecture of trust such as A. V. Dicey's ([1895] 1960) parliamentary sovereignty, in which a regulatory authority can be conceived as guarding citizens, a minister guarding the regulatory authority, and parliament the minister (see figure 14.2).

**Figure 14.2 Formal Models of Two Conceptions of Trust**

The hierarchical conception of guardianship, represented on the left side of figure 14.2, is trapped in its own logic. Guardians such as auditors are recruited to catch abuse of trust. But what if the guardians are untrustworthy? The only answer can be another layer of guardianship above them. In the hierarchical model, the only check on abuse by an  $n$ th order guardian is an  $n + 1$ th order guardian. But then if the  $n + 1$ th order guardian is corrupt, the whole edifice of assurance can collapse. We see the practical manifestation of this regress with police departments that, like fish, tend to rot from the head down. Figure 14.2 shows a simple solution to the puzzle. Arrange guardians in a circle and there is no infinite regress. The logical structure is that everyone becomes a guardian of everyone else. In the most redundant guardianship design possible, all the arrows will point in both directions and arrows will also cut across the circle. The degree of redundancy needed for any given risk of abuse is a matter for contextual judgment. Each guardian can consider an enforcement pyramid such as in figure 14.1 in respect of each other actor for whom they have a guardianship obligation.

Arranging guardianship in a circle is one view of how the constitution of a republican democracy is different from that of a liberal representative democracy. The institutional embodiments of circular guardianship in business regulation, for example, are multiparty (that is, including community groups), dialogic regulatory institutions in which the actions of those in the circle are transparent and contestable from

outside the circle (Ayres and Braithwaite 1992). These can be seen in some, but not most, American and Australian nursing home regulation. Government regulators sit down with representatives of nursing home management, staff, and the residents' committee in an open problem-solving dialogue that leads to negotiated solutions to regulatory problems. Threat and the politics of distrust are rarely necessary in such negotiations. Management more often than not responds in a trustworthy way to the climate of trust, because managers can see that the very process of dialogue empowers the other participants with dangerous knowledge they could use against management. Management is not confronted with a residents' committee that threatens them with litigation by an advocacy group lawyer, but even though that threat may be neither made nor thought by the residents' committee, management can look behind the trusting demeanor of the committee to see that such a capability exists; it is a structural fact of the empowerment of the residents' committee by the knowledge gained from participation in dialogic regulation and the existence of competent advocacy groups at their disposal outside. By getting the structural conditions of republican regulation right, it is possible for regulatory encounters to be based on trust, with deterrence always threatening in the background but never threatened in the foreground (Ayres and Braithwaite 1992, 49–51). Of course, such an accomplishment will always be fragile, and regulatory institutions must therefore be dynamic, responsive to their own histories of misplaced trust.

I am suggesting that there are two civic republican answers to the question of who guards the guardians: (1) communities of dialogue in which each participant is recursively accountable to every other—dialogue that, without threatening distrust, naturally exposes abuse of power to community disapproval; and (2) civic virtue nurtured by trust—trust as obligation nurtured by trust as confidence. Promising strategies can be seen in practice for empowering Aboriginal communities in the regulation of the police, residents' committees and advocacy groups in nursing home regulation, environmental groups in environmental regulation, worker representatives in occupational health and safety regulation, consumer groups in the regulation of banks, women's groups in affirmative action regulation, even the Australian Shareholders' Association in securities regulation.

Civic republicanism is about increasing the trust we place in citizenship, in the institutions of civil society. It is about defending the institutions of representative democracy, the strong democratic state, at the same time as it is about the pursuit of a richer, deeper democracy. When one argues from republican premises (see Braithwaite and Pettit 1990), one ends up with a political theory package that is distinctive in the way it takes seriously plural sources of order for under-

writing freedom. Republicans cannot be sympathetic to the libertarian view that we should trust the market, that the state should be kept weak because it poses a threat to individual freedom. They walk away from socialist views that the market order should be weakened because it is exploitative or that the rule of law should be rejected because law is a tool of ruling-class interests. Republicans must be unsympathetic to the views of some liberals that associational orders (unions, industry associations, for example) should be kept weak because they threaten individualism with a range of communitarian pathologies, like oligarchy. Equally, there is no sympathy for neo-corporatist views that direct community participation in the democratic life of the nation should be discouraged in favor of democratic participation that is funneled through privileged associations such as unions.

