

Discussion

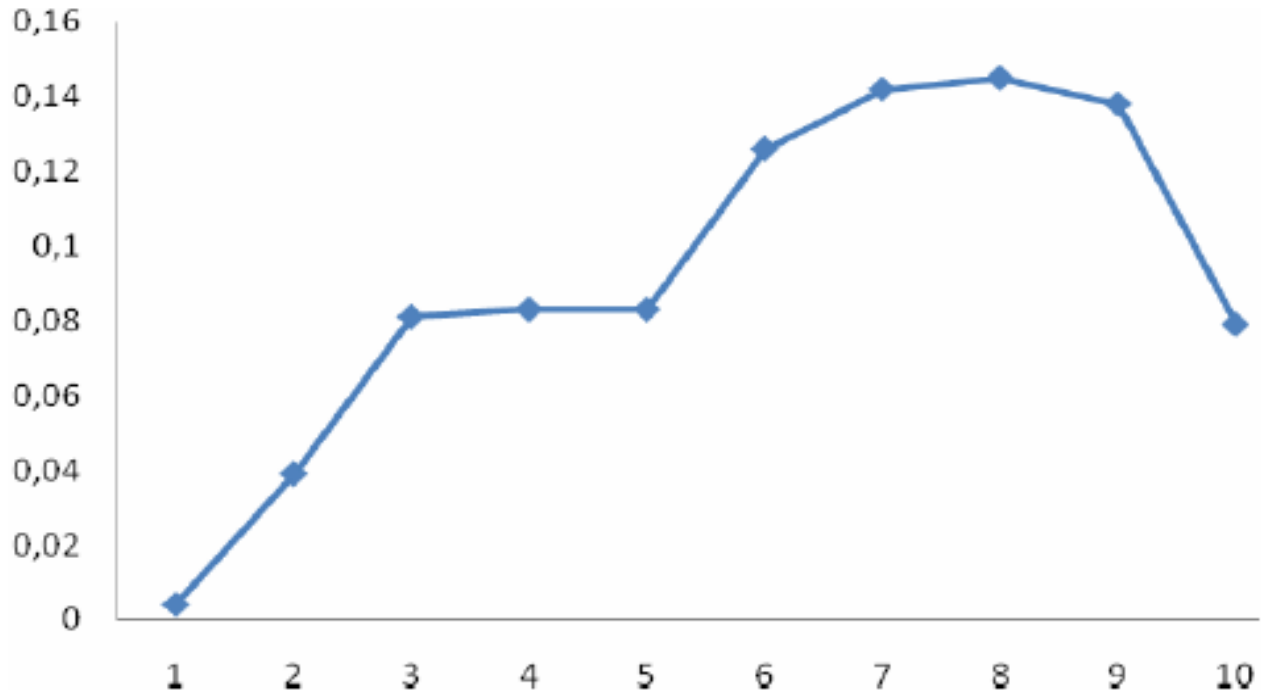
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A Very Important Paper on a
Very Important Topic

Convincing Evidence that
Trust Matters

Main Result

log(Income)



