

Is trust an undervalued ingredient for a thriving economy?

by **Charlie Woods**

This paper aims to stimulate discussion about the role that trust and more collaborative relationships can play in strengthening the economy. It is written from the perspective of experience in working to stimulate economic development, help resolve commercial conflicts, facilitate dialogue and develop more effective relationships.

Why are we thinking about trust now?

Labour market disputes, concerns about public contracts and declining trust in government and institutions have risen up the news agenda in recent times. All of these things impact on our economy but the importance of trust in building thriving economies, as an issue in its own right, feels under-explored. When governments are talking of increasing productivity and economic growth, are they focusing sufficiently on the challenges posed by an unhappy workforce or the hours lost in contract disputes? This paper argues that, although improving levels of trust can take time, it is time well spent as it saves resources in the long term.

This paper builds on previous David Hume Institute work on the labour market including the 2020 briefing paper on the Danish model of Flexicurity.

About the Author

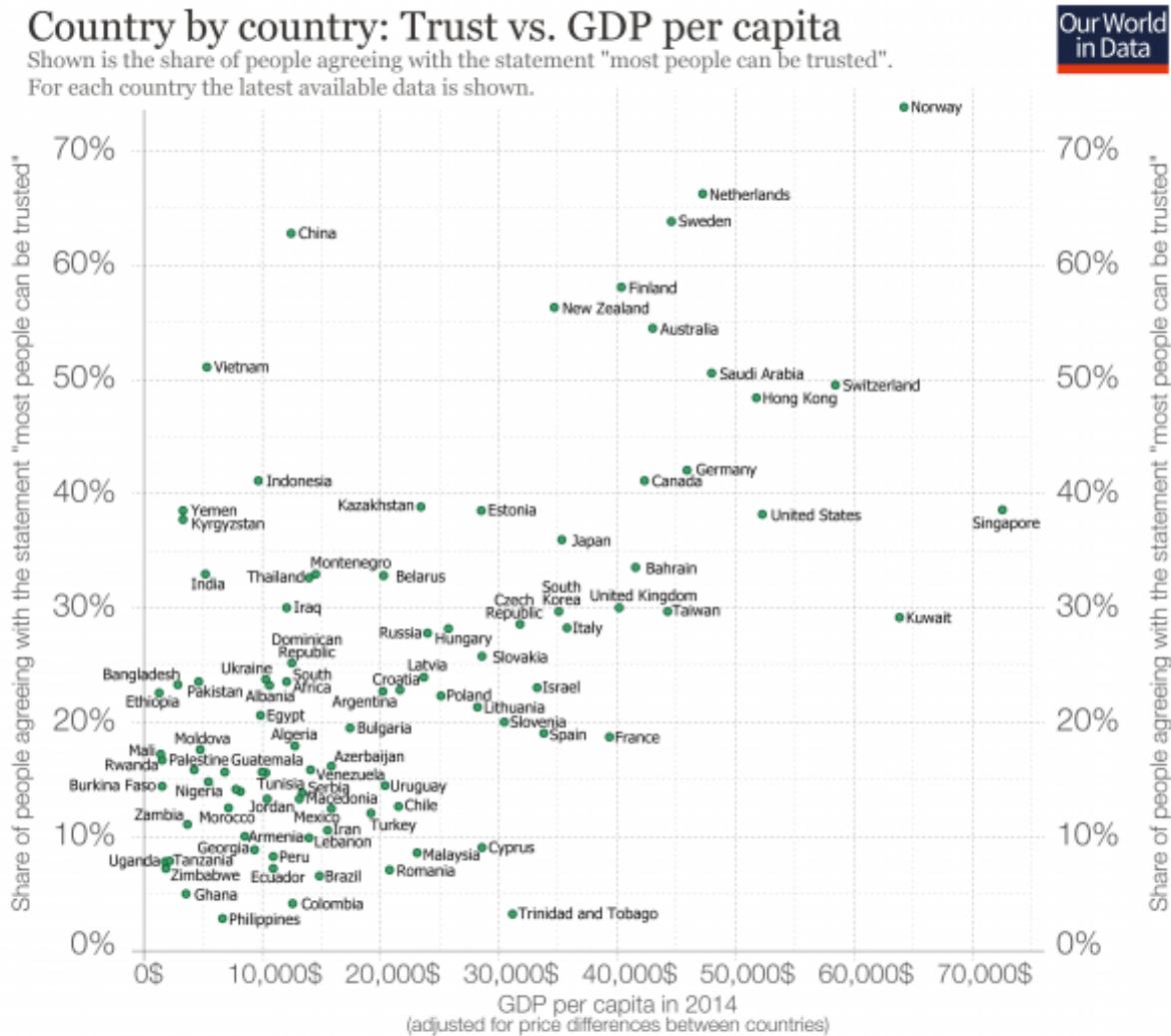


Charlie Woods has extensive experience of industry, commerce, and public and private sector organisations, ranging from SMEs to government. He was previously Director of Strategy and Chief Economist at Scottish Enterprise and is now executive director of the Scottish Universities Insight Institute and Vice-Chair of the Economic Development Association Scotland (EDAS).