Republicans have reason to believe in strong individuals, a strong state, strong markets, a strong associational order, strong communities, and a strong judiciary enforcing the rule of law. The ideal is of a separation of powers where each source of power is strong; it rejects the notion of weakening some in order to strengthen others. Republicans believe in strong foundational institutions that exert countervailing power, each checking abuse of power by the other. Freedom is at risk in societies where individuals are weak, where difference is crushed, where the state is too weak to control vested interests, where consumers are forced to take whatever monopolies dish up to them, where trade unions are not strong and free, where community participation is muted, or where the rule of law can be ignored by a strong state and powerful corporations.

A society that is strong on all these countervailing fronts is structurally able to be strong on enculturating trust. The foundation of an architecture of trust is the idea of separation of powers. Dynamic, responsive regulatory pyramids that nurture trust while checking power can be erected on such foundations.

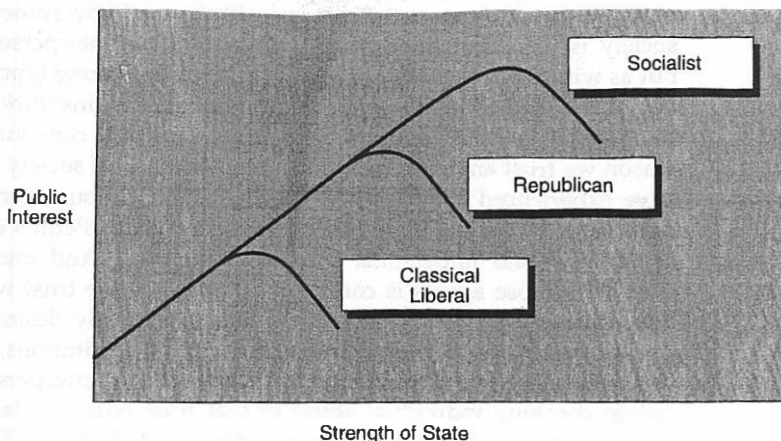
### **Checking Strength with Strength**

The paradox of the pyramid discussed in the last section is that without a strong state capable of credible deterrence and incapacitation, you cannot channel regulatory activity down to the base of the pyramid, where trust is nurtured. In the section before that, I argued that strong institutions of civil society constitute the trust that makes for economic efficiency and civility. If the theory of the regulatory pyramid is right, the trust (as obligation and confidence) enabled by a strong state and vigorous institutions of civil society is what controls abuse of trust.

Obversely, interpersonal trust is important to constituting strong institutions of civil society, a strong state, and strong markets and strong individuals as well. Trust in institutions of government or civil society is obviously conceptually different from interpersonal trust, but as with the foregoing conceptual differences among types of trust, lumping together interpersonal trust and trust in institutions is not necessarily an error, because the two are mutually constituting. One reason we trust an institution of government or civil society is that we have experienced interpersonal trust with the various agents of that institution whom we have encountered (see Philip Pettit's discussion of personal and impersonal trust in chapter 12). And interpersonal trust with those agents is constituted in part by the trust we have in the institution they represent. It is not a particularly desirable objective to maximize the trust citizens have in their institutions, but it is a desirable objective to seek a culture that nurtures interpersonal trust (while checking individual abuse of that trust with regulatory pyramids). One reason this is a desirable objective is that it will constitute a level of citizen trust in institutions that enables those institutions to secure a decent social order and to create wealth. Where interpersonal trust is localized to a limited kin or ethnic circle, interpersonal trust is prevented from building the institutional trust necessary for a rule of law to underwrite fully flourishing markets (Wong 1991). We need enough trust in institutions to secure these benefits. My hypothesis is that we can secure it by maximizing interpersonal trust. Yet we need enough distrust in institutions for the vigilance presumed in figure 14.2 to work. Whatever we do, this required level of distrust will usually exist; it is difficult to conceive of a sociologically possible world where absence of distrust is a problem. The problem is getting people to act on their distrust, the democratic challenge of channeling distrust into active citizenship.

Obviously, the reason it is undesirable to maximize citizen trust in institutions is that institutions are concentrations of power with the potential for great evil. This is why it is better to maximize interpersonal trust while institutionalizing distrust. Consider the state. Under most political theories, up to a certain point the state is viewed as a good thing. Anarchism is perhaps the only major political theory that does not allow for a relationship between the strength of the state and the public interest of the form modeled in figure 14.3. A liberal who believes in no more than a nightwatchman state will see further growth of the state as harmful (to liberty) at quite a low level of state strength. A civic republican who believes that a strong state is necessary to constitute liberty as nondomination (Pettit 1997), to combat some of the forms of domination that the liberal is happy to leave to

