

Resource Management: INSTITUTIONS AND INSTITUTIONAL DESIGN

SOS3508

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Trust at societal levels

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Reading

- Rothstein, Bo. 2005. *Social Traps and the Problem of Trust*. Cambridge: Cambridge University Press.
 1. Reflections after a long day in Moscow
 2. On the rational choice of culture
 3. On the theory and practice of social capital
 4. Social capital in the social democratic state
 5. How is social capital produced?
 6. The problem of institutional credibility
 7. Trust and collective memories
 8. The transition for mistrust to trust
 9. The conditions of trust and the capacity for dialog

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Social Traps

- Moscow: If all tax payers believe that nearly everybody cheat on their taxes, why should they be the suckers no to do the same? Good guys paying would only achieve to feed the corruption
- Palermo: taxi dispatch centres did not work since drivers started to lie about their location in order to get a trip
- How do one get out of a social trap?
- Why do Scandinavians trust each other and their government (political institutions)?

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The structure of a social trap

- Everyone wins if everyone chooses to cooperate
- If people do not trust that “almost everyone” will cooperate cooperation is meaningless since the end result is contingent on “almost everyone” cooperating
- Non-cooperation is the rational strategy if one cannot trust that others will cooperate
- Efficient cooperation for common purposes can come about only if people trust that most other people also will choose to cooperate
- Lacking trust the social trap slams shut and everyone ends up worse that if they had chosen to cooperate

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We know the answer:

- The rule-of-law needs to be introduced
- But we know no mechanism that reliably will take a non-trusting society into a trusting one.
- In one sense the introduction of rule-of-law requires the trust it can create and sustain
- Social traps (social dilemmas, tragedies of the commons, prisoners dilemma, public goods problems, collective action problems) are pervasive. There is no other research frontier more important than understanding how to get out of them

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On the rational choice of culture

- If Russians are unable to change their ways is it because their culture contain values and norms encouraging corrupt behaviour?
- Finland is the least corrupt country in the world (TI 2000-2005). Why would Finnish culture be so different from Russian?

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Are individual Russians the problem?

- If the culture is not to blame, maybe mistrust and cynical behaviour are rational responses to how fellow citizens behave?
- Is it possible to forget by rational choice? (for example of having been cheated)

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Rational choice vs culture

- Rational choice
 - Preferences, actions, outcomes
 - Information about available actions and possible outcomes
 - Utility functions ranking actions and outcomes
- *Maximize utility*
- ***Neither is able to explain change***
 - You are either in the social trap and cannot get out of it, or
 - You are out of the trap and enjoys the profits of cooperation
- ***Even worse: both are empirically wrong!***
- Cultural prescriptions
 - Identities, ideas
 - Attitudes, practices
 - Values, norms
 - Rules, institutions
- *Act appropriately*

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Epistemology: standards for knowledge

- Both RC theory and culture theory have many unquestioned, taken-for-granted assumptions
 - People act as if they were completely rational
 - Actual motives and knowledge of situations are unknown and uninteresting
 - As long as correlations are observed, predictions follow
- Causes and explanations are missing
- ***Causal mechanisms are needed***

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Methodological individualism

- Causal mechanisms needs to take individuals as the operating agents in an effort to explain collective action such as trust or corruption
- Individuals take notice of structural changes, other people's actions and new opportunities

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Subjective rationality

- One may conceive of action as non-purposeful, but most people will say they have a purpose for what they do
- Purposes comprise interests and identity
- People act on beliefs and perceptions of resources and opportunities
- Culture provides beliefs
- Environments provide resources and opportunities
- People do as well as they believe they can

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The role of culture

- How do people know what other agents are doing?
- Culture provides a collective memory
- Culture provides signals, symbols, rituals, stories that may be used in various contexts to further the actors purpose
- Culture may thus provide options for choice while market structures may leave the actors no choice

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Structure, agency, institution

