Introduction

Riding with Strangers

Think about your first ride in a stranger's car. If your parents were like ours, we suspect you heard from them not to get into that panel van, even to see puppies or get candy. As you got older, you probably heard you shouldn't hitchhike either – it is too risky. Or, thinking of it another way, you can't trust a stranger to give you a ride from point A to point B. This is good advice and, if you followed it, it has kept you out of a lot of potential mischief. Trust cannot be assumed; it must be earned or created.

But then, at some point, perhaps, as it was for us, you took a ride with a stranger in a yellow cab on a visit to Manhattan. You entrusted your luggage to the driver and fell asleep while whisked from LaGuardia to Midtown. Why did you trust the driver not to steal from you, long haul you, overcharge you, or worse? The short answer: regulation. (This is hard for us to admit, since before we started this project we were inclined to think most regulation was not worth the cost. But, as you will see, we've come around to a new way of looking at the world – a way that we think acknowledges the important role played by government, without believing that this role is as essential going forward.)

You trusted the cab driver because of government regulation, in the form of a taxi commission, licensing requirements, insurance mandates, and so on, all expressed in the form of a generic package – the yellow color, the "taxi" sign on top, and the license under glass and in view from the back seat. Government gave you the trust you needed to get from point A to point B, enabled through rules and regulations, and this made your life better. You could get rides from strangers, as well as friends. You had more options, and options make you better off. It is options that create the opportunities for wealth and human flourishing.

Today, there is another option – a competitor for the government in the provision of the trust necessary to ride with strangers: Uber. "Uber," as we think of it, doesn't drive you anywhere – instead, Uber built the platform that supplies the trust necessary for a stranger to drive you safely from A to B. In this sense, Uber isn't an alternative to *taxis* but to *taxi commissions*. Both Uber and the taxi commission are in the business of providing trust to consumers through regulation, among other things. Interestingly, as we show later, Uber in fact provides *more* regulation than the taxi commission. Thus, if we were able to calculate the amount of regulation in the domain of riding with strangers, it has probably gone up since Uber's emergence. Social welfare has gone up too. We have more choices; we have better service (from new competitors in the marketplace and the incentives they've created for incumbents); and the net results – more rides, lower prices, more opportunities for work, more efficient deployment of costly resources, fewer drunk-driving deaths, and so on – are impressive. Humans want to trust because it enables us to cooperate. Uber, like the taxi commission, provides that trust.

If you doubt the point about these services providing *more* regulation and *more* trust, consider one startup offering services in Chicago, and soon in other big cities. It is called GoNanny. The service is Uber for kids. GoNanny shuttles little overachievers to their soccer games or piano lessons, providing important driving options for busy parents. While older city kids might take public transportation, no sane parent would send their middle-schooler in a taxi or on the train these days. Most parents probably don't trust Uber enough either. Hence the creation of GoNanny to fill the trust void for this particular group of customers. GoNanny's website trumpets the safety of its approach: "Our GoNannies are rigorously vetted through our screening system GoNannySafe. This 22-point screening system, which surpasses that of top childcare and child transportation services, enables GoNanny to maintain its top priority: your child's safety." The provision of additional trust in the form of a private company increases opportunities for cooperation and thus enhances human wellbeing.

Both the government (here, the taxi commission) and Uber (and GoNanny) are "social technologies" – human-invented tools to create trust among suppliers and demanders of rides. Both are a way of resolving a coordination or collective-action problem. We all benefit from trust creation, but we cannot build sufficient trust on our own. How many of us have ridden with the same cab driver twice? How many of us have ever chosen one cab company over another based on our experience? We cannot create the trust we need alone. We have to work together. We have to team up to collectively develop ways of building trust. In the case of government, the mechanism of collective action is a political body designed to reflect individual preferences for trust, along with preferences about the service and features. In the case of Uber, the mechanism of collective action is an internet-based platform that enables individuals to aggregate their assessments of drivers and riders.

THE MARKET FOR TRUST

In the pages that follow, we expand on this idea of trust as a social technology or product that is supplied by competitors in what we call the "market for trust." Markets are the familiar way in which scarce goods and services are allocated. Markets match the demand for something and its supply. In the case of cucumbers or computers, the idea of a market is straightforward. People want delicious vegetables and tools to access the internet and do word processing; farmers and companies such as Apple oblige them by meeting these demands.

