

Trust, Cooperation and Development

Historical Roots

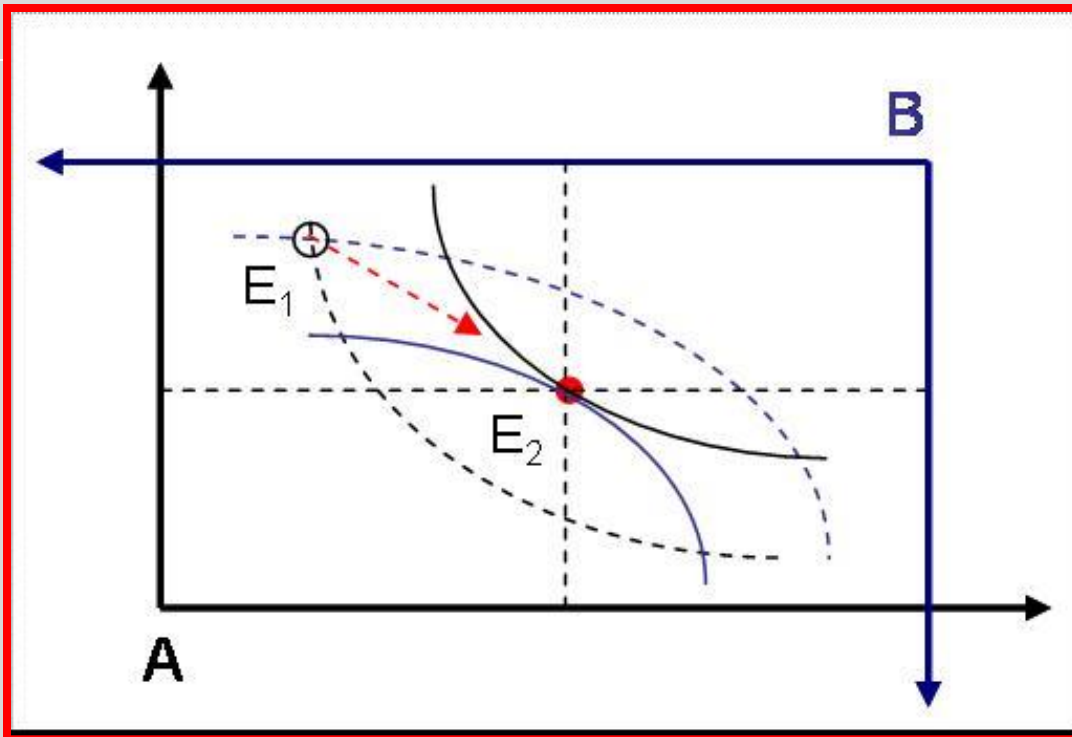


Timur Kuran, *Duke University*

Centrality of Trust to Exchange

Edgeworth bargaining game presumes trust.

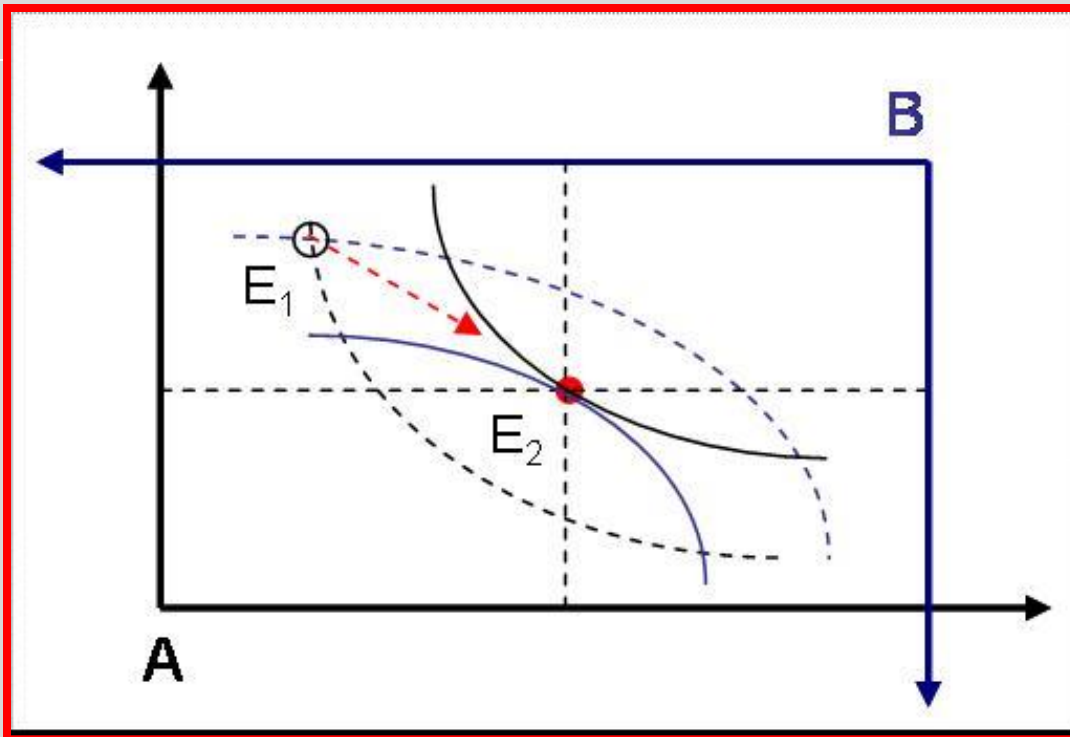
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Markets rely on:
interpersonal trust
trust in institutions.

