

THE **NEW** BAZAAR

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EPISODE 22: TRUST ME, I'M AN ECONOMIST

BEN HO ON THE NATURE OF TRUST AND OUR ECONOMIC CHOICES

CARDIFF GARCIA: Hi, I'm Cardiff Garcia, and this is The New Bazaar. Coming up on today's show.

BEN HO: Trust is something that we see every day. It's in every transaction, every interaction we have with another human being.

CG: Economist Ben Ho on the economics of trust.

Ben Ho is an economist, whose latest book is called *Why Trust Matters: An Economist's Guide to the Ties that Bind*. And my chat with Ben today is about exactly that, it's about how the concept of trust applies to all kinds of different economic interactions that we experience throughout our lives. And it's about the research that helps us understand why trust so often breaks down, and potentially, how to build it back up. And we just had a great time, so here's a teaser of just some of the things that we ended up discussing, much of which was counter-intuitive to me, before I came across Ben's book.

How a contract between two people, or two companies, can end up determining whether that contract enhances trust or erodes it. When do prenuptial agreements enhance trust, and when don't they? What about religion? What is its role in fostering the kind of trust that matters for the economy? Why is gossip actually good for trust in some cases? When can we trust our economic policy makers? And, what effect does social media and the tools to monitor online reputations, have on our trust in each other?

I ended up talking to Ben about all this, and so much more. Here it is.

CG: Ben Ho, welcome to The New Bazaar.

BH: Great to be here.

CG: So, *Why Trust Matters: An Economist's Guide to the Ties that Bind Us*. It's a mouthful. Why trust? You're an economist.

BH: Yeah, I mean, part of it is I was in grad school 20 years ago, and you had to come up with some research topic that no one's ever done before. That's, like, a really crazy, daunting task.

CG: Yeah, it is.

BH: And, you know, my roommate just asked me this question about apologies, of all things, and, like, why do people apologize. And that's a question an economist never touched before, so I thought, "Great, I'm gonna do apologies."

CG: The economics of apologies.

BH: Exactly.

CG: Like, what makes for a good apology in, like, an economic transaction? If something goes wrong, how do you regain trust in, let's say, a seller who rips you off, or something like that?

BH: Exactly. But also, just in our day-to-day lives, right? Or, do politicians apologize? Part of the motivation was that politicians rarely apologize, and, what to make of all that. And, like, apologies are just words, how do they possibly affect people's behavior, or people's beliefs? So that's why I got started on this question. Because the point of an apology is to restore trust. Right? When trust is broken and trust is frayed, we use words, like, "I'm sorry," as a way to bring that trust back.

CG: I thought the point of an apology was to stop a social media pile-on from happening.

BH: I think that's part of it. Right? And I think trust is a big part of social media, which I'm sure we'll get to at some point, as well.

CG: We are absolutely gonna talk about all of that, but first we should talk about some of the basic properties of trust itself. And here's where I wanna begin, trust becomes harder the bigger the community that you're in. So if every day you interact with a community of four or five people, and then suddenly that community expands to, like, I don't know, 50 or 100 people, it gets harder to trust the average person in that community. Right? How does that work?

BH: Well, I think it helps to start by defining trust. Right? Trust is something that we see every day, it's in every transaction, every interaction we have with another human being. And we don't really think about what it is. So, for me, trust is a belief in the reliability of somebody else. A willingness to take a risk, and make yourself vulnerable for the sake of cooperation with this other person.

CG: That they will do what either you expect them to do or what they have promised to do.

BH: Exactly. Right? A promise forms an expectation, and usually it's about something that we're cooperating to accomplish. And trust is all about, you know, being willing to take a risk on them. And when, like, the group is small, like, it's just your family, your people you know closely, then you have a pretty good idea of what they're... how they're gonna behave. But as the group gets larger and larger, it gets harder and harder to keep track of all of these different people. Right? I think just our brains haven't evolved to actually keep track of about 150 different people. This comes from research by anthropologist Robin Dunbar, who has looked at the size of human primate brains as opposed to non-human primate brains. And found the correlation between the size of our brain and the kinds of communities we live in, and the size of the community. And from that, he sort of gets this number, the-people call the Dunbar number.

CG: That, like, in the hunter/gatherer past, right, we tended to be in tribes of, like, 150 people, that kind of thing.

BH: Exactly. And not just in our hunter/gatherer past, but just, he looks at, all through history, that military organizations are organized in groups of 150, or so. He looked in social media, and we may have, like, hundreds of friends, but we only interact, on average, with about 150 of them. And so this number keeps popping up over and over again, of the people that we sort of can keep track of on a day-to-day basis.

CG: Yeah, and this idea of the size of the community, that's also somewhat related to the idea that if you are likely to have repeated interactions with somebody, it can become a little bit easier to trust that person, too.

BH: Right, exactly. So trust is a belief, and, you know, economics sort of models belief using this mathematics called Bayes' Rule, which people may have heard of a lot recently. But, basically, Bayes' Rule says that the more information you have about something, the more confident you have about that belief. And so trust is pretty much, just, "Do I believe you're... you are a reliable person, or not?" Um, and so repeated interaction generates more and more information, more signals, as we say in economics, about that person. And that's how we form trust, or distrust, depending on the case.

CG: Yeah. And also, if you're likely to have repeated interactions with somebody, then that person knows that their reputation matters 'cause they might need you again, to trust them. Right? Like, if you're a seller of goods and you're only gonna sell something once, well, if you rip somebody off, there may not be a consequence to it because you're never gonna see that person again. But if you want somebody to keep buying your product again, and again, and again, then you have to have a good reputation for coming through, for being reliable. And, if you have a lot of repeated interactions, or you can expect to have a lot of interactions with somebody, then you

know that they're minding their reputation, so it becomes a little bit easier to trust them. Right?

BH: Exactly. So, I'm a game theorist and an experimental economist, that means I sort of study people through two things, one is game theory, which is mathematical models of how people behave. And two is through live experiments, where we have, you know, students often, but not just students, play games with each other, often things called the trust games. Um, and basically what we find, one of the key, uh, parameters in that literature is that patience is a key component to building trust in these games. Right? And patience has two roles, one role is that patience is important because it creates more and more repeated interaction. And the second is that patience is important because it creates a willingness to invest in the future.

And so, the, sort of, longer term the relationship is, the longer term thinking that the players have involved in that relationship, the better... the more chance to build trust, and the stronger trust becomes.

CG: This is very interesting, so patience as a variable that can influence whether or not you trust, but also whether or not you're likely to be a trustworthy person, somebody in whom somebody else can trust. Right?

BH: Exactly. And I think part of the book is actually looking at, sort of, other adjacent social science disciplines, and thinking about, "Where else can we learn about patience?" I think an example is the role of religion in trust, which basically says that a big part of religion is it's helping us expand our time horizons for how we see the future. Right? This idea that we have an immortal soul, perhaps, or we, you know, might live beyond just this current mortal existence, helps us make... you know, think about things from a longer point of view.