Trust in others

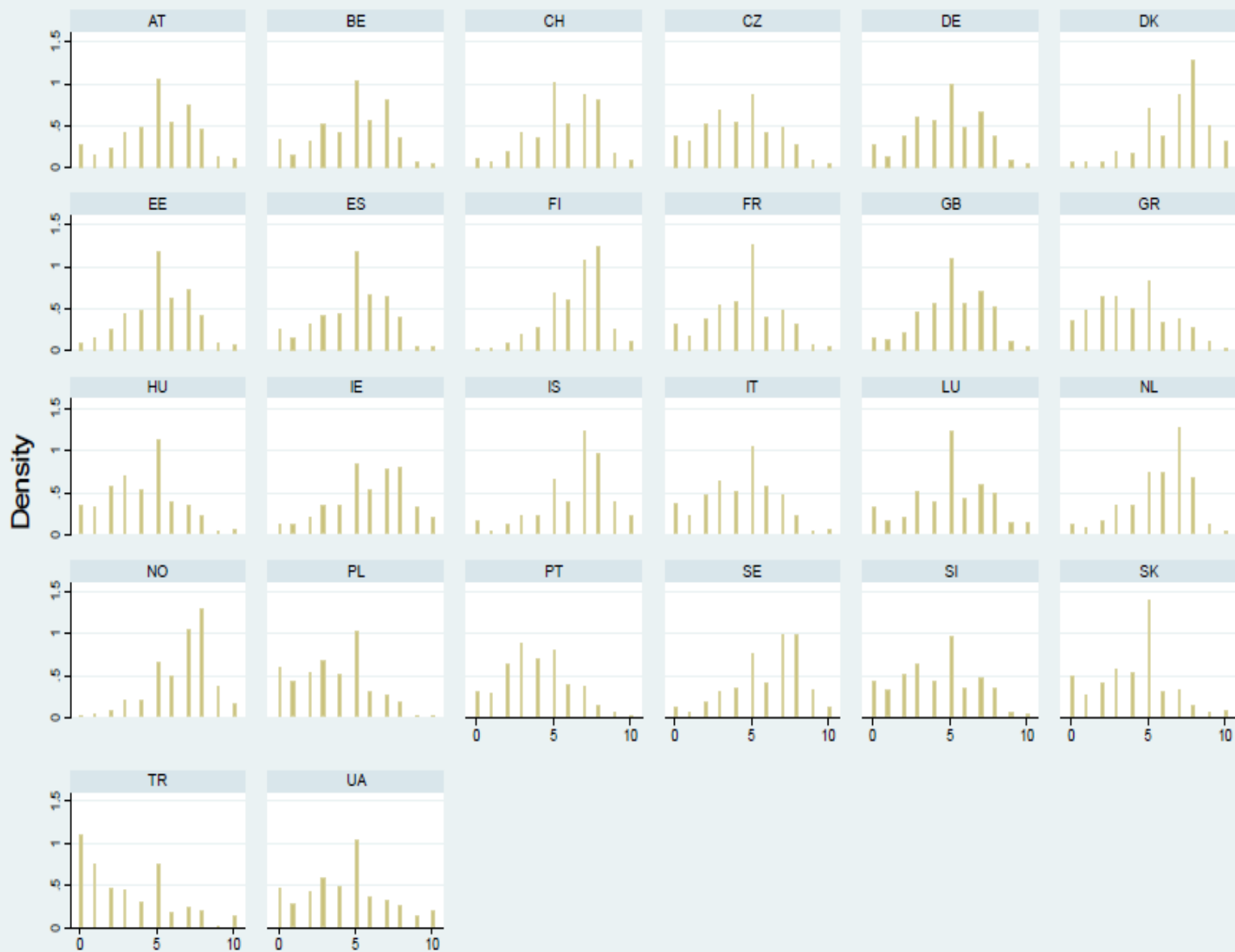
Interpretation

- Trust too little: overly defensive
- Trust too much: reckless behaviour

Why don't they learn?

- Low trust
 - no opportunity to learn. **No problem**
- High trust
 - In theory they should learn fast
 - Evidence of learning even in this paper
 - Expect very little mass to the right of peak (the very stupid and the very inexperienced)
 - ... **densities look pretty consistent with prediction!**

Trust beliefs: density functions by country



Most people can be trusted (10) or you can't be too careful (0)

Trust and variance

- Conjecture: authors' story implies income variance increases with trust
- Suggestion: compute $\text{var}(\log(y))$ for each trust level and check prediction
- (Probably first take out effect of covariates)
- (Note: not the same as looking at variance of trust by income level)

Trust in what?

- Trust in institutions (e.g. financial regulators) may be important
- Conceptually distinct from trust in others
- ...
- But potentially highly correlated with it
- Which one is being picked up here?
- Important because policy implications are very different

Experimental evidence

- Interesting, but ...
- ...nearly orthogonal to rest of paper
 - Not about trust!
 - Unrelated to real-life situations

Trust: Groping for a Definition

- Principal-agent framework
- Agent: incentives to misrepresent own type (AS) and/or actions/intentions (MH)
- Remedies in literature:
 - Monitoring
 - Third-party enforcement
- Consensus: both remedies imperfect, resulting in inefficiently defensive behaviour by principals

Trust: Groping for a Definition (cont.)

- New ingredient: agents suffers utility cost c from misrepresenting own type/intentions (**trustworthiness**)
- Principal forms beliefs about agent's c (**trust in the agent**) ...
- ... and about the average c in the general population (**trust in people**)

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?
- Answer on scale 0-10
- My proposal: let's interpret answer as (monotonic transformation of) respondent's estimate/belief on average **c**

Conclusions

- Great paper
- Still to explore:
 - implications of learning for expected distribution of trust
 - Implications of authors' interpretation for inequality-trust relationship
 - Separate identification of effects of trust in others v. trust in institutions