Trust and Development

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Knack and Zak (EJ, 2001)

Country-level interpersonal trust and economic growth are correlated, controlling for quality of law enforcement.

Interpersonal trust measured through World Values Survey question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”

Interpersonal Trust Index (2009)

Country or (population-weighted) country group	Interpersonal trust (0-100)
Africa (non-Arab)	18.0
Latin America & Caribbean	16.9
India	26.3
ASEAN	20.0
China	60.5
Russia	27.7
Middle East (including Turkey)	19.4
OECD (except Turkey)	33.2

Data: ASEP/JDS, World Bank.

Institutional Trust Index (2016)

Country or (population-weighted) country group	Informed public	Mass population	General population
South Africa	54.0	44.0	45.0
Latin America & Caribbean	62.0	51.7	53.6
India	78.0	62.0	65.0
ASEAN	68.8	60.8	60.9
China	82.0	71.0	73.0
Russia	42.0	39.0	39.0
Turkey	47.0	39.0	41.0
OECD (excluding Turkey)	57.7	44.5	46.7

Data: Weighted average of trust in institutions of government, business, media, and NGOs drawn from Edelman Trust Barometer.

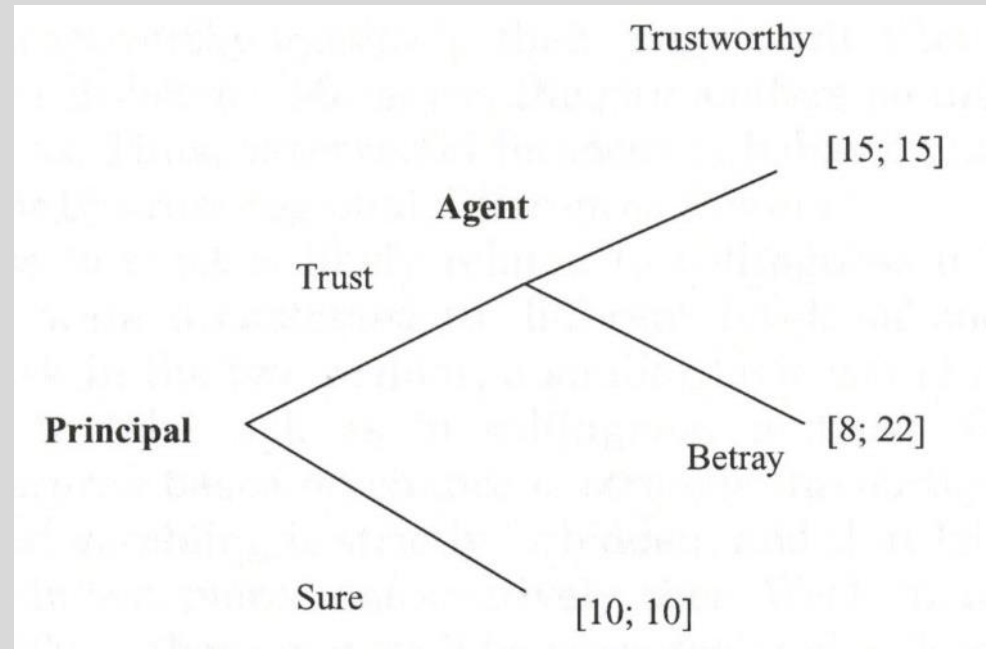
Outline

- More evidence on low-trust, focusing on Middle East.
- Historical mechanisms that kept trust low in Middle East.
- Policy implications, drawing partly on historical mechanisms observed in other regions.
- Trust and the field of economic development.