CG: Yeah, we're definitely gonna talk about religion, but even before we get there, there's another quality of trust that's interesting, which has to do with anonymity. Right? Because if you're in a small group so it's easier to trust people, you're also more likely to know everybody. You know? So, again, you know, people have an interest in maintaining their reputation, and being trustworthy. And you know that if it's a small group. But somebody anonymous, it gets harder, and so that's why you need a lot of the institutions that people have developed through the years to essentially, either substitute for trust, or enhance trust in a setting where you might have a lotta interactions, whether commercial, or just other kinds of social interactions with people that you don't know, and that you may not see again. And they may happen to be anonymous, you may not even know who they are.

BH: Exactly. I think a key tension going throughout the book is that trust can come through two ways, one is trusting people individually, and the second is trusting the system, or incentives, or institutions. Um, I think a great example of that is looking at these experiments by these anthropologists, Jean Ensminger and Joseph Henrich. What they did was they wanted to see how trust has evolved over the centuries. Right? And ideally, they wanted to build, like, an experimental time machine, where

they go back in time and sort of measure the levels of trust, you know, in, you know, hunter/gatherer societies, and, and, subsistence farmers, all the way up to today's modern market economies. And, not having a time machine, what they did was they just traveled around the world, and found people today, living like hunter/gatherers, or living as subsistence farmers, to see how they would behave in these trust experiments that we run all the time. And, one key feature of these trust experiments is that they're anonymous, and that's something that they didn't realize was important until they started running these games. So, one thing they found was... They actually expected there to be more trust and trustworthy behavior in the hunter/gatherer societies. As anthropologists, they know that those societies are based a lot on relationships, they're based a lot on favors and gifts.

CG: And they're smaller.

BH: And they're much smaller, so you'd think there should be more trust in those relationships, but in fact, they observed the opposite. Right? They found that, in their anonymous economic experiments there was the least amount of trustworthy and trusting behavior in hunter/gatherer societies, and the most in the market economies.

CG: That's interesting, because once you introduce anonymity, it changes the dynamic. Right? Yeah. Th-this work was really interesting, and I just wanna explain it a little bit, uh, for our listeners. What they essentially did was, they found communities of people that today, live the way most people lived at some different point in the past. So, they might've found, like, a modern hunter/gatherer community that lives like everybody lived, you know, 10 or 50 thousand years ago, or whatever. Right? But then they also found some folks, like subsistence farmers, who lived the way most people lived, I don't know, 1,000 or 2,000 years ago, or something like that. Right?

BH: Exactly.

CG: And then they, of course, compared that to how a lotta people live now, which is in, like, a big market society. That kind of thing. Yeah, that's, uh, that's fascinating work, and it also kinda goes to show that, like, I think if you had just asked some folks why this, why this finding came out so differently from how they expected, they woulda just told you, they woulda said, "Well, I don't know the person." Like, "Why would I trust them?" Right? Uh, but it takes these experiments some time to sort of like, at least reinforce our knowledge of how these dynamics work. Right?

BH: Right. And it gives me optimism about the trajectory for the future. That basically we have gotten more and more trusting of anonymous people over the centuries, is what the research sort of implies. And I think if we're gonna tackle the biggest problems going forward, right... my other economist hat is a climate change economist, um, I think we're gonna need to trust each other in larger and larger scales. And the research sort of points to the fact that we are getting better, over time, at trusting each other, um, and not worse.

CG: Yeah, that's hopeful, but also, you introduced a lot of kinda caution in the book itself as well. You introduced a lot of complicating variables, we're definitely gonna get to those, but first I wanna talk about some of this sort of counter-intuitive, and in some cases, playful qualities of trust as well. And let's start here, the role of gossip, it can actually be a good thing for trusting people, especially as the size of the community you're in gets bigger.

BH: Exactly. I think, you know, part of the story of the book is just the history of trust, and the history of human institutions and human inventions I sometimes call these trust technologies, as ways to sort of enhance our trust from just trusting the people we know directly, to people we don't know yet. And one of the first early technologies here is gossip. This is also attributed to anthropologist Robin Dunbar. He argues that part of the reason that people learn to talk to begin with is just to gossip, to keep track of who is trustworthy and who is not. Who has committed good behavior, and who has committed bad behavior. Right? Because, you know, in interpersonal interactions, well like the, you know, the circle of people you t- you know, then you could keep track of, are they trustworthy or not. But as that circle grows bigger, we need information from other sources.

CG: Right. And also, if you know that there's a lot of gossip out there, then you are incentivizing yourself to act in a trustworthy way, because if not, your bad behavior will get around. People will start talking about it, and then people won't trust you anymore.

BH: Trust is all about information, and gossip is a way to distribute that information.

CG: So gossip essentially, as you described it, was a technology to make it easier to trust in bigger and bigger groups.

BH: Yeah. In fact, so many of our fundamental technologies are just about building trust. I think another great example is the invention of writing. Right? The earliest known scripts and, you know, discovered, are not- it's not poetry, it's not rules of law, it's accounting, it's who owes who what. It's, you know, who has paid back their debts. There's a big part about money in the book. Money is also just really a way to keep track of favors. So I think just a lot of the fundamental developments in human history is really just about knowing who's trustworthy and who is not.

CG: Yeah, and then there's the economics of gift giving and trust, and I love this because I think if you ask economists what they think about gift giving, you'll get a couple of different answers. Some will say, "Well, giving a gift, let's say, for Christmas, when you don't know what the person wants, can be very wasteful." Right? Because you'll end up spending all this money on something that the other person who receives the gift doesn't value quite as much as, you know, you actually spent for it. So, if you got them, like, a really nice pair of, like, \$40 socks, like an expensive pair of socks. They might be like, "Yeah, I really like these socks, but, like, I would've spent maybe \$10 or \$20 on it." So, more than usual, but not \$40. And so

there's, like, \$20 of what economists refer to as deadweight loss. That kind of thing, right?

If you ask other economists, they'll say, "Well, Listen, I mean, you can fix that by just asking the person what they want. And then that way, the person receiving the gift will know that you were listening to them, number one. That you value, like, what they say. And also there'll be a nice even match of, like, the amount you spend on the gift, and how much that person values the gift, because they said that that's what they wanted."

You come at it from a somewhat different angle here, which is that, if you give a gift and you didn't ask the person what they wanted, you're taking a risk, and risk matters for trust.

BH: Okay, random fact, one of my more successful gifts this year were \$40 Harry Potter socks for my, my wife. So, sometimes that was exactly what they wanted. And she actually just commented that, "Wow, I never would've thought to buy this for myself, but I love it." And I think that's what makes gifts successful.

CG: I just wanna be clear about something, I didn't know that. Like, you didn't tell me that before we started-

BH: No.

CG: I just said that randomly, and it turned out that that was the gift you gave. Uh, excellent.

BH: It seemed outrageously expensive at the time.

CG: Yeah. Why is it that taking a risk is something that helps to enforce trust in a situation like this?