Figure 14.3 Political Ideals of State Strength



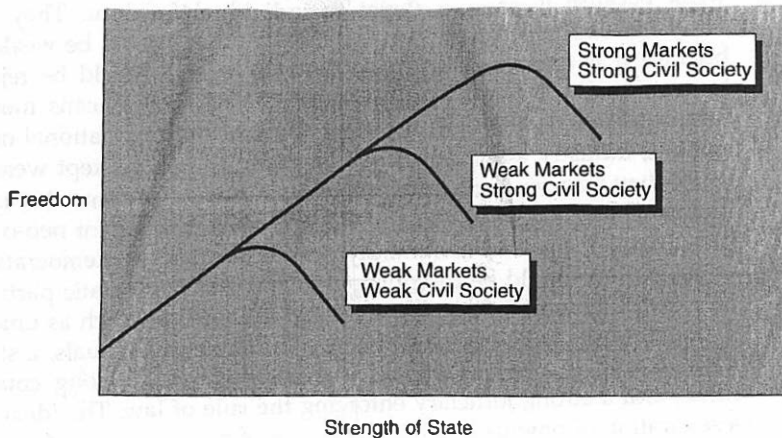
market forces, nevertheless fears the state's becoming so strong as to be totalitarian. Yet even a Stalinist, who does believe in a totalitarian state, does not want the state to take over everything, down to the feeding of children.

The "public interest" on the vertical axis of figure 14.3 that concerns a civic republican is freedom as nondomination (Pettit 1997; Braithwaite and Pettit 1990, 66–67); for the liberal it is freedom as noninterference. I have said that a way to institutionalize distrust is to check the power of one strong institution with other strong institutions. The republican dilemma is that while a stronger state risks bigger abuses of trust and has more power with which to crush freedom, a stronger state can also do more to increase freedom. The bigger the state budget, the more it can disperse to combat the unfreedom of poverty, for example. Strong states, strong markets, and strong civil society (especially strong families) are simultaneously the greatest resources we have for building freedom and the greatest threats to it. The challenge of institutional design is to realize fully their potential for building freedom while maximally controlling their potential for destroying freedom.

The republican perspective is that we can trust the state to be stronger when there is a robust separation of powers, Montesquieu's complex scaffolding of restraint (Krygier 1996, 12). A state where the judiciary is independent and the rule of law is strong can be more powerful than one where they are not; a state with strong institutions of civil society to exercise countervailing power against the state can



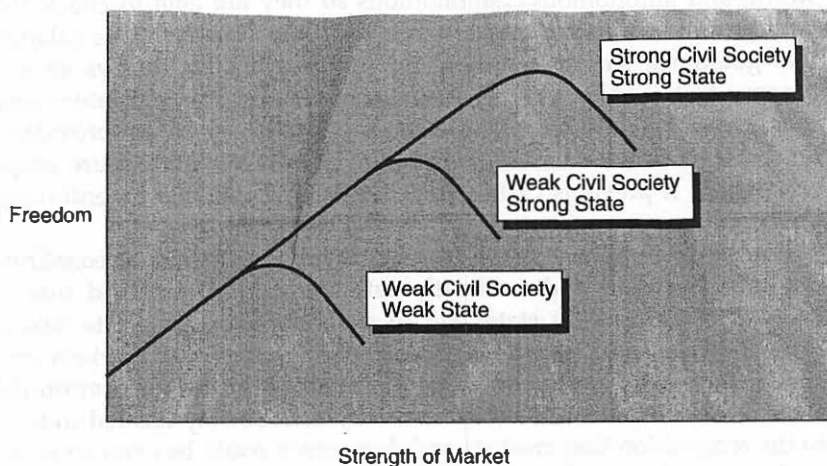
Figure 14.4 State Strength and Freedom



be stronger than one where such institutions are weak. A state can be stronger where trust within strong families constitutes strong individuals capable of standing up to unjust authority; a state can be stronger where markets are strong enough to contest monopolies of state provision.