Low trust in Middle East: Experiments (1)

Bohnet, Hermann,
Zeckhauser (QJE 2010):

Trust games on subjects in
Kuwait, Oman, UAE,
Switzerland, USA.



[Payoff to principal; Payoff to agent]

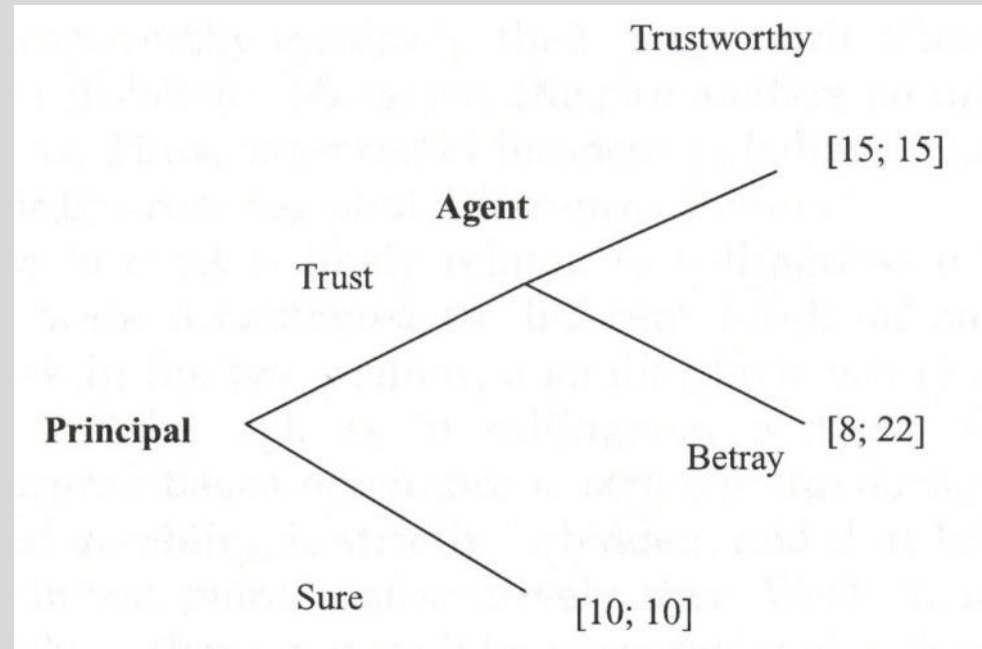
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Arabs require greater
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will trust.

→ Relatively fewer
exchange possibilities
within Arab world.