Charlie is an Associate of Core Solutions and has extensive mediation and facilitation experience in a wide range of fields including planning, family business, management, PPP contracts, transport infrastructure, government policy and professional services.

Trust and economies across the globe

The chart below¹ from Our World in Data suggests that there is quite a strong relationship between trust and economic performance in terms of output per head².



Data source: World Value Survey for data on trust and Penn World Table for data on GDP per capita
 This visualization is available at [OurWorldinData.org](https://ourworldindata.org). There you find the raw data and more visualizations on this topic.
 Licensed under [CC-BY-SA](https://creativecommons.org/licenses/by-sa/4.0/) by the author Max Roser.

As with any correlation, questions can be asked about the direction of causality but there certainly seems to be something going on.

For example, in his recently published economic history³ of the long twentieth century ('Slouching Towards Utopia') Brad DeLong suggests lack of trust (born of centuries of slave raiding) has been a major factor in holding back the global south.

The importance of trust would appear to operate at both a macro and a micro level.

¹ <https://ourworldindata.org/trust#trust-and-economic-outcomes>

² Graph shows 2014 data for a full range of countries - more recent but partial data sets show a similar pattern.

³ <https://www.hachette.co.uk/titles/brad-de-long/slouching-towards-utopia/9781399803434/>

The role of corporations

At the micro level individual workplace cultures of trust have for some time been seen to promote significantly better performance – up to 50% higher productivity being reported in some cases. As an article⁴ in the Harvard Business Review, looking at the neuroscience of trust, summarised:

“Employees in high-trust organisations are more productive, have more energy at work, collaborate better with their colleagues, and stay with their employers longer than people working at low-trust companies. They also suffer less chronic stress and are happier with their lives, and these factors fuel stronger performance.”

In many respects companies are the embodiment of a collaborative environment, generating innovation and disseminating it widely. Brad DeLong highlights the role of the modern corporation (alongside industrial research labs and globalisation) as a key factor in the development of modern economies - helping humanity avoid the Malthusian prediction in which improvements in output would be overwhelmed by a growing population.

The history of corporations is analysed in William Magnuson’s book ‘For Profit’⁵. He argues that since Roman times corporations have been: *“public entities with a public purpose, given special rights and privileges....While they sometimes – perhaps even often – stray from this purpose their original and abiding justification has always been their ability to promote the good of all.”* When the corporate environment loses sight of this purpose it can be a major challenge given their influence on environmental and societal wellbeing and their potential as engines of cooperation to be a force for good.

The role of the finance sector may be a good example of this. Financial innovation alongside technical and scientific advances plays a critical role in helping facilitate economic development. Yet its relationship to overall human progress has been complex. Many aspects have been positive; such as providing investment to support innovation and boost productivity, along with the development of company structures to raise capital and widen ownership, insurance to spread risk, savings vehicles to provide pensions etc. Yet without the right institutions and governance to mediate the relationship between finance and wider economy and society, much of what takes place within the financial world can become much less benign.

Thomas Levenson’s book ‘Money for Nothing’⁶ tells the story of the South Sea Company in the early 18th century - an early example of financial engineering, by those with dubious motives, having a less than positive effect. As a former chairman of the Financial Services Authority put it when, discussing financial services in the wake of the 2008 financial crisis, much of what goes on in the speculative pursuit of ‘money for nothing’ is ‘socially useless’.

As the speculative aspect of the finance sector grows, not only does it divert investment from more productive activities, it also tends to attract some of the brightest minds in search of bigger rewards than they might find elsewhere, thus imposing significant opportunity costs. Given the way financial

⁴ <https://hbr.org/2017/01/the-neuroscience-of-trust>

⁵ <https://basicbooks.uk/titles/william-magnuson/for-profit/9781399805209/>

⁶ <https://thomaslevenson.com/money-for-nothing>

crises resulting from speculative excesses and other aspects of financial engineering can blow back into the real world (particularly when the costs of clearing up the debris fall on those that can least afford them) it may be even more damaging than useless. This might be particularly the case if it begins to destroy wider trust in institutions that are at the heart of the economy.