BH: Yeah, I think the two economists on both sides of this. One is Joel Waldfogel, he has this book called *Scroogenomics*, and he measures, like, the billions of dollars of what you described as deadweight loss, of just sort of wasted money of people buying the wrong gift, buying gifts that people would've hated. Right? Like, I think in the past, I bought my wife, like, a sweater that she just hated. I, I learned this early in our relationship, and so I never bought her clothes again. Right? But, and so, Waldfogel claims that this is a big drag on the economy, billions of dollars of wasted gifts. But, you know, this other economist, Colin Camerer had this great paper in the *American Journal of Sociology*, I believe, that basically said that that risk is exactly the point. Right? So, I actually, as a game theorist, I do a lot of my work on this idea of costly signaling. This is, again, this goes back to the game theory and information economics, where in order to learn about something, you need signals about, are

they trustworthy or are they not trustworthy? And one... And the most effective signals are the costly or the risky one.

You know, I'm, I'm Chinese, I grew up where the most common gift for, like, the holidays was cash. And, you know, to an economist like Waldfogel, that seems great. Right? Where I just sort of give you, you know, \$100 check, you buy whatever you want. But there, you're not taking any risk, you're not demonstrating how well you know that person, you're not demonstrating that the effort you put in to choose and find the perfect gift. And even though it messes up sometimes, I think messing up is part of the point, messing up shows that you took a risk, you took a chance, and you really tried to think hard about what that person might like. And that's a way to build trust.

CG: Yeah, I, I guess I, I was thinking of the example of, like, if let's say you get somebody, you know, expensive tickets to go see a musical on Broadway, or something like that, and you didn't know that the person hates musicals, or something. But, like, let's say it's your spouse or your partner, romantic partner, and it's like, "Well, those tickets were expensive. It took a lot of planning to put together, like, a big night out." So, even if they hate the show, you have still sent the signal that you really love your spouse, that you love your partner. And so, it could still work to enhance trust, even if it was also a huge waste of money in the terms that economist Joel Waldfogel would describe.

BH: Exactly. A common theme running throughout the book is that really trust is all about risk and vulnerability. You just have to watch any, any r-romantic comedy where, you know, a big lesson at the end of the day is that the people just have to be vulnerable, they have to open up, they have to take a chance, and that's how, sort of, trust in a lasting relationship is built.

CG: Okay, I want to talk for a second about the economics of apologies, which is your specialty. And in your own work, you found that in the medical realm there's this kind of interesting catch-22 that exists. Because if, say, a surgeon has a botched surgery, well, the patient has the option of suing the surgeon. But a lotta times the reason the patient sues the surgeon is because the patient is upset at not having received a good apology from the surgeon. But of course, from the surgeon's standpoint, if there's an apology, then there's a better chance of getting sued in the first place. And so, nobody wants to move on this. And fascinatingly, some states have actually passed apology legislation that says that if the doctor apologizes, the doctor's apology cannot be used in a court of law as evidence against the doctor in a malpractice case. This is fascinating. Tell me about that research.

BH: Yeah, so, my wife actually is a doctor and she... There's this idea floating around the medical community that it's dangerous to apologize. That-

CG: Never apologize.

BH: Never apologize, right. And I think people are fighting back against that idea, but it's there because doctors are afraid of getting sued. And this idea comes because that apology can normally be used in court against the doctor, that the doctor made a mistake. However, in interviews with patients, y-you hear a different story from patients, that they often only sue because they're angry at the doctor for not apologizing. So we sorta have this tension, this vicious circle between doctors being afraid to apologize, and patients only suing because they never got an apology. So, what's been done in, like, 36 states is... at the time of writing, this is about 10 years ago, um, they've passed what are called I'm Sorry Laws. These are laws that basically exempt the words that a doctor uses toward a patient when they apologize, from ever being used in court against them. This is something that actually was brought to the federal level by these two junior senators named Barack Obama and Hillary Clinton.

CG: Oh, I wonder what happened to them.

BH: Yeah. They didn't have much clout at the time

CG: Right.

BH: So it didn't go anywhere. But this was an idea that was floating around quite, quite a bit, to sorta help restore relationships by encouraging doctors to apologize. And what we found in the research is that states that passed these laws, when compared to states that didn't have these laws as a control group, actually saw faster settlement of lawsuits. And that the lawsuits that did happen, settled for lower dollar amounts, Right, by about 20% lower. So we found that actually just these words tha-that people use, th-the words "I'm sorry" actually have big economic consequences, adding up to billions of dollars.

CG: I wanna talk about contracts and trust. So, contracts between two parties, two companies, or an individual and another individual, an individual and a company. You know, it... what's interesting here is that when it comes to trust and contracts, we think sometimes of contracts as things that substitute for where trust does not exist, and that's why you need the contract. Right? And not because you think the other person's evil, or whatever, but just because you may not know the other person, or it's a company, you know, and you're... just think, "Well, I need a contract here to make sure that, you know, my rights are protected and my rights are enforced."

But what you find is that there's an interesting and often tension-filled relationship between the trust between the two parties and the way that the contract itself is written. So, take us through trust and contracts.

BH: Yeah, some of my research a-asks the question, are trust and contracts compliments or substitutes. Right? And the, and these are-

CG: Do contracts enhance trust or do contracts replace trust?

BH: Exactly. Right? So these are econ-y terms and I think you described them pretty well.

Um, and I think the tension is there because, you know, we see examples of both. Right? We see that sometimes you... if the environment is too unstable, um, and you don't have rule of law, and you don't have strong contracts, then you just can't trust anybody, and you can't get that relationship started. But at other times, if that contract is too strict, if the rule, if the rules are too strict, then you also sorta take away that risk and vulnerability, and that also is problematic. And we see this in a couple ways. Right?

So, one thing you see is that if you look at actual contracts, you find that they often leave things unspecified. And part of the reason for that, and this is work by, um, Marina Halac, she basically finds that we need to leave contracts partially unspecified so that there's room to sort of demonstrate your trustworthiness, that you show... that you show you're willing to be vulnerable to the other person and allow that trust to be built over time. Otherwise, if everything's too spelled out, you basically just show that you're not, you don't trust that person at all. Um, I think an example of this, in a way, is, like, a marriage. Right? Where, I think there's good reasons to sort of spell things out about how the marriage will go in a pre- in a prenuptial agreement. Um, but I think people sort of intuitively know that if you spell things out too much in a prenup, that actually somehow does something to the trust in the marriage, and that's a, you know, that's a tension that we have to resolve.

CG: Yeah, I was, I was so intrigued by this line of work, um, and especially as it relates to prenups, because it's not just that if you sign a contract that's, like, super specific and as complete as it could possibly be, that it signals that there's a lack of trust there. It can actually erode the trust that does exist, because it sends a signal that you're not actually willing to be vulnerable. On the other hand, you also write something also quite interesting, which is that if that trust really is not there, a prenup can be the thing that actually compels two people to go ahead and get married, and then it sets the stage for building that trust. So it's just this fascinating, kind of, psychological tension that exists when it comes to contracts and trust.

BH: Exactly. I mean, in work I've done with another economist, David Huffman, we look at countries around the world, and the relationship between the rule of law and trust and economic growth. Right? So it's been pretty well established that economic growth and trust go hand in hand, but what is the value of the rule of law? Right? In places with strong contracts, does that help or does that hurt the relationship between trust and growth? And we find that it generally helps. Right? That these three things are all positively correlated. Places with strong rule of law, which means strong contract enforcement, they actually have actually better growth and better trust. Um, and I think, you know, our explanation for that is that it helps get relationships off the ground. Right? That you need a certain level of contractual

enforcement to make, t-to start building that relationship. But too much is also a bad thing.