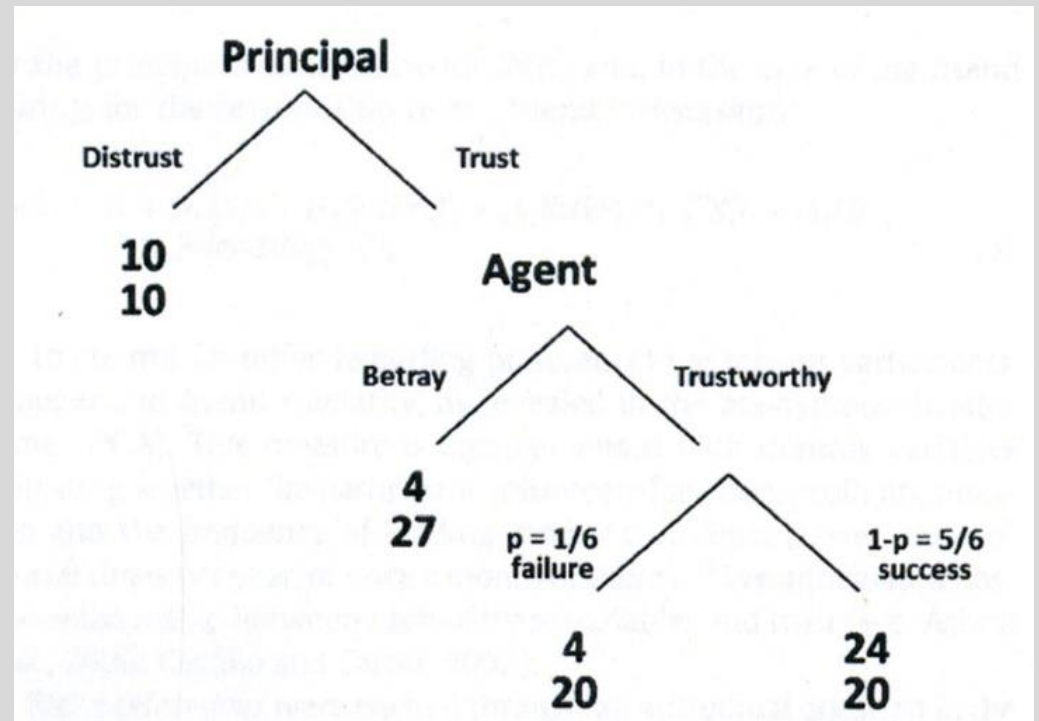


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Low trust in Middle East: Experiments (2)

Binzel and Fehr (JDE 2013):

Within-subject design, to test how trust depends on social distance.



Payoff to principal
Payoff to agent

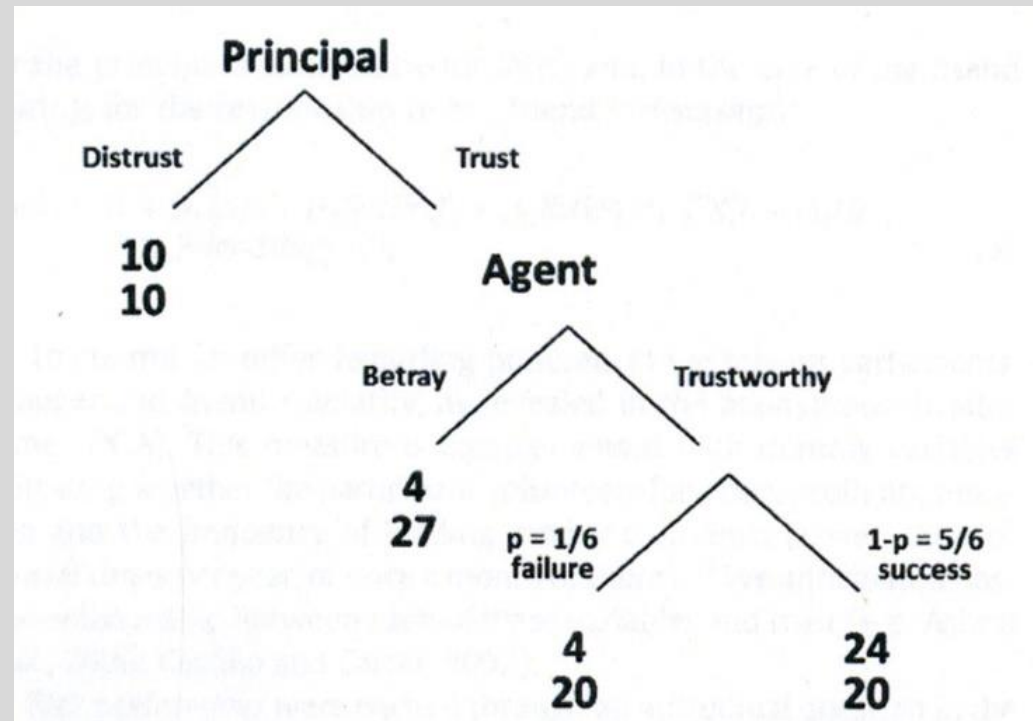
Low trust in Middle East: Experiments (2)

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Higher trust among friends than among strangers.

Trustworthiness underestimated → low-trust equilibrium.



Payoff to principal
Payoff to agent

More evidence: Economic anthropology

Connections matter more than knowledge of procedures.

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Experimental validation: Christia, Knox and Al-Rikabi (MIT, 2016)

Delayed transition to impersonal exchange

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In the Middle East, the transition started in the 1800s.

Trust in strangers, impersonal organizations, impersonal procedures accompanies the transition to impersonal exchange.

