



Title: Our decline in trust

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COMMENTARY

Our decline in trust

By **Rik W. Hafer**

Recent events surrounding the presidential election and the transfer of power to a new administration has widened a rift amongst U.S. citizens. Many have lost trust in institutions central to the functioning of our political system.

Because trust is the bedrock upon which our free market capitalist system rests, if this distrust spills over into our interactions, this will have very dire long-term consequences.

Kevin Vallier, author of "Trust in a Polarized Age," writes in the Wall Street Journal that in the 1970s about half of Americans surveyed believed that most people can be trusted. That percentage now stands at less than one-third. This decay in trust is unique among western democracies: feelings of trust actually increased in Sweden, Australia, and Germany over the same time.

He also reports that a recent Pew poll found a generational divide in the level of distrust in the United States. About a third of those over 65 believed most people can't be trusted. For those respondents between ages 18 and 29, the percent was nearly twice as high. Levels of trust endure. The younger generation will carry this low level of trust into the future.

When trust erodes, the result is not good. A marriage without trust often ends badly. I won't bother to vote if I

believe that elections are rigged. Distrust between groups in our society

limits cooperation and often stokes resentment. There are economic consequences of distrust.

We owe our economic success in part to our historic ability to spontaneously come together to build things, to invent new products, and to innovate. The U.S. economy has succeeded because a high level of trust existed between those millions of individuals coming together to trade.

Trust is crucial in a market system like ours. Nobel Prize economist Milton Friedman noted that "if two people engage in any exchange on a voluntary basis, the exchange will occur only if both sides benefit." For beneficial exchange to occur, both sides must trust the other.

When trust deteriorates the ability of the market to coordinate the distribution of goods and services, of costs and rewards, is weakened. So is our economic well-being.

Adam Smith observed over two hundred years ago that markets are the best way to coordinate economic activity. Markets at times may seem chaotic, and everyone may not get what they want, but markets generally are the most efficient means to allocate scarce resources. For markets to function smoothly, buyers must trust sellers to deliver a sound product. Sellers must trust buyers not make false claims. We

don't need to like each other, but we do need to trust each other for beneficial trade to happen.

The culture where individuals came together to address and solve their



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common problems – a culture of trust – helped make the U.S. economy the envy of the world. Instead, we are witnessing a “coming apart” of American society, to use Charles Murray’s apt phrase.

Because of growing distrust, we spend more and more time investigating each other before we trade. We are quick to sue each other for slights that once would have been thought frivolous. Even though such behavior makes some sense – buyers and sellers should be on an equal footing when it comes to information about a product – less trust translates to engaging in wasteful information search. This raises the cost of transacting and weakens the role of the market.

Our decline in trust has been aggravated by divisive, tribal politics. In the coming years we will see if we can re-learn how to better communicate, cooperate, and function together. Rebuilding trust will be critical not only for our politics, but also to shore up the foundations upon which our economic system depends.

Rik W. Hafer is a professor of economics and director of the Center for Economics and the Environment in the Hammond Institute for Free Enterprise.