CG: Yeah, and that's further fascinating because it shows a difference between the macro and micro. At the macro level, for the whole economy, having a system where you know you can rely on contracts, where you know there's a rule of law, that it's pretty well enforced, just knowing that that system exists seems like it would be helpful for fostering trust and economic growth. But at the micro level of, like, a specific contract between two people or two entities, two companies, whatever, you find that the way the contract is written actually does matter. It can even undermine trust in some cases. Or, if it's written correctly with just enough room to be vulnerable and take some risk, uh, it can enhance trust. So, the details really do matter for individual contracts, even if the overall system for having good contracts does seem to be a positive thing unambiguously.

BH: Exactly. So actually most of my work is really at the micro level. Right? I think I have the utmost respect for those macro-economists because they're really trying to disentangle so many different variables, but I love when I can just run an experiment in a laboratory setting. I can control exactly what you're looking at, and, you know, look at the results. One of my favorite experiments actually is by Falk and Kosfeld, he runs something called the Trust Game. Lots of us run trust games, right, the t-or-original trust game comes from some research in the 1990s by Berg, Dickhaut, and McCabe.

CG: These are, like, games played in a laboratory somewhere. You, you sort of sit people in front of a computer and you have them play a game, and then you tally up the results of the game.

BH: Exactly. Right? And these are situations where, you know, trust is required to sort of get a higher, higher outcome. Um, in, in this case, that means a bi-bigger payoff. Right? So, subjects go into this game, and they know that they're gonna be paid. The more they trust each other, the more they walk away with at the end of the game. Um, and so, people use this to study trust, I've used the trust game to study the effect of apologies on trust. But Falk and Kosfeld, they have looked at the ef-effect of contracts and rules on trust. And what they find is that in their experiments, that too many rules... Right? So that if I put too many rules on the, on the trustee, on the person I'm trying to rely on, that actually decreases trust and leads to less cooperation and a lower payoff for everybody involved. And so, that, so that's experimental evidence that contracts can be stifling for trust when they are too strict.

CG: You looked at the work of a scholar named Stephen Morris, who put together a model of political correctness that I think is really interesting. And, one of the findings is that in politics, or in life generally, okay, it can be beneficial to either not say anything, or even to lie on a small issue, one that doesn't matter that much to you, so that you can later have the credibility to lead people on a really big issue, a really

important issue. Which is both intuitive and interesting, and a little bit of a bummer. Right? But that's what he found. What do you think?

BH: Yeah, I think... I love that paper, that's actually the paper that led me to becoming a game theorist and a behavioral economist. Right? I think my undergraduate education was actually pretty standard. I learned about supply and demand, and I had no idea of what economics can do. And then, like, sort of near the end of my, you know, undergraduate education I came across this paper, um, and it was just about, "Wow, game theory can explain political correctness. What a crazy idea." Um, and I've been fascinated with that ever since.

CG: Political correctness, in the sense of going along with, like, the norms of political correctness, uh, and also, you know, saying the things that a lotta other people are saying. It drives a lot of conformity so that you're part of the in-group, and that way, if later on you wanna do something that's a little bit more controversial on a big issue, you have credibility with the in-group already.

BH: Exactly. Right? So, s- Morris' model would... he laid out mathematically that... exactly what you said, that political correctness can be a good mechanism to build trust. And that, you know, it seems like something that people, people are frustrated by, that, you know, "I'm, I'm being policed on my speech. I can't say what I want anymore." But the idea that Morris showed is that there's quite... there's value there. Right? By sort of showing that you can conform, that you sorta knows these rules of behavior, you are showing that you are a credible person. And that people might have value in doing that because they think that for the important issues, they're gonna use that credibility to do some good. And, that it's not worth risking credibility now to basically, just, like, talk however you want.

CG: Yeah.

BH: And like, you know, people sort of talk about political correctness as just, like, something that's just, you know, inefficient or bad for society. I think Stephen Morris says, "Well, you know, there are-"

CG: It's more complicated than that.

BH: "... there are pros and cons." Right? I think for economists, there's always a cost and benefit to everything.

CG: Yeah. I, there's... I had two thoughts in response to that idea. One is that it reminded of the way a lot of people who study sales and persuasion, talk about something called pacing and leading. Where, you essentially pace a group of people by taking a very extreme position, even to the more extreme end of what they believe on something, so that they're like, "Oh yeah, that's our person. That's

somebody we can follow." And that way you can guide them to a position later that they may have resisted if you hadn't had that credibility in the first place. Right?

Um, and then second, it reminds me of how I, myself, deal with, like, social media. So, if I'm on Twitter, for example, I'll sometimes see people arguing about something, and I might even have a strong opinion about it, but I'll often just kinda sit it out because it's also not an issue that matters that much to me. So that later, if I, you know, if I tweet about something that does matter a lot to me, I won't have, like, already either offended or polarized a buncha people on something that wasn't as big a deal. But I gotta say that also does come with trade offs. Right? Because I will often feel myself itching to, like, say something that I do believe, and I just won't say it. And I think that kinda thing is not great. Like, I think that does lead to a lot of homogeneity of beliefs, especially of people who are already in agreement on things. Right?

But second, I find that easy to do because I don't really have the temperament to be, like, arguing all the time with people on social media. Like, I don't like it. Right? I basically use Twitter, at this point, to, like, share stuff that I really like and talk about basketball. Right? That's about it. But a lot of other people find that hard to resist, and so I think because they don't know this model, or they don't think about it intuitively, as they go to, like, interact on there, you know, the people most likely to be really, like, heated and aggressive are also the people who end up dominating the space. Because they're not really being thoughtful about this kind of a model, or this kind of thinking.

And, on the one hand, it's sad that it drives conformity, on the other hand, I'm saying that some people who are doing all of the, like, yelling and screaming and driving the conformity, are the only ones that, like, you hear, and you should actually hear more people. Right?

BH: I agree. Conformity and group think, definitely a problem. But also, the ability to get along and basically, uh, recognize the norms, also a good thing. And I think what I love about economics is it lays these things out. Right? That, you know, I think we intuitively have a sense of what's going on, but I think being able to articulate them, and then once you articulate something in a model, you can quantify them. I don't think anyone's quantified these things with social media yet, but you could begin to use the model to do so, and see, "Okay, so what are we losing? What are we gaining by having these norms of behavior?"

CG: Yeah.

BH: I think another thing related to trust is actually, is that on social media there's evidence that people use outrage a-against the out-group to build trust for the in-group. That a lot of our institutions about building trust historically have all been about creating trust with people, you know, in your tribe, at the expense of somebody

else. And you see these old, you know, centuries-old traditions, millennia-old traditions being replicated on social media today.

CG: Yeah. In other words, the idea that even as we've come up with mechanisms to expand the size of our community and the people that we can trust, including when they're anonymous, we still look for these markers of similarities with us that we use to say, "Okay, these are the people that I can trust." But of course, the problem with that is that some of these markers are not, like, you know, markers based on, like, morality or ethics, or even, like, other things that matter a lot in life. And we end up not trusting people based on arbitrary other things. You know what I mean? And, that sounds like a problem. You know?