Historical sources of low trust

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- Organizational scale in private economy
- Biases of Islamic law
- Weak civil society

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Organizational transplants

Complex organizational forms were transplanted to the region beginning in the mid-19th century.

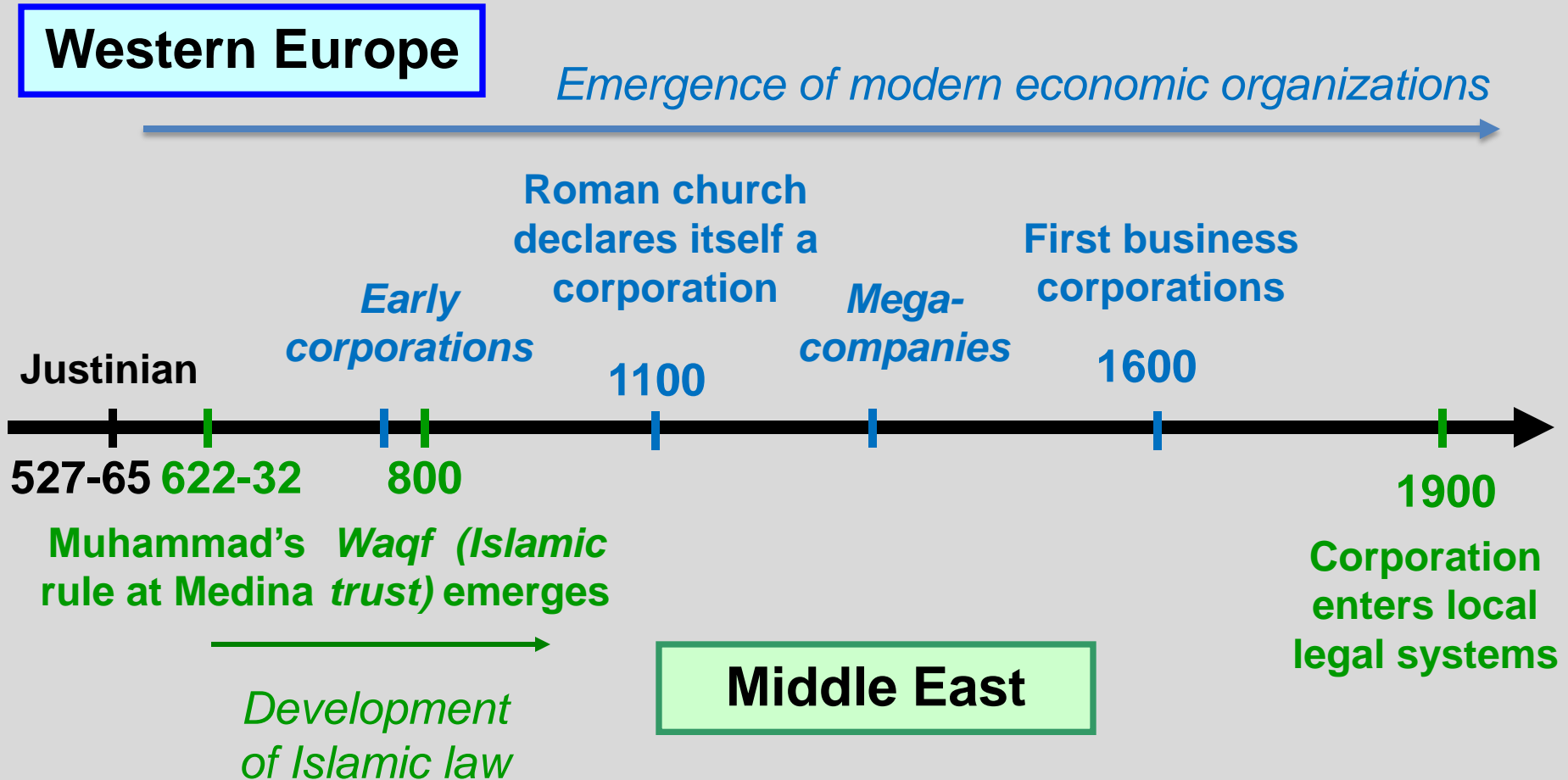
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Organizational development: WE vs. ME



Source: Kuran, *Long Divergence* (2011)