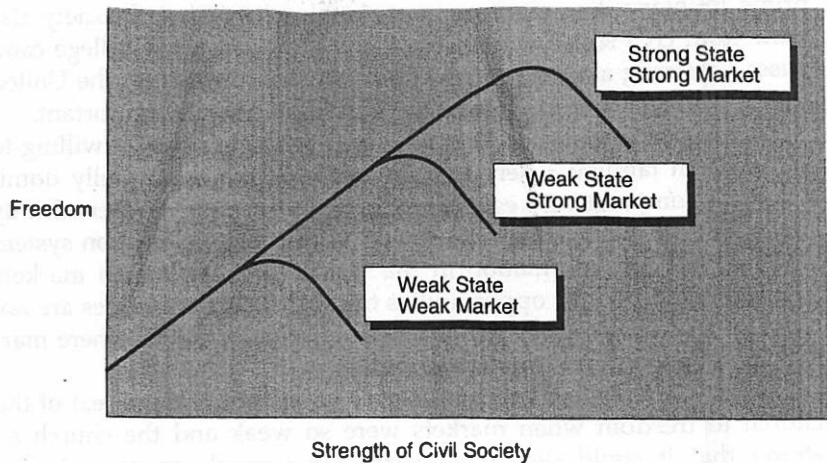
Eighteenth-century American republicans, particularly the anti-Federalists (Ketcham 1986, 329), were against states' having a standing army, preferring instead an armed citizenry capable of forming militias. From the perspective of Western history, this now seems a quaint and misplaced concern (given the problems an armed citizenry now poses to the United States). From another perspective, most Western democracies acquired powerful standing armies only when other institutions of democracy—most importantly the rule of law—had become strong. Consequently, few Western democracies suffered military coups. In contrast, the new nations of the twentieth century (except Costa Rica) all acquired standing armies before countervailing democratic institutions had become strong. Consequently, almost all suffered military coups (Hobsbawm 1994, 347–50). Basically, the eighteenth-century American republican argument about the separation of powers and a standing army was not quaint but right.

Figure 14.4 illustrates a simplified model in which are considered only the strength of the state, civil society, and markets. When both markets and civil society are strong, we can trust the state to do more; growth of the state can continue to increase freedom up to a higher turning point of state strength. To say this is not to deny that to the

**Figure 14.5 Market Strength and Freedom**

left of this turning point there will be state expenditures that reduce freedom. For example, there will be some police districts that are overly oppressive because they are overstaffed. There will be some police functions that are oppressive at any level of staffing and therefore should be eliminated. If the elimination of this state function occurs to the left of the turning point of the curve in figure 14.4, freedom can be increased by devoting the resources from the elimination of one function to beefing up an underresourced function. When there are more overresourced state functions that have become a drag on freedom than there are underresourced, freedom-enhancing state functions, the society is past the turning point of figure 14.4.

This republican analysis of how we can strengthen the state is mirrored in the analyses of how we can trust strong markets and civil society. Figure 14.5 suggests that we can allow markets to rule over more domains of resource allocation when state regulatory capacities are strong. A common myth is that privatization and deregulation go together. They have not tended to do so either historically or as a matter of policy coherence (Ayres and Braithwaite 1992). When Baroness Thatcher privatized facets of health care, she had to increase state regulatory capacity in the health domain; when she privatized telecommunications, she had to set up a new telecommunications regulatory agency, and so on. Unregulated private markets for, say, nursing home care will allow the most horrific exploitation of vulnerable people. It is quite possible that allowing private competition where state monopolies of nursing home care have prevailed will increase

**Figure 14.6** Strength of Civil Society and Freedom

freedom for citizens by expanding their choice and giving them a means of escape when they feel the state system is oppressing them, but freedom will be increased by a private market for health care only when that market is effectively regulated by the state. Otherwise, what will be increased will be domination of the infirm by those enabled to profit from their infirmity.

Similarly, we can better trust markets to provide nursing home services when advocacy services for the aged are strong in civil society and when extended families are interested in checking the quality of institutional care their loved ones are getting and in protesting when state regulation is captured or corrupt. When civil society is strong, the jeopardy to freedom from what Jürgen Habermas (1985, 305–96) called “the colonization of the lifeworld” is checked. A danger of rampant markets is the commodification of things that better constitute freedom when they take a noncommodified form. Education and research are good examples. Art is perhaps a more controversial one, given the impetus markets have so often given to artistic innovation. Even so, it seems clear that we can be much more relaxed about market encroachments on art when elements of civil society that nourish the arts are strong. So long as local folk clubs continued to meet and play in little pubs and cafes, we did not need to worry about Peter, Paul, and Mary being in the Top 40.

Figure 14.6 shows that we can trust civil society to be strong when the state and markets are strong. A strong civil society is by no means always constitutive of freedom. Perhaps no institution does more

damage to freedom than the domineering, engulfing family. As another example, consider Southern U.S. civil society in 1960.<sup>3</sup> While the prime countervailing power against this dominating civil society also came from civil society—from black churches and white college campuses—a strong attorney general and a strong president of the United States, who stood in the firing line, were also critically important.