- Structures alters availability of resources and possible outcomes and will thus change the distribution of outcomes
- But structures are also aggregated behaviour of individuals, behaviour conditioned by perceptions of other agents, their strategies and opportunities, also by the taken-for-granted habits, norms, rules and other informal institutions
- Institutions influence incentive, affects strategic behaviour, and may changes ethics and norms
- Motivations are an empirical question, not to be found in the taken-for-granted assumptions

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On the theory and practice of social capital

- Putnam 1993 Making democracy work
 - Decentralisation in Italy: did it produce decisions and outcomes conforming to peoples wishes?
 - A clear north-south gradient of implementation problems emerged. Why?
 - The usual suspects (economic and social conditions) did not provide mechanisms of explanation
 - A correlation between associativeness and implementation efficiency was demonstrated
 - Associativeness as indicator of social capital
 - Social capital as explanation for efficient democratic administrations

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The tragedy of the commons

- Ostrom 1990 Governing the commons
 - Open access leads to tragedies
 - State regulation or private property were established as solutions, but have problems for some types of resources
 - Self-organised collectives can under some conditions solve the same type of problems as state regulations and private property, and will work also in some situations where those do not work (e.g. non-functional states)

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Design principles 1990:

characteristics of long enduring commons

1. Clearly defined boundaries of resource and social group utilising it
2. Proportional equivalence between benefits and costs
3. Collective choice arrangements
4. Monitoring: users monitored can as a group instruct monitors
5. Graduated sanctions
6. Conflict resolution mechanisms
7. Minimal recognition of rights to organise
8. For larger resource systems: Nested enterprises

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Concluding from Putnam and Ostrom

- Case: Saving the groundwater basins of LA
- Working solutions involved
 - trust facilitating “conditional” cooperation
 - local democracy, in particular “deliberative democracy” (communicative rationality)
- Empirical cases are small scale but show that solutions of social traps exist. They can be avoided or escaped.
- But that does not mean the solutions are used. For large scale problems (climate, international oceans) there is still no solution
- Solutions involve political institutions with certain qualities

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Social capital

- Putnam provides correlations between participation in voluntary associations and all kinds of indicators of wealth and welfare, but no causal mechanisms are provided
- Rothstein wants to provide an alternative because evidence suggest
 - Networks & associations do not help create a working democracy
 - Participation in voluntary associations do not create interpersonal trust

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Social capital: what is it?

- Putnam: “features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions” (1993:167) later on “generalized trust” is included
- Are elements causally connected?
 - E.g. social norms, worldviews, belief systems
- Is the definition tautological?
 - “Coordinated actions” is that the cause of, or the result of, the named “features of social organisation”?
- SC involves a belief in other people being trustworthy and an activity based on this belief
- Of these two trust is the most important (Hell’s angels)

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Moral trust or utility?

- Moral attitudes (Uslaner)
 - Generalized moral trust: Others share your basic values making cooperation possible and profitable
 - Particularized trust: Other people are likely to take advantage of you and exploit you
 - Neither attitude can be independent of available information
- Calculations of utility (Russel Hardin)
 - Encapsulated interest, trustworthiness as different from trust
 - Avoiding social traps require willingness to send costly signals about trustworthiness
 - Democratic institutions constructed based on the premise that people should not trust government
 - Rational calculation leads actors into the trap
 - But empirical investigations contradicts this theory

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Trust

- Trust as a bet on the future contingent actions of others ...depending on
 - My own moral outlook
 - Estimate of the virtues of the others
 - Calculation of my own payoff from cooperation
 - Risk from trusting others with something I value

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Defining social capital

- SC applies to individuals as well as collectives
- For individuals it involves
 - Quantitatively # of contacts with other people
 - Qualitatively the degree of trustworthiness of each contact
- For aggregates it involves
 - Average # of contacts
 - General beliefs about others trustworthiness
- SC is a good thing. With more of it more can be achieved

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Comparing SC to other types of capital