Biases of Islamic law



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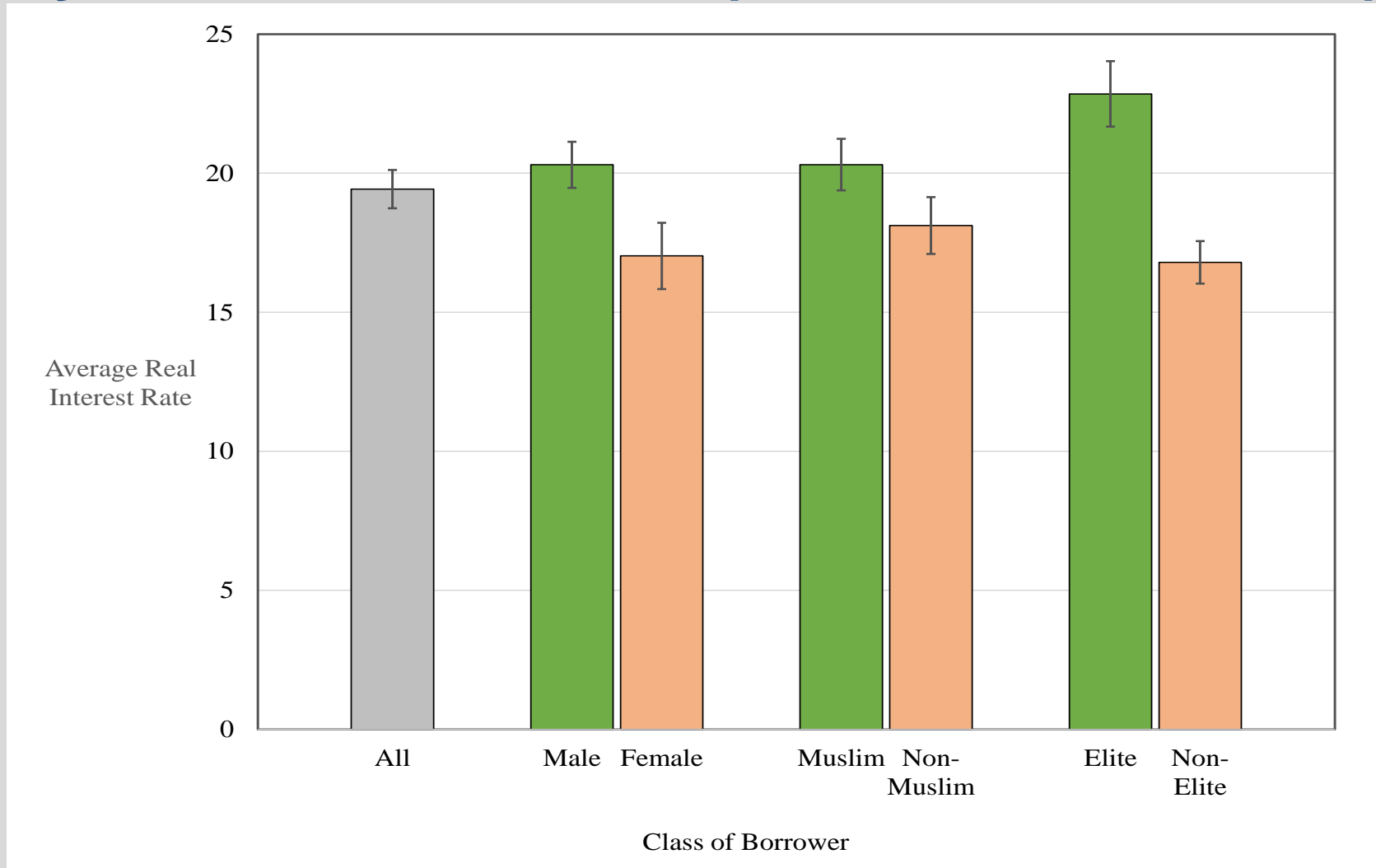
1. In favor of **elites**, because of judicial dependence on the Sultan and his circle
2. In favor of **men**, primarily because judicial corps was exclusively male, and female testimony was considered less reliable.
3. In favor of **Muslims**, primarily because judicial corps was exclusively Muslim and non-Muslims were not allowed to testify against Muslims.

Consequences of judicial biases

Privileged groups were trusted less
... and they became relatively untrustworthy.

The paid a price in commercial and financial markets.