We can trust families to be strong only when the state is willing to intervene in families where women and children are brutally dominated. In comparatively egalitarian capitalist societies, where family monopolies of socialization are contested by a state education system and markets for information in the media, and where job markets give women economic opportunities to escape, strong families are not quite as worrying as they are in feudal or tribal societies where markets allow no exit, no countersocialization.

Similarly, there were good reasons to worry about the threat of the church to freedom when markets were so weak and the church so strong that it could dictate who could get employment and who should be denied it on the basis of religious belief. Today, we need not fear another Inquisition, because the power of the church to punish is so much more effectively checked by the separated powers of the state.

Public interest groups are less likely to become neo-corporatist oligarchies when states require them to be run democratically and to respect human rights. Environmental groups are less likely to be captured or corrupted by the very business and state institutions against which they should be exerting countervailing power if their seats at negotiating tables with business and government are contested by competing environmental groups (Ayres and Braithwaite 1992, 54–100).

## **Constituting Strength with Strength, Trust with Strength**

In the foregoing discussion, the institutionalization of distrust was simplified to a consideration of how a strong state, strong markets, and a strong civil society can mutually check abuse of trust. In fact, we should aspire to a much more variegated institutionalization of distrust than this—for example, one where strong international institutions check the power of the state from above, strong individuals are able to stand up to it from below, and a strong judiciary, ombudsmen, auditors, and parliamentary committees are able to check state power from within, a fourth estate of independent media from without. Most critically, as Margaret Levi points out in chapter 4, we should and will trust government more when it can be thrown out of power for breach of trust. At all these levels, the republican ideal is of

strong institutions helping to constitute other institutions as both strong and autonomous—autonomous so they are able to check the very power that helped create them. Thus, the state provides salaries that guarantee tenure to judges; the judiciary thereby enjoys an autonomy that enables it to check abuse of trust by the legislature and executive. The state helps constitute markets as strong by providing legal infrastructure such as enforceable contract law and secure property rights; it prevents cartels from weakening markets by enforcing antitrust laws.

Some contemporary states do a better job than others at constituting strong markets and a robustly autonomous judiciary and rule of law. All contemporary states fail to do enough to constitute strong institutions of civil society. The realization that robust markets and stable democracy have proved hard to establish in the old communist societies because their states had crushed civil society has led in turn to the recognition that markets and democracy could be even stronger in the West if we had not only refrained from corroding civil society but actively nurtured it. As I have argued earlier in the chapter, interpersonal trust is undersupplied in contemporary societies, and strong institutions of civil society are the most important resource for constituting it.

Strength in civil society is undersupplied because we all have an interest in free riding on the contributions of others to civil society. Parents have an interest in free riding on the work of their partners in child-rearing (a temptation to which men succumb more than women). Since quality child-rearing to build strong, trusting, and trustworthy individuals is undersupplied in civil society, we all have an interest in the state's regulating business to give time off to workers with family responsibilities. When we are young, we all have an interest in free riding on the work of others to provide advocacy services for the infirm that we may rely on when we are old. We want the rainforests to be saved, but we want someone else to do the work of confronting private logging interests. We are better off when we live in a locality where civility reigns, and so we want local community organizations to flourish, but we breathe a sigh of relief at the community meeting when we are not nominated to be treasurer. Undersupplied civil society is one of the biggest collective action problems of the modern world.

The state is well placed to solve this collective action problem. It could force all of us free riders on the benefits of civil society to support chronically underfunded organizations of civil society through our taxes. Indeed, fewer of us might be free riders if tax dollars were available to replace the dreadfully inefficient work of raising money through fetes, raffles, and cake sales. Putnam's (1993) data suggest

that riches of civic engagement translate not only into a richer democracy but also into monetary riches, because civic engagement constitutes the trust that lubricates the creation of wealth. Taxes to support civil society might then be self-liquidating through social capital formation.

Of course, most Western democracies already use tax dollars to support all manner of underresourced agencies in civil society and also make donations to them tax deductible. But in no Western democracy is this support so generous as to change the fact that civil society is massively underresourced. Activating civil society requires more than just resourcing it; it calls for a strategy that will solve both the chronic underresourcing and the lack of active citizen interest in civil society.

