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Trust and Integration

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Trust plays an important role in the integration of economies, but it is a factor that is difficult to quantify. When transactions between buyers and sellers are conducted at great distances, preventing individuals from conducting their business face-to-face, there must be trust in the identity of each party (that they are who they say they are), in the information shared (the condition and functioning of the goods transacted or the property purchased), and in the medium of exchange (cash, credit). Integration multiplies the number and frequency of transactions between people in the communities that are integrating, and if integration is successful, trust between individuals in the two communities will grow; if trust does not build between the integrating communities, then integration will fail.

How can the trust levels among Americans, Canadians, and Mexicans be evaluated? What would this tell us about the future course of integration among the economies of Canada, the United States, and Mexico?

In a lecture given a few years before his death, Nobel prize-winner Herbert Simon (2000) noted that there are two important structures created by humanity: organizations, and markets. The purpose of organizations, he argued, was to permit the specialization of individuals to perform tasks that contributed to a greater goal. Organization allows people to produce more than the same individuals could do working independently and also allows people to capitalize on the skills and talents of individuals within the group. Simon saw organization in families, companies, religious orders, and bureaucracies as essentially variations on the same principle. Within organizations, there tends to emerge a hierarchy, and this structure of authority and decisionmaking within the organization permits individuals to trust the information passing through the organization, which is necessary for the organization to function. A bank teller can permit a withdrawal from a customers' account based on computer records, and an assembly line worker can expect the parts that arrive at his or her work station to fit the rest of the vehicle as it arrives on the line. If trust within an organization is weakened by incompetence or corruption, the organization will start to fail—losing first its efficiency and eventually the confidence of its members.

Connecting the myriad organizations in Simon's model are markets. Markets are mechanisms of exchange that rely on information and, therefore, work best when there is a high degree of trust in the accuracy and integrity of that information. The essential bit of information conveyed through markets is price. The price of a good or service reduces all of the complexity involved in the production of a good or service or even data into a monetary value. The cost of labor, marketing, transportation, and physical inputs across often complex supply chains is summarized in the price. The market will test the accuracy of price through competition, and in the process, over- and under-estimates of value will tend to be corrected. Price allows an investor to compare the value of a property in Hong Kong with another in Manhattan, even though some intangible aspects of value are impossible to include in such a rough summary. Intangible value, such as sentimental value, relates to the variation in individual tastes and preferences. Markets therefore offer more information than price to entice buyers: information such as images from new illustrations offered in a folio edition of Shakespeare's plays, or the rarity of an object no longer in production. eBay shoppers and viewers of the television program *Antiques Roadshow* are familiar with the intangible aspects of value that may not be captured in the information expressed by price alone.

Simon's model of a world containing only organizations and markets is a simplification, of course. But it does capture something basic about the way in which economic activity develops in patterns. The key to both organizations and markets is trust.

Francis Fukuyama (1995, 26) has argued that the hyper-individualism of American society was eroding trust among Americans. He noted:

> "[W]hile contract and self-interest are important sources of association, the most effective organizations are based on communities of shared ethical values. These communities do not require extensive contract or legal regulation of their relations because prior moral consensus gives members of the groups a basis of mutual trust."

Fukuyama focuses on organizations in this excerpt, but a similar observation could be made with regard to markets. Where individuals share ethical values, trust is easier to build. Markets that connect people with shared values, such as honesty, will develop with richer exchanges and require less regulation by external authorities.

This partly explains the integration that occurred between the United States and Canada prior to the negotiation of formal agreements to facilitate that integration. Both societies shared language, as well as a set of Anglo-Saxon attitudes and beliefs about the market, that made doing business easier. Engineers and clergymen, professors and business executives, bankers and farmers, all shared vocabulary and circumstance, but more than that, they shared ethical frameworks to such an extent that they could communicate quickly and efficiently across distances and the border.

Many of the agreements fostering integration between the United States and Canada merely formalized the established practice of private individuals. The Auto Pact between the United States and Canada removed key barriers to the integration of automotive manufacturing between the two countries, but the idea itself came from participants in the auto sector who had developed extensive ties through cross-ownership and shared engineering and component supply chains. Formalizing such practices is critical because it makes them more transparent and generalizes the benefits of private understanding between a self-selected set of individuals to others who qualify for similar treatment. Transparency of rules reduces barriers to entry into markets by new organizations and increases trust in markets.

Members of the same profession in different countries share to a significant degree a set of ethical values about the right and proper way to conduct the activity of the profession. Sometimes, this set of values derives from a professional code, such as the Hippocratic Oath professed by medical professionals, or the Ten Commandments that guide some religious professionals. At other times, shared values may develop from similar experiences, as with soldiers or law enforcement professionals. Farmers share a similar outlook that comes from an appreciation of the effects of the weather and swings in commodity prices on their well-being. Computer programmers who have endured the dot-com boom and bust can relate to one another and often see their industry in similar ways.