Average real interest rate by class of borrower (Istanbul 1603-1799)



Source: Kuran and Rubin, “The Financial Power of the Powerless,” *Economic Journal* (in press).

Legacies of judicial biases

Islamic courts are practically gone. But their effect on patterns of trust endures.

Weak civil society

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Modern Middle Eastern rulers suppress civil society. They can suppress NGOs because civil society is weak to begin with.

Historical causes of weak civil society

Up to 20th century, social services in the Middle East were provided through Islamic trusts (waqfs) that limited

- political participation
- accountability
- coalition formation

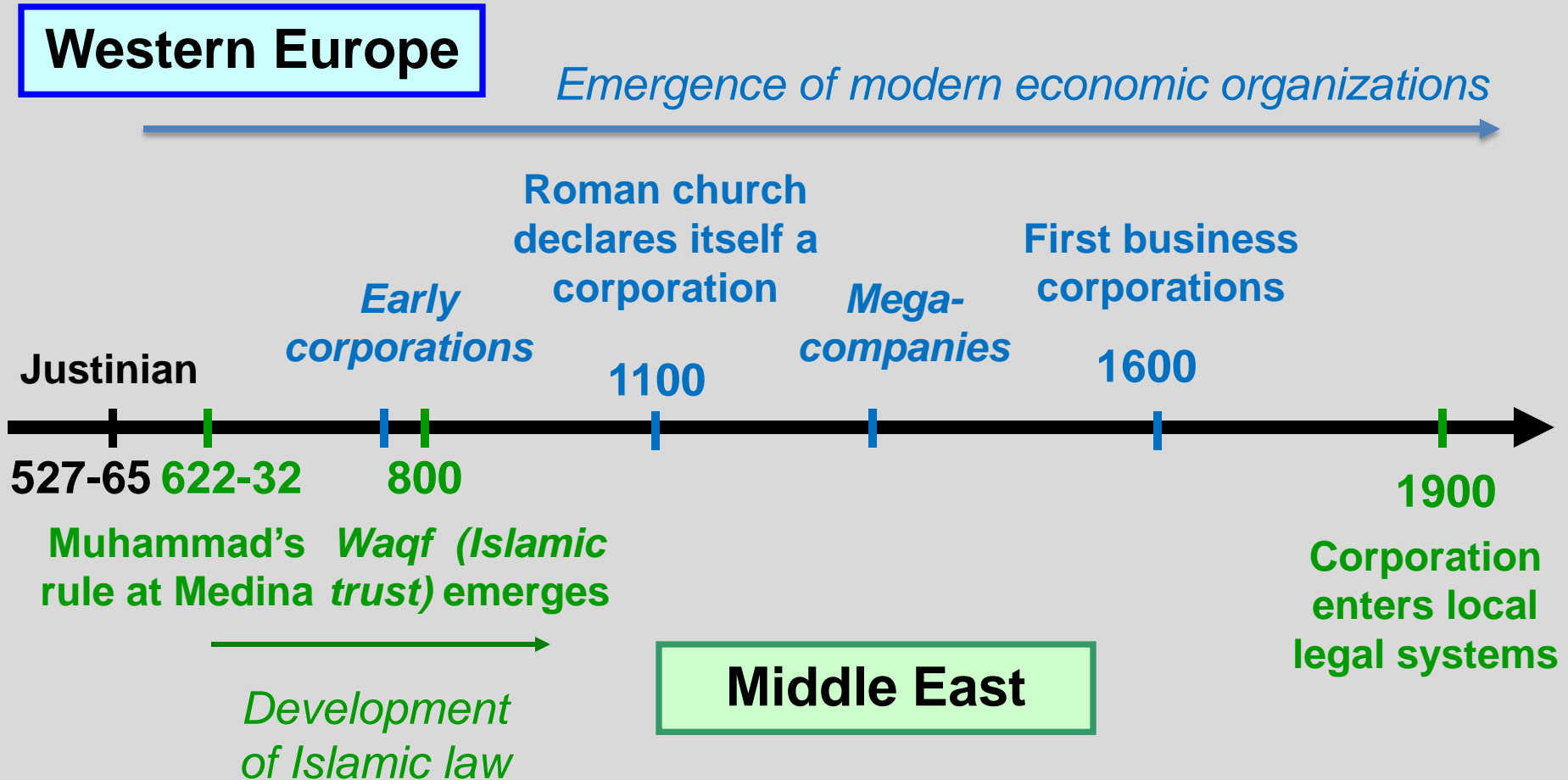
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Because of this legacy, civil society was practically non-existent until recently, and local governance was very limited (Kuran, *AJCL* 2016).