Trust is not something we typically think of as being demanded or supplied in this way, but the logic of the market is the same. As we discuss later, trust makes people better off in demonstrable ways, and trust is not something that can be self-produced. Accordingly, third parties – whether they be the government, eBay, or Uber – attempt to satisfy this demand by supplying the mechanisms or tools that enable trust to be achieved.

There are no explicit prices for trust, as there are for other things sold in markets. But the parties that supply trust charge for this service indirectly, whether it is in the form of taxes (for government suppliers) or fees (as in the case of eBay, Uber, and the like). Competition in this market is therefore less intense. Customers of primary products, such as trinkets or rides, do not see a list price for "trust," but rather shop for the underlying thing. As such, producers of trust have to bundle other aspects of their product with the trust component. When the government is a first mover in the trust business, displacing it can be difficult, given the government's monopoly on violence and coercion, as we consider later.

More generally, this discussion points to something unusual about the market for trust. In the market for trust, the government is both a regulator of the market and a supplier in the market. This is not the case in most other markets.[1] Governments don't produce cucumbers or computers. The government regulates cucumber producers and computer companies; however, in doing so, it does not run the risk of favoring itself. (It does run the risk of favoring those who favor it, of course, but that is always true of government action.) But, the government is, as we discuss later, the biggest supplier of trust today, as well as the regulator of other trust providers. To ensure an efficient market for the provision of trust, the government must not favor itself in the provision of trust without good reason. The government can, in effect, compel individuals to "purchase" trust from it through taxes and therefore it may naturally (but wrongly) favor itself at the expense of more efficient providers of trust.

The government monopoly on trust is beginning to crack. We are observing new suppliers of trust that have demonstrated they are more efficient at delivering the trust necessary to make transactions happen that, up to this point, have required government action. New suppliers – we hesitate to call them institutions because that concept may be increasingly passé – have begun to build platforms for trust that will continue to eat away at traditional institutions, and ultimately replace them.

[1] There are some markets where this is true. For instance, Todd Henderson and Anup Malani wrote about the "market for altruism," in which businesses, non-profits, and the government compete to offer individuals opportunities to help other people. See M. Todd Henderson & Anup Malani, "Corporate Philanthropy and the Market for Altruism," 109 Colum. L. Rev. 571 (2009).

THE THIRD AMERICAN REVOLUTION

The implications of our thesis go far beyond buying and selling trinkets on eBay or whether you take a taxi or an Uber to the airport. They extend to our oldest and most contentious debates about the role of government in our lives and how to build a better society.

During the 2016 presidential campaign, like all others in memory, a central question was the optimal level of regulation. Hillary Clinton, the candidate of the Democratic Party, defended various regulations promulgated by the Obama administration, including Dodd–Frank and the Affordable Care Act (better known as Obamacare), while now-President Donald Trump, the Republican candidate, has set out to cut two regulations for every new regulation issued. These positions more or less stake out the sides in a century-old political debate raging in the United States. Those on one side see the bulk of regulations issued since the New Deal as government overreach, while those on the other see them as necessary to create a better society. Politics is primarily about whether we have too much or too little regulation. (Does anyone think we have just the right amount?)

We offer an alternative view of history and politics that casts the New Deal and subsequent debates over the amount of regulation in a new light. By focusing on and rethinking the idea of trust, we ask not *whether* the amount of regulation is too high or too low, but rather *who* is the most efficient provider of the trust (and the regulations that enable it) that citizens demand. In short, we argue that individuals facing a complex world demand the trust created by regulation, and that providing this trust – creating institutions that enable it – is what has made society so well off. But, in many cases where more regulation is demanded, microregulators are a better provider of it than traditional suppliers such as government or corporations.

Trust is what makes us human and fabulously wealthy compared with our ancestors. The crucial question is: Which entity or institution can most cost-effectively create sufficient trust to enable cooperation and voluntary transactions in this world? Those who claim the growth of government was wrong miss the point, just like those who call for it (and only it) to do more.