Trust in the wider economy and society

At a macro level Gert Tinggaard Svendsen's short book⁷ is in no doubt about the contribution that high levels of social trust play in the economic performance of Scandinavian countries, "*Trust is Denmark's invisible fuel*". In this regard it's interesting that Francis Fukuyama's widely adopted metaphor for aspiring state builders is "Getting to Denmark"⁸.

High trust societies are more cooperative and have to spend much less time, money and effort checking up on each other, writing and monitoring complex contracts and policing free riding. To put it another way, their transaction costs are much lower and more effort can go into productive activity, increasing overall efficiency and effectiveness. A greater sense of security and mutual support also allows more scope for risk taking, innovation, experimentation and learning as the costs of failure are less drastic.

A paper⁹ by Diane Coyle and others studied in more detail the relationship between trust, social capital and productivity. They looked at 23 countries over the period 2000-2016 and found that trust had a significantly positive association with total factor productivity growth. They consider trust and social capital to be enabling assets in the economy. They concluded that:

"Policymakers concerned about the slowdown in productivity growth since the mid-2000s should consider the role of trust or social capital."

It also looks like levels of trust can make a direct contribution to overall wellbeing. Perhaps not surprisingly, the World Happiness Report¹⁰ highlights the strong performance of Scandinavian countries over the years and notes the link to trust.

"Nordic citizens experience a high sense of autonomy and freedom, as well as high levels of social trust towards each other, which play an important role in determining life satisfaction."

The building of trust is a circular, cumulative process, it doesn't happen quickly. It is a virtuous cycle where positive experiences build on each other. Conversely trust can be easily damaged with fairly immediate results. Clear and unambiguous communication is vital to maintaining trust. Careful attention must be given to both how messages are given and more importantly how they are received.

Differences are endemic to human interaction and can have some positive effects, not least as a spur to innovation. However, when trust is low, words and actions can be easily misinterpreted (particularly

⁷ <https://en.unipress.dk/udgivelser/t/trust/>

⁸ <https://www.theguardian.com/books/2014/sep/28/francis-fukuyama-political-order-political-decay-review-magisterial-overview>

⁹ https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Trust_and_Productivity_Coyle_Lu.pdf

¹⁰ <https://worldhappiness.report/ed/2020/#read>

when different sectors or disciplines are interacting and they speak a similar but ‘different language’), which may well escalate into conflict if not carefully managed.

There is a significant financial cost to conflict (ACAS estimate¹¹ the cost of conflicts within businesses in the UK to be almost £30bn a year. An international survey¹² of almost 1200 construction and engineering projects estimated the cumulative value of sums under dispute to exceed \$48bn), there is also a huge opportunity cost as attention is distracted from business as managers and others become focused on defending their positions and/or trying to resolve the conflict.

The balance between collaboration and competition

Within a market economy there is a fine balance to be struck between competition and collaboration. For example, companies within an industry will compete vigorously for customers, yet might collaborate to promote the interests of the industry as a whole. Competition can be a spur to innovation, yet collaboration can help promote scientific research, which might have wider spin-offs. Collaboration can be a powerful force for good, yet too much collaboration of the wrong sort might lead to cartels which exploit customers.

Governance arrangements and institutions have a key role to play in finding the right balance between competition and collaboration and in developing sustainable systems. In their book¹³ ‘Why Nations Fail’ economist Daron Acemoglu and political scientist James Robinson analyse differences in development between countries. They highlight the critical role that institutions can play in ensuring the development of ‘inclusive’ as opposed to ‘extractive’ systems.

The more pluralistic and democratic institutions are, the more successful and sustainable development is likely to be. An inclusive institutional framework enables the development of trust and builds a sense of fairness and solidarity. This has positive economic spin offs via a greater willingness to take risks, invest and be innovative, particularly if there is less likelihood that any returns might be extracted by others.

The World Happiness Report, referred to earlier, highlights the relationship between inequality and trust. When trying to understand the reasons for the high ranking of Nordic countries, the report notes that research shows inequality has a strong effect on generalised trust. The Nordic countries have worked to reduce class divides and economic inequality over many years.

Building Collective intelligence

Trust is an essential building block for effective collaboration. Neuroscientist Hannah Critchlow’s book ‘Joined-up Thinking – The science of collective intelligence’¹⁴ makes the case that the range and complexity of the challenges that face us as a species require an even greater focus on working together to harness our intelligence in its broadest sense.