One approach to tackling both these problems would be to shift the greater part of existing state subsidies to civil society (including foreign aid), plus supplementary tax dollars, into a tax credit. Every citizen would have a tax credit of, say, \$500. These dollars would have to be allocated to institutions of civil society to solve the collective action problem. But the citizen would be empowered to choose the institutions that they would like to get their dollars. In effect, citizens would be authorized to write checks up to \$500 in value to support institutions of civil society of their choosing, so long as those organizations did not seek to endanger basic human rights (ideally as defined in the Constitution). Control over foreign aid would shift from the state to organizations like Community Aid Abroad. This strategy would enhance citizen interest and political interest in institutions of civil society. Suddenly, citizens would be empowered to vote taxpayers' funds to organizations of their choosing. These organizations would then have to lobby for this new kind of citizen support. In the Australian context, one might envisage umbrella organizations like the Australian Council of Social Services producing slates of recommended allocations of the tax credit to ensure that no important social service organizations were denied satisfactory support. Other umbrella bodies would produce competing slates, and this process might generate lively debates on the values and effectiveness of different organizations. Umbrella bodies would also solicit some tax dollars for investment funds, so that interest could be used to smooth uneven flows of money to organizations overlooked in the uncoordinated allocations of tax credits.<sup>4</sup>

Consider the problem—described by Mark Peel in chapter 13—of local community organizations hamstrung and demoralized by the distrust in which they are held by the state. Why not abolish all the extraordinary accountability mechanisms imposed on local community and Aboriginal groups (retaining universal mechanisms such as

the criminal law of fraud) and trust the allocations of local citizens from their tax credits? There might be a case for assuring a fixed proportion of the tax credit for neighborhood organizations, with the amount of the tax credit being higher for people who live in poorer areas.<sup>5</sup> The accountability mechanism would then be that citizens who did not like the service provided by a community organization would not allocate them any tax money the following year.

## Thinking Contextually About Institutionalizing Distrust

Contrary to the prescriptions in this chapter, as parents we need to be active in persuading our children to distrust strangers who offer them lifts in cars. Fortunately, however, the exceptions where we need to teach our children to distrust in potentially dangerous encounters are not large in number. Through consumer education to foil con-artists and personal safety education to foil sexual predators, we can teach the need for contextual distrust while preserving a predisposition to trust (unless given special reason not to).

Theories of institutional design are useful as metaphors that supply competing ways of imagining changes in direction for social policy. They are rarely useful in supplying eternally true sets of propositions. The world changes too quickly for that, and science too slowly. Sound thinking about democratic governance is therefore contextual. It involves acquiring a nuanced understanding of policy possibilities through imagining the policy problem as many things at once, applying multiple metaphors supplied by different theories of institutional design.

Is the theory in this chapter useful to such an enterprise? My colleagues and I have found it so. In fact, the theory has largely been generated inductively from our work with governments and institutions of civil society on problems such as the design of criminal justice institutions (Braithwaite and Pettit 1990; Braithwaite 1995a, Braithwaite 1995b; Fisse and Braithwaite 1993); ensuring that workplaces are safe and healthy (Braithwaite and Grabosky 1985; Braithwaite, Grabosky, and Fisse 1986; Ayres and Braithwaite 1992); competition policy ("trust-busting"! (Ayres and Braithwaite 1992); and in a review of all Australia's laws and administrative practices affecting business costs (Office of Regulation Review 1995). Consultancy work for the Australian government since 1987, when it took over responsibility from state governments for improving the quality of nursing home care, has provided the most sustained opportunity for testing the usefulness of these metaphors on new terrain (Braithwaite et al. 1993).

These studies have led us to doubt state monopolies of service provision and to confirm this doubt when we found that some of the new frontiers in quality of care were being pushed forward in private-sector provision for the rich (Braithwaite et al. 1990, 131–34). We also found empirically that the general quality of for-profit provision was lower than that of nonprofit, nongovernment providers such as churches (Jenkins and Braithwaite 1993). While a strong private sector increases choice and innovation, it also increases the need for well-resourced government regulation. This intensive regulation seems to have worked in the Australian context (Braithwaite et al. 1993).

A strong state can do more than guarantee the availability of an essential service like nursing home care to all who need it, constitute a plural (private-charitable-state) market for that provision, and regulate its quality. The state can also promote the competitiveness of the market by improving the information available to consumers on the quality of nursing home care in different facilities. One way to do so is to require that state assessments of the quality of nursing home care be posted on notice boards at the entrance to facilities or in some other prominent place. These can then be published in magazines like *Choice* (the Australian equivalent to *Consumer Reports*). In Australia, the state has also played a central part in funding aged-care advocacy organizations, which in turn have had an important role in preventing the state from being captured by the industry in specific regulatory encounters. In this particular domain, therefore, the metaphor of a strong market, a strong state, and strong civil society that mutually constitute institutional autonomy and strength has proved useful in the intricate work of imagining how to weave a policy fabric. Designing regulatory pyramids that institutionalize distrust in a way that nurtures interpersonal trust between inspectors and nursing home management also seems to work. A relatively trusting nursing home regulatory culture has been accomplished in Australia, if not in the United States (Braithwaite 1994), and where this trust is greatest, quality of care improves most (Braithwaite and Makkai 1994). Yet the very idea of a dynamic regulatory pyramid is that there is no enduring truth about what works. What works depends on histories of the success and failure of past strategies, histories that define the credibility of future ones. There is no escape from continually rethinking the contextual relevance of policy metaphors like institutionalizing distrust.

