



## Honesty and Trust

BY WALTER E. WILLIAMS

Several decades ago I used to enjoy an occasional lunch with the late Professor G. Warren Nutter, a distinguished economist who taught at the University of Virginia. Professor Nutter had considerable expertise in comparative economic systems, particularly that of the former Soviet Union. While he had a deep understanding of economic theory, he always stressed that markets do not operate within a vacuum and we gain a greater understanding of human behavior if we pay attention to the role of institutions and other non-market forces.

At one of our luncheons, just out of the clear blue sky, and maybe just to tease me into an argument, Professor Nutter said that if we had to stop to count our change each time we purchased something, economic activity would grind to a halt. That's a bit of exaggeration, but Professor Nutter was making the point that the institutions of trust and honesty are vital to human well-being. Honesty and trust are not simply matters of character and morality; they're crucial for efficient human interaction and a smoothly working economy.

To gain an appreciation for the significance of honesty and trust, consider what our day-to-day life would be if we couldn't trust anyone. We purchase a bottle of a hundred folic-acid tablets from our drugstore. How many of us bother to count the tablets to ensure that we in fact received a hundred? We drive into a gasoline station and the meter says that we put ten gallons of gasoline into our fuel tank. When was the last time anyone of us bothered to verify whether in fact we received ten gallons instead of nine and a half? We paid seven dollars for a one-pound package of steak.

How many of us bother to verify that it was in fact one pound instead of three-quarters or seventh-eighths of a pound?

Then there's "Send me 100 diskettes and bill me." Or you call your broker telling him to purchase 50 shares of AT&T at the market price and you'll settle within seven days. A salesman says, "If you're not satisfied with your order, bring it back and your money will be refunded." Or, "Mow my lawn and I'll pay you."

In literally millions upon millions of transactions like these, we simply trust each other.

Imagine the costs and inconvenience we'd suffer if people were generally dishonest and we couldn't trust anyone. We would have to lug around measuring instruments to ensure, for example, that it was ten gallons of gas and one pound of steak we purchased. We'd have to bear the costly burden of writing contracts instead of relying on a buyer's or seller's word, and bear the monitoring expense to ensure compliance in the simplest of transactions. It's safe to say that whatever undermines trust

and confidence raises the costs of transactions and makes us worse off.

But generalized honesty and trust go further than that. I live in the Main Line suburbs of Philadelphia. FedEx, UPS, and other deliverymen leave packages containing valuable items on the doorstep if we're not home. A local supermarket leaves plants, fertilizer, and other home and garden items outdoors overnight with no one to guard them from theft. Entering the store, one sees loads of merchandise left unattended in the

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entryway. In neighborhoods where there's less honesty, leaving merchandise on doorsteps, outdoors overnight, and in the supermarket entryway would be equivalent to economic suicide. Delivery companies must bear the costs of making return trips or the customer has to make the pick-up. If the supermarket places goods outside, it must bear the costs of retrieving the items at the close of business—that's if it can risk having merchandise outdoors in the first place.

Generalized honesty affects stores like supermarkets in another way that often goes unappreciated. One of the goals of a supermarket manager is to maximize the rate of merchandise turnover per square foot of leased space. When theft is relatively low, the manager can use outdoor and entryway footage, that is, all the space he pays for, thereby raising his profit potential. That opportunity is denied in localities where there's less honesty.

The fact that honesty and trust are vital should make us re-think the treatment of the dishonest and untrustworthy. Dishonest people impose losses that go beyond those suffered by their direct victims. If packages are stolen from people's doorsteps, the rest of us incur costs when delivery companies stop leaving packages unless someone is home. If people rob bus operators and taxi drivers, all of us are required to have exact change or small bills.

Considering the large economic effects of dishonesty and of not being able to trust one another, we should show little tolerance for violators. Fortunately, we live in a society where we can generally trust and accept the word of one another. That's the good news. The bad news is there's nowhere near the level of trust and honesty there was as recently as a half-century ago. 