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Policy implications

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- **Rule of law can foster the conditions under which trust develops.**

Pathways to greater trust

Two pathways to greater trust *in long run*:

- civic pathway
- commercial pathway

Civic pathway to higher trust

- Trust can be increased by promoting civic life (Putnam, *Making Democracy Work* 1993).
- North Italy richer, better governed than South Italy. General trust is also relatively higher in North.



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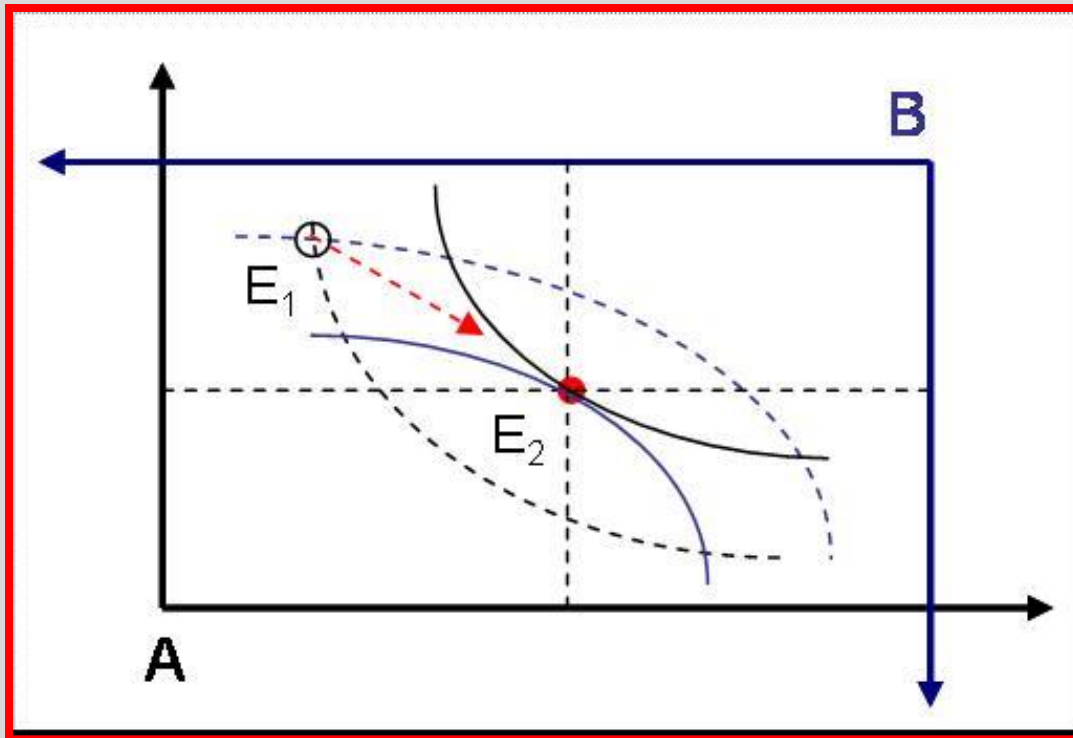
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- Since Medieval times, civic life has been much richer in North.



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Trade promotes efficient use of resources.

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Trade tames people's destructive impulses. It makes people more trustworthy, which then raises trust.

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Jha (*JEBO*, 2014): In Gujarat, ethnic conflict lower in Medieval trade towns. Complementary skills of ethnic groups made them learn how to cooperate.

Salience of complementarities

Complementarities are not self-evident. They are not always put to good use.

The exploitation of complementarities requires leadership to inform public, counter vested interests.

Post-WW II Development Campaigns

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Growth spurts of East Asian tigers discredited conventional wisdom.

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Uneven results + China's growth through unorthodox policies led to new thinking.

Expanded Washington Consensus

2000s

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Justification for intervention.

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China remains an oddity.

Additional Precondition

External interventions face unusually high obstacles in low-trust environments.

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Both types of trust are essential to economic performance (1) directly and (2) indirectly through political performance.

Trust is essential to success of both “Washington” and “Expanded Washington” recipes.

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<https://lcsr.hse.ru/en/seminar2016>

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