BH: There's evidence in psychology about the minimal group paradigm of, like, just how we sorta form in groups on the sm- most trivial things. Right? On whether, do you prefer the painter Kandinsky, or the painter Klee. These are two modern artists, um, and, you know, they look basically the same to most people, but if you ask them what do you prefer, then people quickly form in-groups. "I'm a Kandinsky person." "I'm, I'm a Klee person."

CG: Okay.

BH: And you quickly just form, like, you know, biased beliefs about the other group.

CG: Yeah.

BH: Um, yeah, that's a problem.

CG: Yeah. Let's talk about religion for a second, because this is related to all of this. Right? Here's something interesting that you brought up in the book, you looked at some research showing that if you are part of a religion that believes in a punitive god, that that can potentially lead to more trustworthy behavior because it inspires remorse and guilt. Or at least that's the, the theory. I know that a lotta this is sorta tough to actually prove, but that's the theory.

BH: Exactly. Um, and this is based on research by Robert Barro and Rachel McCleary, who look at economic growth, and how it correlates with religious practices and religious beliefs. And what they find is that just attending church, so countries that attend church more often, they don't experience faster economic growth, what they find is that it's the belief in the punitive god that explains economic growth. That basically the stronger your belief that there's a god out there that's gonna punish you, the stronger, you know, the faster economic growth you have. And they look at data in the 20th century, but they have looked, Joseph Henrich, and other people have looked at this going back thousands of years, and they find this idea of this relationship between belief in punitive god, and, you know, economic growth, and civilization, they go hand in hand.

CG: So, this is why the ancient Greeks were maybe not so trustworthy. 'Cause, like, their model of the gods was that it was all just based on, like, the frivolity of the gods themselves. It was all just, ahhh, a little bit random, the gods were having fun, they were messing with, like, their little human subjects, and that kind of thing.

BH: Right, and to be clear, this does not explain everything. To be clear that this is still hotly contested literature, but this is consistent with a lot of the other evidence we have, of, um, of just what explains trustworthy behavior. Right? This idea that, you know, you're being watched constantly. There's a lotta experimental evidence that, like, if I think I'm being watched, I will behave in a more trustworthy way. There's evidence that if I believe that there is, like, a, you know, a H-Heaven or Hell, or afterlife where I might be punished, um, that also increases trustworthy behavior. And so, yeah, I think there's a lot-lotta evidence here that a main reason that religion's been so important in human life is that it promotes trustworthy behavior and cooperation.

CG: Although, again, religion also leads to a lot of trustworthy behavior and cooperation between people of the same religion. But it can also, and it has throughout history, uh, led to a lotta strife between people of different religions, as well.

BH: Exactly. The same institutions that help promote cooperation, are also institutions that help lead to exclusion. Right? One of the key factors, uh, that religion uses is the threat of excommunication. That, "I am going to be more trustworthy, because if I don't, I get kicked out of this group." But that also means I tend to treat people not in my group more harshly. Right? I don't trust those people, that I use religion as a marker for who I trust, but also as, you know, who to distrust. If you're not one of us, then you're one of them. That in-group, out-group effect is really powerful, and it's great for promoting cooperation with people in your in-group, but it... at the expense of people in the out-group.

CG: It's also interesting because that sort of dynamic of expanding the circle of people you trust, so the circle of trust... We've all got a little bit of a Robert De Niro in the movie, *Meet the Parents*, in us. Right? Like, being in the circle of trust. And it's hard for us to define that circle of trust, and so you describe these institutions that people have developed through the ages, to enable us to expand that circle of trust from just, like, our initial 150 people. Right? To deal with anonymity. Religion is one of them, the rule of law is another. The markets-based economy is yet another. But all of them have that similar property of, you find people who you can trust, but almost by definition that means that you're excluding the people that you don't trust, who don't show you that similar marker.

And so, it's like, the challenge that will probably always be a part of humanity, for as long as we are recognizably human beings. You know? Before we transition into whatever else we're gonna become over time. Right? Uh, half machine, half human, whatever. The challenge that'll probably always be there is how to expand the group

of people we can trust, without sort of defining the out-group as, like, this huge threat, or these people to be despised, or anything like that. It's tricky.

BH: There's a trope that we need an alien invasion to bring humanity together.

But, I mean, there's even evidence that 2020 was actually a great year for trust. Right? That, at least in the short term, COVID actually brought people together in a lot of these trust surveys. Um, of course there's lots of examples of distrust and discord in 2020, but at least in the surveys, in the, in the survey measures that we've been tracking, and, by Pew, and Gallup, and Edelman, that basically trust in media, trust in institutions, trust in government, all went up in 2020. So, that external threat can still bin-bring us together in the short run.

CG: What about 2021? 'Cause that was a year in which there was a lot of distrust, for example, in medicine, a lot of anti-vaxxers. There was al-already some of this in the year 2020 as well, but the vaccines were finally developed by 2021, and that remains a struggle. And a lot of it is based on a lack of trust, and that lack of trust seems to be based a lot on identity. You know? People who define themselves as being anti-vax because they're part of a specific political group or because they define themselves as in opposition to the elites or to politicians, or something like that.

BH: Yeah, I conceived of this book as a s- as a, as an optimistic tale about the long sweep of human history, and I was excited to tell, like, a positive message about trust, because there's so much negative stuff in the world right now. Um, and, you know, I hit a wrinkle in my plan. Because the data shows that there's been a reversal over the past 50 years. Not in everything, I still think that we actually trust each other in new ways that we couldn't even fathom 10 or 20 years ago. Right? Like, I, I'm old enough to remember when eBay seemed like a crazy thing, where you would send money to a stranger online, and they would send you things back. And now we have, like, Uber and Airbnb, where we let strangers live in our house, and strangers get into our car. Um, and that, I think, is amazing. But wh-what's missing is that over the past 50 years there has been a decline in trust in some areas, notably trust in government, trust in medicine, trust in education, even, um, trust in the media.

CG: Yeah.

BH: And that's something I'm worried about.

CG: Yeah, that's a great point about how, let's say, 20 years ago... I think Craig'slist already existed 20 years ago, but there was like, it was like a running joke where somebody would say, "Hey, I need a place to stay," or, "I wanna rent out my room." And it's like, "Well, just try on Craig's List." And it's like, "What are you, nuts?" Like, "I'll... Somebody'll come over and then murder me and just take my whole apartment." Right? And now, it's like something we don't really think about because we have platforms that enable the kind of trust that just couldn't be enabled before. Partly because the technology just didn't exist yet, and maybe partly because not

enough people had tried it yet. You needed a lot of people to try it, and then to say, "Hey, I had this great experience." And then that gets passed on my word of mouth, and on the internet, which enables the kind of information flow that's helpful for that kind of trust.

BH: And you might think this is all enforced by contracts and the rule of law, but a great example that shows it's not just that is this Silk Road website. Right? So this is a website that people used to go and buy and sell illegal drugs. And if you think how crazy that is, that people-

CG: Using cryptocurrency.