- Trust can be earned and promised but it cannot be ordered or purchased
- SC is not inherently more difficult than human capital or physical capital (The Mystery of Capital)
- SC can be invested in
- Measurement problems for SC, particularly its qualitative dimension, are larger
- Re-evaluating Adam Smith: “The Wealth of Nations” /1776) must be read in conjunction with “A theory of Moral Sentiment” (1759)

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Social capital in the social democratic state

- Comparing Sweden and the USA
- Sweden: Do the welfare state kill off civil society?
 - Evidence from Sweden suggest that here the level of membership an participation is high and stable. But also of a more individualistic viewpoints and attitudes towards public authorities without becoming particularly egoistic
 - Individualistic solidarity = tolerance of others conditional on tolerance of oneself
 - Labour union membership high due to selective incentives, e.g. control of unemployment benefits (Sweden, Denmark, Finland, Iceland, Belgium)

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Welfare states and networks

- Do welfare states lead to weak civil societies with less solidarity?
 - Right wing politicians say so
 - Left wing theoreticians (Habermas) say so
 - No empirical evidence are presented
- Evidence Rothstein presents data showing that people socialize, but do they care?
- No data is available for over time studies, but caring has not destroyed yet ...
- Comparative studies of unpaid work in NGOs show that the largest welfare states had the highest amount of unpaid work, memberships, funding, activity, but it is structurally different. It does not comprise welfare services

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Trust in the welfare state

- Trust increased 1981-1997 as measured by
 - Most people can be trusted (up 57-67)
 - Can't be too careful when dealing with other people (down 43-33)
 - Distribution of high, medium, low trusters is stable
- Why is Sweden different from USA?
 - Universal welfare systems beneficial (no stigma, no suspicion of cheating, increased equality)
 - Call it a social insurance state (not welfare state)
 - It does not keep people out of voluntary organisations or from helping other people

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Producing social capital

- How can we invest in *social* capital?
 - Trust is based on beliefs, partly rooted in personality
 - Mistrust at group levels are usually self-reinforcing
 - Is it in essence a by-product?
- Trust correlate with status, income, general happiness, favourable opinions of democracy
- Particularized trust vs generalised trust
 - Origins in childhood socialization
 - Experimental studies show:

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Experimental studies of trust

- Self-interest is not as common as expected. A minimum of 25-30 choose to cooperate
- Communication options increase cooperation significantly (more than 50%)
- It is easy to create tribalism
- Backward induction seems create distrust as the game comes close to its end
- Values of participants matter for outcomes, economics students end up in traps more often than other students
- Studies of the link between trust and success show that trusters do better than non-trusters. Social intelligence helps identify others that may be trusted.

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Policy implications

- Increase arenas where (young) people may meet different people so as to develop and exercise their social intelligence
- Provide as far as feasible ways of penalising cheaters
- (assuming social trust and social intelligence are not genetically determined)
- Other suggested causes of trust: civil society, democracy, social and economic equality

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Associativeness

- Voluntary organisations are difficult sources of social capital – they may generate anti-social capital as easily and we have no way of predicting what
- Even if we have aggregate correlations there are no individual correlations between involvement in voluntary organisations and social trust. No mechanisms are specified
- Maybe Putnam's theory has to be put on its head?
- Socialization in Pajala (Niemi 2000 Populärmusik från Vittula)

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State and social capital

- Conventional belief: States destroy social cohesion of traditional communities, undermine cooperation, and destroys trust among individuals.
- But empirically we see that stable democracy, little corruption, low degree of economic inequality correlate with social trust.
- Surveys find no correlation between trust in democratic institutions/ political parties/ and social trust
- Causal mechanisms are unclear
- Also administrative branches of the state play a role for each persons well being. If they do not work properly people suffer. Will their trust in other people suffer?
- Trust in administrations has remained high, like social trust

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Some facts

- Trust in police, that corruption is uncommon, and rule of law in general correlate positively with social trust
 - Mechanism: if police are able to remove treacherous individuals the rest are more trustworthy and we can act on a trust belief that tend to be confirmed
- Large scale study in Sweden (ca 12000 persons and 32 variables suspected to be causal) show that 2: trust in court, and level of education affected social trust

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Towards a causal mechanism

- The Godfather providing apt illustration of the impact of malfunctioning law enforcement: generalized trust is replaced by particularized trust
- Perception of public officials: corrupt?
- Perception of people in general: corrupt?
- Perception of oneself: can I be trusted?
- Do people experience procedural justice?

