

A close-up portrait of a woman with short, curly, light brown hair. She is wearing a dark, high-necked turtleneck sweater. The lighting is dramatic, coming from the side, highlighting her face and hair against a dark background. She has a serious, contemplative expression.

# LOSING THE TRUST

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## PHILOSOPHER CRISTINA BICCHIERI WEIGHS IN ON AMERICA'S CRISIS OF CONFIDENCE

BY B. DAVIN STENGEL

PHOTOS BY JON PERLMUTTER

At the blurred borders between philosophy, game theory and psychology, Professor Cristina Bicchieri conducts experiments to better understand how individuals behave with regard to social norms that promote collective benefits over personal gains. “Fairness, trustworthiness, cooperation—these are all pro-social norms,” she explains. “The big question is, what makes people follow them?”

Based on a theory developed in her recent book, *The Grammar of Society: The Nature and Dynamics of Social Norms*, Bicchieri has been testing several hypotheses about how expectations affect behavior. One conclusion she has drawn is that there are no stable character dispositions to be fair or cooperative. Rather, Bicchieri has found that manipulating expectations can cause major behavioral changes—from fair to unfair choices or from cooperation to defection. “Most subjects have conditional preferences for following pro-social norms,” she says. “Policymakers who want to induce pro-social behavior have to work on changing people’s expectations.”

Having studied the dynamics that underlie social crises, Bicchieri is well equipped to analyze the crisis of confidence that has dominated headlines since Lehman Brothers declared bankruptcy in September. In her view, the extent to which a society is characterized by trusting behaviors hinges in large part on expectations of conformity to reciprocity norms. “When you deposit your money in a bank, you trust the bank not to fail. When you vote, you trust the system to be fair and efficient. This is what we call ‘impersonal trust,’” she explains. “Reciprocating trust means doing what you are expected to do—following the agreed upon rules.” When these implicit agreements fail, she warns, societies may face systemic collapse.

# GAME?

**Q: As the likelihood of a long recession increases, Americans are experiencing a serious crisis of confidence—in financial institutions especially, but also in government and leadership. When trust is lost on such a large scale, how can it be re-established?**

**Bicchieri:** One very interesting question that social scientists have asked over and over is how can impersonal trust be created? Some have said that impersonal trust is an extension of personal trust, that when you have a society in which there is strong social capital and a lot of personal trust among individuals, this trust is then transferred to the public sphere. But we have much evidence that this is not the case.

There was a wonderful book written by Edward Banfield in 1958 called *The Moral Basis of a Backward Society*, about a small village in Southern Italy. What the book showed was that there was a lot of trust within small groups, mainly immediate family and close relatives, but this did not translate into public trust. In fact, citizen involvement in public life was nonexistent. These villagers had a complete mistrust in public institutions. This is an extreme example,

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of course, but there is no reason to believe that close-knit relationships can export trust to the public sphere. Public trust is a cultural phenomenon that takes a long time to emerge, and as we're seeing now, it can be very fragile.

I have done several computer simulations of the evolution of impersonal trust, and what they show is that impersonal trust can only survive in a society of punishers; that is, if a society includes a majority of people who punish those who do not reciprocate, then trust and reciprocation will be quite common. In terms of what's happening now in the United States, the lesson may be that people must be sure that somebody will be punished. Americans who are facing foreclosures or shrinking 401(k)s feel very bad when they hear their government saying that they don't really know what happened, that they are bailing everybody out and so on. There is a lot of fear and anger, and I think in cases like

this a good way to rebuild confidence is through a big show of punishment of those individuals who violated public trust.

**Q: So when politicians and others talk about ushering in a new era of accountability, they should also be talking about ushering in a new era of punishment?**

**Bicchieri:** Well, accountability certainly means that you have to be responsible and transparent in your choices, and if you make a wrong choice, you pay for that. This happens in many areas of life, and I don't see why it shouldn't happen in managing money—especially other people's money. So I think that the connection is there.

What I show in a joint paper called "Trust Among Strangers" is that a minority of purely moral people who always trust and always reciprocate can only survive if there are a lot of punishers around. These good souls would be wiped out otherwise. So, for trust to survive, you need a majority of punishers, and in many situations where trust is violated, somebody has to pay a price.

**Q: Regarding the government bailout of the financial system, many Americans have been saying that it's not fair—this idea of Wall Street investors privatizing gains and socializing losses. How does fairness factor into rebuilding impersonal trust?**

**Bicchieri:** Fairness, or at least an aversion to unfair outcomes, is a very common motive. People care about fair outcomes and fair procedures, at least when focused on them. You see this experimentally. When people get focused on fairness norms, they behave in a fair, equitable way and expect others to be fair as well. However, manipulating the information subjects receive changes behavior quite radically. If people get focused away from fairness, they care much less.

What's happening now is we're all focusing on fairness because we see these major financial institutions falling down. Workers are getting laid off; they see their retirement savings dwindling. This is dire news for all of us. People are worried, and when you are dominated by anger and fear, it is very important that you find a culprit. Who's the bad guy? It's very easy now to find a bad guy, because you can say that the top managers of these big firms were living a lavish lifestyle, getting huge bonuses and so on. This was well known five years ago, but people were not focusing on it then.



You have to understand that fear and anger immediately lead people to focus on how unfair the system is. They may forget all of this in good times. You see something similar happening experimentally. For example, if participants in an experiment are in a position where they have to share money, but there is no retaliation for not giving away much of it—or if it is felt that the receivers do not expect

the right course again.’ It is important that change comes from below. And while the demand for more transparency, for regulation, is an important one, there is always a balance between regulation and efficiency. Certain over-regulated markets may not function as well, but this is a balance that we expect our politicians and top economists to understand. I think that a demand for greater accountability and transparency must come from the public, and the political system should respond to it.

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much—the participants will be more reluctant to share in a fair way. Moreover, receivers who are treated unfairly will not care much if they expected little, or if they are focused away from a fair share. This is not to say that government should lie or manipulate information. What government should urgently do now is strengthen the rules and rebuild trust in the system.

**Q: Do you see what’s happening now as being “game-changing” in terms of how Americans think about transparency and regulation of financial institutions?**

**Bicchieri:** For something to really change, people have to push for change. There is a lot of sluggishness in any system, and once things resume functioning reasonably well, people may forget and say, ‘Okay, it was a blip, but now we are on

**Q: Do you think that a demand for greater accountability and transparency entails a public responsibility to better understand economic issues?**

**Bicchieri:** I certainly think it’s the public’s responsibility to be informed. But many derivatives, such as credit-default swaps, are very difficult to understand, even for the people who trade them. These are very complex financial instruments. So the problem is, if an investing firm has difficulty, say, disentangling big packages of mortgages where each mortgage may be cut in many pieces and sold in different packages, you don’t expect the ordinary investor to be able to do that.

What the public should be demanding is better regulation, for example, of hedge funds, trading, investment banks, et cetera. What’s happening now is that many investment banks like Goldman Sachs are merging with commercial banks, and thus they will be regulated by default. But I don’t think that the average American is going to spend much time trying to understand these things. What they should do is demand their government to be watchful. Greater transparency just may mean that whoever wants to be informed may have more information at hand, but I doubt that there will be many people who will take advantage of that. ♦