BH: Using cryptocurrency on the Dark web, right? But people were just sending money to drug dealers. And they trusted them to send m- to send drugs back, unadulterated, real drugs. And it worked, right, it was a billion dollar website for a while.

CG: It was illegal, but as a market, it absolutely worked. It was efficient, it was not quite frictionless, but it removed some of the friction, certainly in a marketplace like illegal drugs, where there were a ton of frictions in the past. And it actually worked as a market. So I wanna be clear, I'm not, like, endorsing that somebody set up another Dark Road, or anything like that, I'm just saying, as a markets achievement, it's kind of impressive, to be honest with you.

BH: Yeah, something about the power of trust. Right? And these trust technology that we just never had before.

CG: One last question about the inherent nature of trust before we talk about some of the economics, there was a book a few years ago, written by a psychologist named Maria Konnikova, that I love, called *The Confidence Game*, it was all about con artists. And, one of the points she made is that the ability to trust other people is absolutely necessary, not just for society to function, but for all of us to live a good, happy life. We have to be able to trust, we can't live our lives isolated in our own paranoia, that would be awful. And, the kind of trust that you need to live a good, happy life, also is what leaves you vulnerable to the people who are willing to exploit that trust. And they are out there. And we have institutions that try to defend us against them, but they're out there. And so, there, there seems to be this sort of impossible to eradicate, again, tension between trust and the fact that we are opening ourselves up to nefarious people, unscrupulous people, con artists, and other such characters.

BH: And I wouldn't want to eliminate that trust from humanity. Right? I think it's so essential. Um, my kids are a little older now, but when I was writing the book they were, like, little babies, one or two years old. And, you know, for any new parent, they'll tell you that, like, you know, being a parent's hard. Right? There's this whole,

um, happiness literature, um, by, you know, Anne Case and Angus Deaton, I think you've had on your show before.

CG: Yep.

BH: Um, and they find that, like... One thing they find is that having a kid, your happiness declines and it stays down for about 18 years before it pops back up again. Um, and those first years are the worst, and what makes those years more tolerable is when your kids laugh. Right? Like, I think something that's pretty amazing is that these little kids, these babies, right, they're born not knowing how to walk, which is actually strange for mammals. Right? Most mammals are born knowing how to walk. But pretty quickly they learn how to laugh and smile, and, you know, much to the delight of parents. Um, and the literature shows that, like, the reason why they laugh and smile so early is that laughter builds trust. Right? I think one example I like is that, um, the game of peekaboo. Um, so basically, the game of peekaboo works because mom or dad covers their face and the baby forgets they're there, and you basically, you know, un- when you uncover your hands, wow, they're surprised and they laugh. Their expectations were shattered, and that makes them laugh.

And so, when two humans find themselves laughing at the same thing, that means they had the same expectations, they had the same, you know, norms, norms, in a way, and that makes them more trustworthy. So we have these, sort of, evolutionarily provided tools that imp- to impel us toward trust, um, and yeah, it's sad when con artists take advantage of that.

CG: By the way, the use of profanity or saying something that might be considered mildly controversial elsewhere, that you say in private to somebody else, is an act of demonstrating vulnerability and saying, "Hey, I'm trusting you here. So, will you act in a way that's trustworthy, and trust me back?"

BH: Exactly. Right? I think the same kind of literature on laughter shows that profanity works in much the same way, that people that, you know, are willing to violate social norms, um, you know, in a group, they're putting themselves at risk, and that risk helps create trust between them.

CG: Well, I think that's fucking terrific.

Let's talk about trust and economics in a little bit more depth now. We-we've touched on some topics already, but I wanna look at a quote that you surface in your book, it comes from the legendary economist Kenneth Arrow, and here's what he writes about trust. Quote, "If you have to buy it, you already have some doubts about what you have bought," unquote. Here's what's fascinating to me about this, trust itself can be a deeply necessary lubricant for the economy and for society itself, but trust also, itself, cannot be bought. Right? It does not exist in that kind of commercial space, even though it makes the commercial space possible. It makes it possible to make,

you know, commerce efficient and to work well. But trust itself is not actually something that you can buy and sell.

BH: Right. There's this tension there between human relationships and money. Um, there's an economist, Rachel Kranton, that looked at the tension between gift economies and market economies. I think, you know, we take it for granted that the economy is always based on, like, buying and selling. But there was time before we used money. And those economies, those hunter/gatherer economies, and those, um, subsistence farming economies, they were based on gifts. Right? Imagine you were a hunter and you just took down a wildebeest, and you just couldn't eat it all right away and you had no refrigerator, you just basically gift it to somebody. And you had to gift it... And ideally you gift it to somebody who's trustworthy, who would return that favor back. Right? And that's, that's basically deeply embedded in, in our society. It's deeply embedded, embedded in our culture. Um, and it's at odds with this market economy based on money, based on transactions. And I think Ken Arrow highlighted that tension really well.

CG: Yeah, and speaking of money, um, I wanna now talk about money and trust. And some of this is pretty obvious, pretty intuitive, that people need to trust that if they are given money in exchange for something they sold, that they can use that money to then buy other things. And money has to have certain properties to maintain that trust. But it's not enough that the money itself also be trustworthy. For the money to be trustworthy, the institutions that oversee the money, the money supply, central bankers, they also have to be trustworthy. People also have to be willing to trust those institutions. And, that's where things can get a little bit more complicated, because now, of course, you're introducing a human element to it.

BH: Right? There are so many levels of trust in money. I think you could just sorta see it. Right? Since the 1800s, every US dollar has the words "In God We Trust," on there. And I think... I mean, that might just be coincidence, but I think some of the words we use to talk about money, right, like the full faith and credit of the, you know, US government backing our money supply. These are all trust words. Right? Credit comes from a Latin word meaning, to trust. And so, it's all there. Um, and I think the origins of money were, in a way, just to keep track of favors. Economists love talking about the island of Yap, where they have these giant stone discs that they roll around to people's houses to indicate that you owe somebody a favor. And of course, money is basically doing the same thing. Right? If I hand you some cash, I'm effectively saying that I owe you a favor, and you can use that cash to purchase a favor from somebody else.

And so, just the whole nature of money is basically just a tangible measure of who owes who a favor. So, one key thing to make money work is that it has to be in limited supply. Right? I think in-

CG: Scarcity.

BH: Scarcity, exactly. And, you know, gold, historically was a, was a great tool to use as money because it was sorta scarce. But people have used things like salt, when salt was scarce. People have th- used things like shells when shells are scarce. Today we use, we use paper, which is decidedly not scarce. And it's only scarce because of the self control of the people that print the paper. Right? So, in the past, that paper was always backed by gold or p- backed by silver, or backed by some tangible object. But today, the US dollar, and most currencies actually, are not backed by anything. Um, and we just trust that the people who print the paper will not print too much. Right? Because if you print too much paper, then the money becomes worthless.