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UNIVERSAL VS SELECTIVE PUBLIC SERVICES

- Selective needs testing programs are prone to suspicion of cheating and arbitrary treatment
- People with experiences from needs testing social programs have lower generalized trust
- Production of social capital thus is not based on historical determinism (culture) but on institutional design (universal public service, rule of law)

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The problem of institutional credibility

- Hypothesis:
 - Variation in the supply of social capital is rooted in the design of political and administrative institutions
- Causal mechanism:
 - The degree of universalism of political and administrative institutions (meaning impartiality, objectivity and equal treatment) will affect the belief system of citizens
- Singapore shows that such institutional design works and that it is not culture specific

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Why does not all countries do as Singapore?

- The formal design of institutions is not the only causal factor, maybe not the most important
 - What people actually believe is the deciding factor
- The problem of credible commitment: can citizens believe in what politicians promise and formal rules say?
 - Can bureaucrats be trusted without person experience?
 - In our relation to bureaucrats Hardin's thesis about trust as encapsulated interest does not work
- We have to trust professional and institutional ethics supporting the rule-of-law
 - The most important factor is procedural fairness
- Universal trust vs particular trust

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Particular institutional trust

- Based on encapsulated interest or reputation or long observation
- Seen as efficient by solving social dilemmas
- Inequalities of power and outcomes may remain (non-solution is worse!)
- The logic of care and concern is different from the logic of impartial fairness
 - But can be seen as belonging to a different dimension
 - It should be allocated on a need basis
 - It is the objective and professional assessment of need we are looking for, those providing universal trust

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How do we create universal trust?

- Why would self regarding politicians and top bureaucrats create universal incorrupt rule-of-law?
- This is a second order social dilemma
- Most development aid directed at good governance assumes what they want to create: incorrupt politicians and professional bureaucratic ethics
- Top-down initiatives suffer from principal agent/information inequality problems. It cannot replace the rank and file bureaucrat's beliefs about proper conduct

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4 things that do not work

- Markets cannot create the required institutions unless appropriate social norms are there already
- Hierarchies cannot create appropriate institutions unless bureaucrat's believe in the incorrupt professional universal ethic
- Social norms do not work unless appropriate institutions (markets or hierarchies) already are there
- Institutions will not work unless social norms or beliefs can support the incorrupt practice of bureaucrats and customers
- Any functionalist deus ex machina will not help

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A case: the law merchant

- Created by medieval trading guilds
- Strong decline in deceptive behaviour
- Why do not self-interested utility maximizers invade such systems?
- They do unless appropriate social norms prevent it
- The rational agent model needs to be developed to include norms

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Concluding (1)

- Social capital is produced primarily by universal institutions
 - A state based on the rule-of-law
 - All public administration is based on principles of fairness, objectivity, impartiality, equal treatment
- Trust is created by belief in fair and equitable procedures
- These are based on appropriate social norms

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Concluding (2)

- Universal institutions are fragile: Special interest groups may destroy universal institutions by demanding “justice” for their group
- Sometimes groups get control of administration of benefits to their group: corrupt practice is replaced by a more diverse corrupt practice
- Lock-in between powerful groups and institutions makes change even more difficult
- So: how do universal institutions come into being?

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Trust and collective memories

- If particular kinds of norms are required, is it then a cultural determinism we are looking at?
- Some traits of humans (cultural as well as biological) are real (even if socially created) and cannot easily be changed by policy
- Formal institutions can be manipulated and will in the long run affect beliefs through the memories of the affected citizens
- This may be for either good or bad: Holocaust?