¹¹ <https://www.acas.org.uk/new-acas-report-estimates-workplace-conflict-costs-employers-nearly-30-billion-a-year>

¹² <https://www.rics.org/news-insights/wbef/time-and-money-counting-the-cost-of-conflict-in-the-construction-industry>

¹³ <http://whynationsfail.com/summary/>

¹⁴ <https://www.hachette.co.uk/titles/hannah-critchlow/joined-up-thinking/9781529398410/>

She argues that even though our success as a species has been largely down to our ability to cooperate we have become too focussed on the importance of individual intelligence and as a result:

“We get stuck in our own little bubbles, overlooking ideas and people that could disrupt our thinking in useful ways. We don’t talk or listen with enough curiosity and patience to actually learn. We pay lip service to the value of collaboration without knowing how to really do effective joined up thinking, or what it might mean for us if we did.”

Critchlow looks at what neuroscience has learned in recent years about how the brain-body system operates as a whole and how minds influence each other. For example how electrical oscillations between individual’s brains synchronise when they are engaged in communal activity and how this can be disrupted by stress, fear and conflict. Amongst other things she highlights the need to be as inclusive as possible in engaging ‘unusual suspects’ to bring different perspectives to bear on the challenges we face.

A growing number of stakeholders

There are a growing number of organisations across the business, academic, public and third sectors that can play an important role in building a genuine wellbeing economy - something which no one organisation or sector can achieve on its own. In addition there is a need to generate genuine community engagement, not just to develop more effective action plans, but as something that can enhance wellbeing in its own right. Building effective relationships between this diverse group of stakeholders, with different agendas and objectives is not without its challenges.

The public sector can play an important role in leading by example. Greater collaboration between organisations requires embracing risk, particularly when outcomes will be more out of one’s own direct control. Leaders will have to place more trust in colleagues and partners, this will take courage, but will be easier the stronger the relationships between individuals and organisations. This will require a more trusting environment, not least when holding others to account. As the Auditor General for Scotland commented in a blog¹⁵ reflecting on the tenth anniversary of the Christie Review:

“I am not convinced that public sector leaders really feel accountable for delivering change that demands different organisations work together. There is much talk of collaborative leadership. But in my discussions with public sector leaders, it’s clear that too many of them still don’t feel truly empowered or sufficiently emboldened to make the changes they think are needed to deliver Christie.

Our collective appetite for risk-taking and innovation, and how we hold public sector leaders to account, also needs to shift. If every ‘failure’ results in hostile media and political scrutiny, we will never encourage creativity, entrepreneurial thinking and risk-taking in how we deliver public services. I’m not suggesting accountability isn’t important, far from it. But we have to give our leaders the space, time and incentives to take managed risks.”

¹⁵ <https://www.audit-scotland.gov.uk/publications/blog-christie-10-years-on>

Focus on effective dialogue to build trust

Effective dialogue is key to building trust, encouraging cooperation between those with different perspectives and building strong relationships. As economist Paul Collier highlighted in an article¹⁶ - interestingly titled, given earlier observations on Nordic countries, 'Why we should be more like Denmark!':

“Dialogue...engages everyone, so that all members of the community can participate and co-own the outcome. It flows back and forth between equals who aim to understand each other, in contrast to instructions flowing down a hierarchy. And it presumes mutual regard between participants, not indifference or worse. Dialogues tend to build a common understanding of a situation, a common sense of identity that can coexist with our other identities. But above all, they can create a sense of common obligation that encourages us to put these collective purposes ahead of our own individual interests.”

What can help in facilitating a productive dialogue? Lessons from successful mediation processes provide some clues:

- build a solid foundation of rapport between participants
- separate people from the problem to allow a robust examination of issues in a respectful way
- don't jump to solutions before deepening understanding of different perspectives
- ask the right questions, in the right way, to build understanding and identify underlying interests and needs
- be alive to the influence of cognitive bias
- help participants to see things from other perspectives
- support the development of options which add value – make it a positive sum game
- encourage decision making criteria that take account of different interests and needs
- help decisions on priorities to be taken as objectively as possible

There are various approaches being used in a number of environments, such as citizen assemblies, to promote more productive dialogue. These offer the opportunity to learn lessons and develop our collective skills to engage with each other to boost understanding and build trust. In doing so we will be increasing the value of one of the economy's key enabling assets.

Conclusion

Focusing on trust, collaboration, relationships and dialogue is essential while rising inflation and increasing inequality pose such serious problems to the wellbeing of people and business.

The evidence indicates that these qualities are not luxuries but the essential ingredients for sustainable economic growth. Organisations and places that have a culture that is both trusting and trustworthy have the greatest potential to reduce transaction costs, increase innovation, encourage more calculated risk-taking and increase productivity. What's more, they might also be the most attractive locations when it comes to people choosing where to invest their time and money.

¹⁶ <https://unherd.com/2020/10/why-we-should-be-more-like-denmark/>