## Conclusions

A widespread mistake in political theory is to assume a hydraulic relationship between the strengths of different institutions. When one



is increased in strength, another decreases at its expense. Of course, it is sometimes empirically true that such hydraulic relationships exist. Quite frequently in history strong states have destroyed the vitality of markets or civil society (Gellner 1988), as under communism and fascism. But an objective of normative political theory should be to discover a political program by which the virtues of one institution can nurture the virtues of other institutions while also controlling their vices. It is simple-minded of communitarians to argue for "shifting the balance" from an emphasis on individual rights to communal responsibility (see, for example, Fukuyama 1995). There is no inconsistency in advancing a political program that is both strong on individual rights and strong on community responsibilities (Sunstein 1995; Engel and Munger 1996). Equally, some feminists are mistaken when they assume that community necessarily destroys difference in the pursuit of a community consensus (which may be a male consensus).<sup>6</sup> There is no incoherence in a political program that simultaneously seeks to be strong on community and strong on difference. The first-wave women's movement slogan of "unity within diversity" is testimony to the political wisdom of this second position,<sup>7</sup> as is the partially successful policy of a multicultural yet unified Australia. Feminists who want to weaken families for fear of family violence make the same mistake as libertarians who want to weaken trade unions, women's groups, and environmental groups because they see them as a threat to a free market. It is the mistake of weakening institutions that build freedom in some respects because in other respects they threaten it.

The challenge is to institutionalize distrust in these institutions so that their various pathologies can be checked by the strength of other institutions. To the extent that these other institutions are strong, their countervailing power to check abuse of trust by the institution of concern will be enhanced. To the extent that the institution of concern is trusted to be strong, it will be able to help constitute strength in the countervailing institutions and to deliver on its own potential for enhancing human freedom.

Similarly with interpersonal trust. Fear of abuse of trust can counsel caution about building a trusting culture. This is not wise counsel. Trust is the most powerful weapon we have for fighting abuse of trust. If our institutional designs arrange guardians in republican rather than hierarchical relationships (figure 14.2), then breach of trust at one point in the circle can be healed by the strength of trust around the rest of the circle. By seeking to maximize interpersonal trust within circles of accountability, we maximize capacities to reform a circle that has been broken by a breach of trust. When circles of accountability overlap, so that guardians guard more than one cir-

cle, the strength of weak ties also enhances detection and control of breach of trust (Granovetter 1973). While hierarchical conceptions of guardianship heighten risks that our institutions will rot from the head down, republican conceptions of guardianship heighten prospects that rotting institutions will heal from the healthy tissue that surrounds them. This healthy tissue is networked circles of guardianship.

The conclusion is to nurture a trusting culture that may, just as in Putnam's (1993) empirical findings about the regions of Italy, leave us wealthier, less infested with corruption, and more ennobled by civility and enriched in our democracy. In this nurturance, thicker trust as obligation/friendship and thinner trust as bare confidence are both desirable, because they help constitute each other and because they do different kinds of valuable work. Thicker trust holds families together in ways that forge strong, independent individuals; lack of it disintegrates them, inducing untrusting, coercive child-rearing that produces weak, dominated individuals. Thinner trust holds markets together and enables the civility of a street life where minor incidents do not escalate to violence.

It is behind the backs of circles of interpersonal civility that we should want to institutionalize distrust. As Melancton Smith said in debating the U.S. Constitution in 1788, "Checks in government ought to act silently, and without public commotion" (Ketcham 1986, 353). Giving local citizens tax credits to bestow on or withdraw from neighborhood organizations may be a better way of institutionalizing distrust than central bureaucratic oversight; yet it seems not to be an institutionalization of distrust because its outward appearance, indeed part of its reality, is of trust in local people.