CG: Yeah, and this effectively requires trust in two different institutions, or even meta-institutions, I guess. One is the US government, which has the power to tax people, which basically means taking their money away, but it also has the power to spend money. Okay? It can, it can spend money on projects, or it can send money to people on, you know, based on whatever policies they pass. It can choose ways to spend money in the economy. And then of course there is the central bank, which attempts to essentially oversee the overall supply of money by using a bunch of different techniques like interest rates, like this other thing called quantitative easing, which we won't get into very much. Right?

But, effectively, what people are trusting the government and the central bank to do is to oversee the appropriate amount of scarcity of money in the economy. And the appropriate amount is roughly what is necessary to correspond to the amount of economic growth in the economy. In other words, it shouldn't outpace economic growth by too much, because then you get too much inflation. But it also shouldn't lag behind because deflation can also create a number of problems in the economy. So, you want a modest amount of inflation in the economy, and people trust the government and the central bank, in some combination, to get it right. You might call this fiscal and monetary policy. Right?

Um, here's what's really fascinating to me about this, especially as it pertains to the central bank, you cited some research by economists Jean Tirole and Eric Maskin, which found that there are certain scenarios where it's better for elected politicians to make decisions. Certain scenarios where it's better to just put something to a vote by people, and then some scenarios where it's appropriate to let unelected officials make decisions. And those unelected officials are essentially overseen by the elected officials. And, what they found was that when a problem is highly technical and requires a lotta specialized knowledge, and when the feedback about the decisions takes a while to arrive. So, whether or not those decisions were good can't be determined right away, we need to wait to get the feedback. When those things are satisfied, it's good to have unelected officials working on the problem because you don't want there to be short-term volatile swings made by, let's say, elected officials who are just trying to win the next election. Right?

And, this is fascinating to me because I immediately thought of the Fed. This is an institution that is trying to solve extremely technical problems. And where the

feedback of whether or not they made a good decision takes a while to arrive. Right? There's even a phrase in monetary economics that monetary policy works with long and variable lags, which basically means it takes a while to figure out if the decision they make today, you know, worked. We have to wait, like, you know, months, to know that. And so, it seems like the Fed satisfies those requirements almost perfectly. And, I don't know, sometimes people talk about how the Fed is too independent. Right? They make the same case, by the way, about the Supreme Court, also unelected officials. Okay? But I read this and I was like, "Okay, well this is a pretty strong argument in defense of an independent Fed."

BH: I took a class on democracy in grad school, and the thing that sticks with me the most from that class is that one way to think of the strength of democracy is not what you vote on, but what you don't vote on. Right? That, you know, what institutions do we have in place that actually we... are not directly accountable to the people. Because in some ways that reflects a measure of how much you trust the system, that you don't even vote on them. And I think the Supreme Court is a great example, where you have lifetime appointed justices, on the Federal Reserve Board the people are appointed for 14-year terms, which is way beyond the length of a, of a presidential term. So, it's taking some of the power away from the voters to put those people in place, because you don't want them pandering to what voter whims.

And we see this, actually, in lots of areas of the economy... or lots of areas of government. Right? So, judges are one, the Federal Reserve is another, bureaucrats are another. A surprising amount of government is sort of decided by bureaucratic functionaries at lower level of government. And to some extent, that makes sense. Of course there are costs to doing this. Right? When you take accountability away, mistakes are made. People, you know, make the wrong choices. It's good to have democratic accountability. And so, again, the strength of a democratic system is how do we balance these two things? The part that, you know, sort of is responsive to democratic voters, and the part that's actually, maybe doing the right thing, despite what voters may want.

CG: Yeah. Also part of the research, by the way, is that these unelected officials, even where it is appropriate that unelected officials be doing something, they should not be given too much discretion. And in the case of the Fed, they have a mandate that says they're supposed to watch out for employment in the economy, and inflation in the economy, and they're supposed to balance those things out when there is a trade off. They're not supposed to go too far outside of that mandate because then people can say, "You're doing something that you're unaccountable for, you're an unelected official." And the blow back itself can threaten the independence of the Fed, which is appropriate, according to this research, I think. Right? But, if they go too far outside of the mandate... And people often do call for them to go outside of their mandate, I think maybe without realizing that there could be a big cost to doing so.

BH: There was a lot of discussion, should the Federal Reserve worry about climate change, recently? And, I think it's really great that we should worry about climate

change, but whether you should give that power to an unelected official, that's a very different question. And I think, you know, yeah, Maskin and Tirole are exactly right for pointing out that we should limit their discretion.

CG: Yeah, yeah. One other point about this is that I can see why, if for example, under these circumstances it makes sense to give the Fed power to do monetary policy, even though they're unelected. Because then you're not, sort of, letting this power reside in people who are making short-term political judgments on whether they should do it. The Fed has the sort of insulation to make this based on what's right for the economy in the longer term. That also enhances the credibility of Congress.

And you brought up the example of, like, how this worked hundreds of years ago, when Parliament started taking away the power to tax and spend from the monarchs. Not all of it, but some of it. And how this actually would seem like it would decrease in monarchs, or actually it would be the result of declining trust in monarchs, but actually it served to enhance trust in monarchs because people would say, "Well, the monarchs don't have the ability now to do the things that we were worried they were gonna do, to be selfish and to be corrupt, and all that stuff. That stuff is now part of Parliament." And similarly, giving this power to the Fed also can enhance trust in Congress because people can see that, like, Congress isn't gonna make decisions on the economy based only on the short term, and they're not gonna, like, lead to spiking inflation, or whatever. So, that enhances trust in Congress to do other things, because that power has been taken away from them. Which I thought was just an interesting kind of thing to point out.

BH: Yeah, the idea in political science is tying the king's hand, right? This idea that if the king has too much discretion, they can't be trusted to borrow money because they're never gonna pay it back. And so, if you have a strong Parliament, or if you have a strong Congress that is creating rules, credible rules that ties the king's behavior, that actually gives the king more power to borrow more money. And in that case, w-win more wars.

CG: Uh, brands, the importance of brands. You also point out something here that I hadn't really given much thought to. So, the thing that people usually say about brands is that they make you feel safe no matter where you buy the product. So let's say there's a McDonald's in Tampa Florida, where I'm from. Well, the McDonald's that you go to in London or in Hong Kong is gonna serve you basically the same stuff, with some variations. But you see the brand, you see the golden arches, and you go in, you're like, "Great, I basically know what I'm gonna get." That's what people mostly point out.

You make the point though, that actually more and more, brands serve as signaling for those of us who buy products, that we are signaling to other people that we are part of this group. And, we're looking for other people who basically do the same thing, and so, therefore, we can trust them. Again, based on consumption behavior, which is a long sort of history of, like, being studied as something like this, but you

essentially point out that this is changing now. It's becoming more intensified. And, and I think it's becoming more atomized because there's so much variety now in the things that you can buy, and use to signal.

BH: Exactly, right? So, the classic idea of brands is a way to signal the trustworthiness of the companies themselves, and it's a way to sort of take advantage of this, like, Dunbar Number effect, that we sort of can trust 150 people, and translate that into a brand. Right? So, one of those 150 could be McDonald's, and we could apply that same reputation that was previously applied to a single person, to the thousands of people that work at McDonald's. And that was really effective for a long time. But my own personal interest is, yeah, how do we use brands... the brands we buy, to signal our trustworthiness to other people around us. Right? That, you know, how does the shirt I wear, or the sneakers I wear, or the music I listen to, even, communicate things about my identity to others? And in some of my work with Jonah Berger, um, we basically looked at just how that might work. Um, how, I think, as our identities become more and more complicated, and more and more, maybe atomized, across society, we've relied more on the brands we wear to help identify our tribe to other people.