What worked at one point in our history does not necessarily work at other points. After the Industrial Revolution enabled massive growth in wealth and an increasingly globalized society, new mechanisms of trust were necessary to enable cooperation across the nation and throughout the world. At the time, with the technology then available, government grew to fill that void. We don't have to take a strong position on whether that was a good or a bad thing – what is clear is that, with current technology, government is probably not the optimal trust supplier in many of the areas it operates in. We can rethink what our government does to provide trust without attacking it for what it has done to get us to this point.

Tracing this view of trust, and a market for it, backwards, we can think of much of the infrastructure of civilization as about creating mechanisms to provide trust. Humans want to cooperate because it benefits them, and cooperation requires trust. We humans have invented and built ever more intricate and effective ways of supplying trust to meet growing demand.

The human inventions of language, religion, law, brand, and now internet platforms, such as Uber, eBay, and Amazon, are mostly about creating trust that enables us to work together in ways that create wealth and improve social welfare. Our primate ancestors did not trust beyond their narrow family groups, and this probably explains why they still swing from trees, as we trot around the globe in jets sipping Champagne watching movies streamed on our phones. We can do business with billions of people. They could work together with only their closest kin.

Projecting the idea of a market for trust forward, we argue that a new era of humanity may be upon us. We see a world in which information technology has brought us to a potential inflection point in the history of human governance and cooperation. The American Revolution (1776) supplanted the idea of monarchy as the means of obtaining the best society and put the individual at the center of the social project. This was a triumph of decentralization, where disperse citizens governed based on local information. This was the "Revolution of the Individual."

The New Deal (1937) in turn replaced this model with an expert-based approach to regulation to enable sufficient trust to make the modern world tick. Upton Sinclair, Ida Tarbell, and others exposed the high costs of the pre-New Deal system of trust. Then along came the New Dealers. They believed the world had grown too complex for it to be regulated by citizen legislators, so we needed a new branch of government that would develop expertise designed to protect consumers and citizens. While the New Deal governance model also did other things – including redistributing wealth from rich to poor, from young to old – a central feature of it was the creation of an elaborate trust-enabling mechanism in Washington, DC. The SEC, the Federal Communications Commission (FCC), the Federal Trade Commission (FTC), the FDA, and so on were, in part, created over the ensuing decades to bring order and trust to buyers and sellers, whether of securities, radio spectrum, or pharmaceuticals. In this model, federal regulators controlled a disperse body politic using centralized information. This was the "Revolution of the Expert."

We are seeing a new phase in the relationship between the government and society emerge: a third American governance revolution, namely a third trust revolution – the "Revolution of the Digital Tribe." In this new phase, citizen-consumers using digital platforms (as one example) can act collectively to create a more effective and efficient form of regulation. With digital platforms tapping into the wisdom of crowds or bringing technological advancements in verification, we can have the best of both worlds: a *centralized* platform that harnesses *disperse* information.

Just as our foraging ancestors organized into tribes to increase trust, these platforms are creating many "digital tribes"[2] of decentralized consumers, harnessing the power of technology to build trust around a common interest. The rise of the digital tribe is making centralized trust providers such as government obsolete for many functions and is unleashing tremendous potential for human progress.

In this telling, the United States was built on individuals, with cooperation happening through voluntary transactions; this then evolved into cooperation through centralized, expert-based rules. Now, we are finally entering a period of individualized cooperation as part of a digital tribe. The digital tribe promises the best of both worlds: it is based on individuals and voluntary choices, and it harnesses more information than historically available to any one individual or bureaucrat.

Our goal in the pages that follow is to have you think about trust as more central to social order than you might have imagined, to see it as something capable of being provided by diverse institutions in a market for trust, and to believe that this digital trust revolution is worth protecting from the forces aiming to preserve the status quo.

PLAN OF THE BOOK

In Chapter 1, we document the apparent collapse in trust in our society. Polls of US citizens overwhelmingly show what we all feel – trust in US institutions, ranging from government to the media, are at historic lows. The cynicism of the modern United States is not easy to exaggerate and, based on these data, one might have little faith that the future could be bright.