Charles Sabel (1986, 137) was led to the same basic insight when he confronted as "the central dilemma" of economic growth "reconciling the demands of learning with the demands of monitoring." The dilemma is that economic actors need to trust each other to learn by sharing know-how, while they must distrust each other by monitoring that the gains from the shared know-how are also shared in the agreed way. In Sabel's view, economic success flows from the design of discursive institutions that make discussion of know-how inextricable from discussion of apportioning gains or losses. Mutual dependence can resolve the paralyzing fear of deceit by allowing both scrutiny and learning to be natural consequences of a joint enterprise. A fusion of identities (for example, in families) means that untrustworthiness by one member causes other members to share the shame of the breach of trust while all share the joy of others' learning. Both learning and monitoring are products of discursive problem solving and partial fusing of identities in joint ventures (see also Powell 1996).

When we put twelve citizens on a jury instead of one, through numbers we institutionalize distrust that some jurors are corruptible. But this institutionalization of distrust is quite impersonal, routinized, normal, and therefore in no way insulting to the jurors, just as double-entry bookkeeping is not insulting to treasurers. Centuries ago wise designers of the jury institutionalized distrust in a way that is quite behind the backs of contemporary jurors. Similarly, the republican designers of the separation of powers in the U.S. Constitution were quite explicit in the *Federalist Papers* that their enterprise was about institutionalizing distrust (Madison, Hamilton, and Jay [1788] 1987). It is at this level of the design of institutions where we must structure distrust into society. Because such distrust is in the background rather than the foreground of here-and-now disputes, it is unlikely to undermine the cultivation of interpersonal trust. These arguments can be summarized as thirteen propositions.

## Propositional Summary

1. Distrust is best institutionalized behind the backs of actors; trust is best consciously nurtured through interpersonal action.
2. Institutionalizing distrust makes it easier to trust others interpersonally.
3. The most important mechanism for enculturating trust is to trust others; trust as obligation and trust as confidence are mutually constituting.
4. A central strategy for institutionalizing distrust as we enculturate trust is to privilege trust temporally ahead of distrust in dynamic regulatory strategies. In standard regulatory encounters, trust is therefore foregrounded, distrust backgrounded.
5. Institutional designs that organize distrust hierarchically destroy trust; circular, recursive institutionalization of distrust is more robust and more able to background distrust while trust is foregrounded.
6. Enculturating trust is the means of controlling abuses of power such as violence, environmental destruction, and political corruption, with an economic benefit rather than a cost.
7. The crucial challenge of institutional design is to discover how to encourage a strong economy, a strong state, and strong civil society to be mutually constituting yet autonomous (the separation of powers). Trust is a crucial cultural resource for all three to be strong.

8. When civil society and markets are strong, we can trust a stronger state to do more to increase our freedom.
9. When civil society and the state are strong, we can trust stronger markets to do more to increase our freedom.
10. When the state and the market are strong, we can trust civil society to do more to increase our freedom.
11. Civil society is the most crucial arena for the constitution of trust as confidence and trust as obligation, for social capital formation. Trust is enculturated in civil society through the educative stories of families and schools on the virtues of trustworthiness, through the actual granting of more trust to children as they grow, and through nurturing pride in virtue by honoring trust as obligation.
12. While there are plenty of actors with an interest in the growth of strong markets and strong governments, we all have an interest in free riding on the virtue of those who build a strong civil society. Governments therefore need to be strong enough to impose special measures such as tax credits to deliver a level of social capital formation that makes civil society and the economy as strong as they can be.
13. Civil society is also the arena with the most scope for creative improvement in the institutionalization of distrust—women's, Aboriginal, youth, and gay groups to check the power of the police or of markets; environmental, consumer, shareholder, and civil liberties groups to check the power of business and its state regulators; and so on. Within state institutions and the institutions of business as well, contextual creativity is needed to construct variegated separations of powers. Private and public sector ombudsmen and auditors, independent arbitrators and judiciaries, professional societies, a free press, and international institutions can all be important to nuanced institutionalization of distrust.

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## Notes

1. These findings are consistent with experimental psychological studies that have found that trust as confidence in other players increases the trustworthiness of players in modified prisoners' dilemma games (see, for example, Loomis 1959). Thomas Wright and Afshan Kirmani (1977) found that female but not male students who were low trusters on the Rotter Interpersonal Trust scale were more likely to shoplift.
2. This is not to say that these cultural roots constitute a generalized cognitive bias to trust. Rather, as Toshio Yamagishi and Midori Yamagishi (1994) suggest, Japan enculturates committed relationships that deliver "assurance," a perception of an incentive structure that leads to cooperative interaction.
3. I am indebted to Philip Pettit for this example.
4. Residual state funding could also be used to remedy the effects of the reduced coordination from a tax-credit regime.
5. I am indebted to Leanne Steadman for this thought.
6. For an interesting discussion of this question, see Young 1995.
7. This was the motto of the General Federation of Women's Clubs in the United States.

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