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Case: Germany – Nazism – Holocaust

- The role of academics? Ethnic identity and self-serving interests?
- Lawyers and judges were not defending the universal principles of the rule-of-law
- The collective “memory” of the defeat in the first WW and the role of jews in this, a lie created by the military, but became a real belief
- This myth was not part of German culture

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Collective memories

- Is an image of past events
- Held by individuals
- Shared by a limited group
- It will show up in their mental maps of the environment of their action situations
- It informs current decisions about the history of the play and other players
- This points to the importance of writing history as part of the political process
- The problem of forgetting points to limits for the social construction of past events
- Images of past events are based on selected facts, new facts can be added, reinterpretation is possible
- The Masada Myth
- Independent historical research is essential

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From mistrust to trust

- Occurs seldom and is difficult to document
- It involves changes of deep seated beliefs
- It is known that Swedish bureaucracy changed from corrupt to more or less classical Weberian during the 19th century but we do not know why
- One interesting case is the transformation of the Swedish labour market from 1890ies-1938: from continuous conflict (Ådalen 31) to regulated negotiations (Saltsjöbaden 38)

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The structure of the problem

- Both parties can come to realize that they loose by the continuous conflicts
- This may happen also in situations of strong inequalities
- Industry organizations and labour organizations have different interests outside wage negotiation: the logic of organisations intervenes in the class struggle
- It was early realized that the “mental maps” and “collective memories” of workers as well as employers might be the most important impediment to an accord

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Transforming the problem

- A new government and a conference in 28 led to a government labour peace commission in 29. Then came Ådalen 31 (5 workers killed in clash with military) and an all time low of mistrust
- Then a battle about the collective memory of Ådalen within the labour movement it is not yet finished and has proved decisive through Per-Albin Hansson's interpretation and defence of the rule-of-law condemning violence on both sides
- This came to be seen as a credible commitment to democracy and rule-of-law

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1938: negotiating in trust

- Saltsjöbaden accord (1938) is a regulation of the negotiation process
- Designed to bolster the spirit of compromise and trust
- Where did the trust in labour relations come from?
- A history of state sponsored cooperation
 - In public labour offices (bipartisan, conflict neutral) since 1907
- Cooperation within the institutional framework of the state, conflict outside among the same players
- Institutions matter!

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Concluding

- The Saltsjöbaden accord was created on the backdrop of a history where cooperation on difficult issues was as common as bitter conflicts
- There was a collective memory of cooperation
- Cooperation was organised by the state
- The state accepted the labour movement before workers could vote and before parliamentary democracy
- The labour movement came to value the role of impartial public officials
- Open conflict was transformed into dialog

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Signalling trust

- Ådalen made it possible for Per-Albin Hansson to *signal his commitment* to the rule-of-law, the legitimacy of the labour unions, and the impartiality of the state and public servants in the conflict between management and labour
- The signal was understood and made Saltsjöbaden possible
- Social trust comes from above and is destroyed from above
- Impartial state institutions may be the second best solution for all (a compromise)
- It provides uncertainty and risk in antagonistic labour negotiations. Negotiations are for real

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Conditions for Trust

- Plato's experience in Syracuse as the paradigmatic case of the intellectual trying to serve the ruling power
 - Arguments and reliable evidence have a very limited effect outside academia
- Concludes here that social capital is created by universal or impartial political institutions
 - But where do they come from? Not genes or culture, not rational decisions,
 - Maybe from sagacious rulers, or by the working of the veil of ignorance: the uncertainty about the future. But actors are notoriously myopic in their conflicts
 - Yet in some situations the optimal strategy is to opt for the second best in the second order problem of institutional design where information is uncertain
 - But at this point a basic trust in the oppositions motives and actions are crucial. Discussions must be open, in honesty. Social trust and deliberative democracy goes together

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