Thankfully, in Chapter 2, we demonstrate that the obituary for trust is premature. In fact, there has never been more human trust than there is today. Our complex, hyper-globalized world would be impossible without enormous amounts of trust baked into the system. We conclude this chapter by discounting polling as looking for trust in all the wrong places. Instead of asking whether people trust the police or the *New York Times*, we should be asking how it is that eBay processes 10,000 transactions per second between strangers all over the world without a government anywhere in sight.

Chapter 3 makes the case for trust, linking it to the level of human flourishing or wellbeing in a society. The difference between wealthy, happy countries and poor, unhappy ones can largely be traced to the level of trust in the society. This is because trust enables human cooperation to happen at a lower cost than it would otherwise, and collective action is what enables human achievement. To put this in economics parlance, higher trust means lower transaction costs, which increases efficiency. After establishing why humans *demand* that trust be created, in Chapter 4, we identify the entities and institutions that meet that demand by *supplying* trust to

[2] We wish to connote a positive voluntary association by the use of this term, rather than divisive tribalism. In fact, we think a key selling point of our idea is the ability of the digital tribe to displace the tribes we currently use to create cooperation.

citizens. There are three types of trust: personal trust, which is provided by other individuals acting alone; government trust, which is provided by various institutions characterized by a monopoly on legal violence; and business trust, which is provided by profit-seeking businesses that are also selling other things.

Chapter 5 then traces the history of how trust has been provided by these three methods. Starting in the cave and moving forward to today, we show how the provision of trust has evolved based on the social conditions, technology, and geopolitics of the four periods of human history: the hunter-gather period, the agricultural period, the industrial period, and the information period. The history of trust is a history of change in innovation and a virtuous cycle in which more trust begets gains in human welfare, which then begets a need for more trust. Humans invented law, language, printing, the guild, the modern regulatory state, corporate brands, and now internet platforms all as means of enabling greater trust to exist.

In Chapter 6, we describe the way in which trust is demanded and supplied as a market and explore the ways in which the market for trust is different from other markets. All of these differences exist because government is a participant in this market. Unlike other markets, where government is a bystander and regulator, the government is the biggest provider of the social technology of trust today. Accordingly, the market acts differently from other markets. Government doesn't charge prices for the trust it provides; instead, it compels the purchase of trust from it in the form of taxes. Government also generally writes rules that apply equally to everyone, thus making the tailoring of regulations to individuals difficult; other trust providers are free from this restriction, enabling them to match regulation to individual preferences much more easily. Finally, because government is both a trust provider and a regulator of other trust providers, it may be tempted to shackle upstart trust providers that threaten its role.

In Chapters 7 and 8, we apply this concept of trust to two historical examples of innovations and developments of new trust technologies. The first (Chapter 7) is the development of the private regulation of stockbrokers in the late 1700s, a practice that continues to this day. The New York Stock Exchange (and now the Financial Industry Regulation Authority [FINRA]) came into existence to provide trust, after New York legislature banned New York courts from being in the trust-provision business. The history of the self-regulation of Wall Street leaves many lessons for the future of the private provision of trust.

The second example (Chapter 8) is the history of the regulation of taxi cab and other ridesharing services. Taxi regulation goes back a century and, for most of this time, it was an essential mechanism for ensuring a vibrant ridesharing market in most places. In fact, as this chapter explores, there were attempts in the 1980s to deregulate taxi markets in a variety of jurisdictions, but they all failed. Given the technology at the time, there was no efficient way of effectively creating trust between drivers and passengers. The development of the internet, the smartphone, and various reputation technologies, such as five-star rating systems, then opened up the possibility of alternative providers of trust in this market.

Chapter 9 considers the implications of the ridesharing example for the provision of trust more generally. This chapter examines the way in which Uber (and its ilk) disrupted the regulation of the ridesharing market, namely by not only offering additional trust (or regulation), but also supplying trust as a replacement for existing government providers. This example provides a strategy roadmap for others to challenge government monopolies on trust, and foreshadows the future of trust provision.

Finally, Chapter 10 briefly looks at some places in which the government is currently the primary trust provider but where new technologies may offer a more efficient solution. Although very preliminary and incomplete, our hope is that this treatment will be a call to action for entrepreneurs and policy wonks to help move human cooperation to the next level.