The shared values among members of these professions originate in shared knowledge, whether this knowledge comes from common education or training, or from experience. Academics refer to groups of people who share a particular set of knowledge claims as an *epistemic* community. Epistemology is the study of knowledge, how it is generated and spread, shared, and contested. For scholars, epistemic communities are those organized around a shared understanding or shared knowledge, and they are important because that shared understanding allows for greater trust with the community than is possible with individuals outside the community.

Is Jones a good doctor? Medical professionals do not answer this question by looking only at the number of Jones's patients cured or dead; instead, they will examine Jones's conduct in light of the standards of the profession. Should I do business with Acme Corporation? The answer to this complex question can be found by looking at others in my sector and whether they do business with Acme, or by checking with the local equivalent of the Better Business Bureau. Trust is established in these examples by reference to the shared knowledge of our epistemic community.

North American integration has proceeded to a significant extent through the trust generated by epistemic communities that have emerged across our borders. The carriage builders and machinists in the United States, Canada, and Mexico spoke a common language of engineering and thus were able to work together to establish an automotive manufacturing industry that became more and more North American over time. The 1909 Boundary Waters Treaty between Canada and the United States established an International Joint Commission to establish a shared set of scientific facts and recommend action to resolve environmental disputes along the border; in practice, its recommendations have been less important to policymakers than its work to establish a scientific consensus on the nature of problems. After the September 11, 2001, attacks on the United States, government officials in Canada were frustrated by the difficulty of convincing their U.S. counterparts that the terrorist threat in Canada was minimal. This was partly due to the fact that law enforcement officers in Canada conveyed a different message to U.S. law enforcement officers. Cops trust cops, and until Canada enacted major reforms of its immigration and criminal codes, and beefed up resources for its law enforcement personnel, official pronouncements were unconvincing.

In this Information Age, we often look for purported facts to be confirmed by at least a second source. As Ronald Reagan famously said, “Trust, but verify.” Governments in North America must convince the members of relevant transnational epistemic communities in order to validate their claims in the eyes of the influential public.

Robert Putnam (2000) has developed a rich conceptual understanding of the way in which people relate to one another in modern American society. For Putnam, trust is translated into social capital that can, like other forms of capital, be invested in various ways. Organizations, from community groups to political parties to multinational corporations generate social capital through the thousands of transactions among members—transactions that are significant not just in terms of quantity but also in terms of their quality, since they are often rich in shared information. These transactions within organizations socialize knowledge among participants in the organization, creating a shared-knowledge basis for an epistemic community. This is important because it expands the notion of an epistemic community beyond professions and explains how individuals can generate trust along other lines, such as creating a nongovernmental organization to advocate for environmental protections.

Alexis de Tocqueville (1835) observed that a distinguishing characteristic of the United States was the ease with which individuals came together to advance a common purpose. This kind of civic mindedness and cooperation was distinct from European societies where class and other distinctions led many to limit their associations to pre-established circles of trust, such as family, clan, region, or nationality. De Tocqueville wrote that, in the United States, “The art of association then becomes… the mother of action, studied and applied by all.”

Fukuyama and Putnam share a concern that the hyper-individualism prevalent in the United States following the Cold War was eroding trust and the formation of social capital weakening the basis of American prosperity and community. But what is the progress of social capital formation and trust building between Americans, Mexicans, and Canadians today?

In his essay “Mexican Masks,” published in the famous collection *The Labyrinth of Solitude* (1961) Octavio Paz describes a low level of trust as characteristic of many Mexicans, who “pass through life like a man who has been flayed; everything can hurt him, including words and the suspicion of words.” Seymour Martin Lipset (1990) described Canadians as more trusting and communally oriented than Americans, but also more risk averse. Taken together with the concerns of Fukuyama and Putnam, there are reasons to question the future progress of integration between the three North American societies, each with its own problems generating trust.

Yet trade and investment transactions, public-sector cooperation in protecting citizens against terrorist attacks that are inspired outside North America, and the vast array of communications among citizens in the three countries—

particularly students now prone to develop friendships and maintain contacts via the Internet—generate shared knowledge, experiences, and customs that are needed to form new, transnational epistemic communities. Understanding the dynamics of the art of association may eventually prove to be just as important as the scientific approach to studying integration through measurements of trade and investment flows. It would certainly be a mistake to ignore the role of trust in integrating economies simply because it is difficult to quantify.

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