CG: It's interesting how the signals can change over time for the same brand, too. So, for example, if, in the past, you bought something made by Apple, well, their whole branding campaign used to be, "Here's to the rebels. Here's to the misfits." These are the creative types, who weren't buying, I don't know, Windows '95, or whatever, they were buying Macs. And, nowadays, you can't possibly look at somebody who has a Mac, or who has an iPhone, and say, "Oh, that's the rebellious person. That is, like, the underdog." I mean, nothing could be more overdog than buying Apple.

Now, what it signals is something different. Essentially it signals that, like, you're a person who has, like, a good white-collar job, or something, so you can afford these relatively expensive products. Right? Like, that is so different from what it used to signal, but it's the same brand. And this sort of thing can change. Now, if you wanna signal that you're an underdog, or something, you have to find something sort of obscure. The good news is that there's more and more obscure stuff out there. Right? The bad news, though, is that that might make it harder to signal anything at all, because you have to, like, look kinda far and wide if you buy something truly obscure, by definition, to find somebody else who also bought that same thing.

BH: There's a tension between being someone different and just being weird, right?

CG: Yeah.

BH: I think there's something we observed when starting this research, that, when people are weird, they're often weird in exactly the same way, right?

That you have sort of like these goth communities, at least when we were in high school, and they were all weird, but they all were weird in exactly the same way, and

that's because you need people... other people to understand what that consumption is signaling.

CG: Yeah. I wanna close with a discussion of inequality and trust. And, specifically, you write about how there's a trade off between, like, rectifying some types of inequality versus maintaining the old order. And, that when you ask people, a lotta times they'll say, like, they prefer maintaining order rather than... even if they say they're in favor of more equality, reducing the inequalities that do exist. Which, was again, a little bit of a bummer, right, of a finding, right? But, I think if you, if you go back in time, you sorta see that it has its roots in history because revolutions can be exhausting. And also, if you're a member of a hunter/gatherer tribe, well, a revolution just means that you're in a constant state of chaos. And so there's this, again, this interesting tension, we keep bringing this up, uh, in terms of inequality, trust, and maintaining order. So, wh-what do we know about these sorts of trade offs?

BH: Yeah, that's based on some research I've done with, uh, Xinyue Zhou, Stephan Meier, and Wenwen Xie, um, published in *Nature Human Behavior*, where we were struck by this puzzle of, why does in-inequality persist so much? Right? I think in experiment after experiment we find that people dislike inequality, that we're always happier with more equal distributions of wealth, rather than unequal distributions of wealth, at least in these a- in these laboratory, experimental settings. And, one conclusion we came up with is, well, based in part on these quotes, right? So we, there's these, there's these quotes from Confucius, about how we shouldn't disrupt the order of society, and you have Plato saying the same thing, that the worst thing you could do is disrupt the order of society. And so we said, "Can we test this in a laboratory?"

And so, what we did was, in the laboratory we h- we told people that there's two other people out there, two other students, you know, from the same school, and one of them is gonna be given four dollars, and then one of them's gonna be given one dollar. And, would you wanna, you know, redistribute money from the \$4 person to the \$1 person? If you're only passing \$1 over, most people say yes. If you pass... the \$4 person's rich, the \$1 person's poor, you pass \$1 over, and there's greater equality, great. However, if you, if we change the question, and say, would you distribute \$2 from the richer to the poorer, now the majority of people say no. The reason we found that people said no to that is because when, when you distribute \$2 from four to one, the poorer person now has \$3 and the richer person only has \$2, so now you've sorta switched the order, the hierarchy of people in society, and you've made the richer person poorer and the poorer person rich. And something intrinsic in us dislikes that.

So we looked around at, like, what might explain that. And one thing we found from the biology literature is that, in the animal kingdom, you often see the animals establish pecking orders. Right? So, the term pecking order comes from chickens, where they establish a hierarchy between who's the alpha chicken and who's the lower-ranked chickens. And once that hierarchy is established, the chickens actually fight to preserve that hierarchy, because they know that if they fight too much to, for

number one, that conflict is gonna make them sorta less fit overall to survive. And so, we think that the same thing exists for human hierarchies, where basically we are... there's something int-intrinsic in us. And we show that this actually develops in children between the age of seven and eight, sort of develops, and want us to preserve the existing order in society.

CG: Yeah, you could see how this could be troubling, though, because if you want a society that has a lot of social mobility, so people born into lower income families being able to work hard, and like, you know, earn a lotta money in their own lifetime. Or, if you look at existing racial and ethnic inequalities as well, you know, well, if the people who right now, especially, have, like, the higher position, like, the more privileged position, the higher-earning position, if they're resistant to the kind of change that would alter the pecking order, then it's gonna lead to a sort of constant entrenchment and retrenchment of the pecking order that exists. Even though that pecking order is extremely unfair, it's unjust, and it leads to a lot of the kinds of inequities that exist now. And so it's, it's a troubling finding, I thought.

BH: I think a more optimistic take is that you could get more people to accept transfers, and more accept equal distributions, so long as you ensure that you don't disrupt that order. Right? That a- people are actually perfectly happy with equal distributions. Right? So, if that \$4 person and the \$1 person became \$2.50 each, people love that. It's only when the order is reversed that cause trouble. And so, the idea is here, if we could sort of create redi-redistribution policies that sort of, you know, assuage people's fear that the social order would be upset, but still created equality, I think people could get behind such a policy.

CG: So, in other words, make sure that you emphasize that you're pushing for equality, not reversal, essentially?

BH: It's the reversal that people are afraid of, at least in our study.

CG: I see. Okay. Interesting. Uh, last question, Ben, did you find, as you did the research for this book and started compiling it all together in one place and looking at other people's research, that you yourself changed your own opinion of trust, or maybe even became a more trusting or trustworthy person?

BH: That's a good question. That's easier than the usual question I get, because my research is mostly about apologies, and people ask, do I apologize more.

But I think I've definitely become more cognizant of trust all around me. Right? And more cognizant of the way trust is both, you know, increasing and decreasing in our everyday lives. The fact that, you know, again, when again to Uber, I... It's amazing that I trust this person to take me where I wanna go. But also, you know, when I see distrust in the media, or distrust in medicine, I am just more highly conscious of what's going on.

CG: And, do you apologize more?

BH: I probably do apologize more.

CG: Okay.

BH: My wife has learned to, like, you know, and- to be more skeptical...

CG: Of the apologies, right. Now you're the expert on them, right. It's like, "Does he mean it, or is he just, like, basing this on his research to try to get out of something?" I get it. Uh, Ben Ho, thank you so much for this chat.

BH: Thank you so much. This was a lotta fun.

CG: And that's our show for today. You can find links to Ben's book and to some of the research that we cited in today's show in the show notes for this episode.

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