

The Political Economy of Trust

Institutions, Interests, and Inter-Firm Cooperation in Italy and Germany

Trust and cooperation are at the heart of the two most important approaches to comparative politics – rational choice and political culture. Yet we know little about the relationship of trust to political institutions. This book sets out a rationalist theory of how informal institutions can affect trust without reducing it to fully determined expectations. It then shows how this theory can be applied to comparative political economy, in particular to explaining inter-firm cooperation in industrial districts, geographical areas of intense small firm collaboration. The book compares trust and cooperation in two prominent districts in the literature, Emilia-Romagna, Italy, and Baden-Württemberg, Germany. It also sets out and applies a theory of how national informal institutions may change as a result of changes in global markets, and it shows how similar mechanisms may explain persistent distrust among Sicilian *mafiosi*.

Henry Farrell has been an assistant professor of political science and international relations since 2004 at the George Washington University, where he is affiliated with the Center for International Science and Technology Policy. He was an assistant professor at the University of Toronto from 2002 to 2004 and Senior Research Fellow at the Max-Planck Project Group on the Law of Common Goods in Bonn, Germany, from 2000 to 2002. He has authored or co-authored 20 peer-reviewed articles in scholarly journals, including *International Organization* and *Comparative Political Studies*, and ten chapters for edited volumes. His nonacademic publications include articles for *Foreign Policy*, *Financial Times*, *Boston Review*, *Chronicle of Higher Education*, *American Prospect*, and *The Nation*, as well as a policy paper for the German Marshall Fund.

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HENRY FARRELL

George Washington University



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Acknowledgments

What is the relationship between institutions and trust? This question, which has fascinated me for many years, spurred both my dissertation and this (very different and, I hope, much improved) book. My fascination began when my academic mentor, Sam Barnes, suggested that I read Robert Putnam's 1993 book, *Making Democracy Work*. Like many others, I was captivated by the breadth and ambition of the book, which sought to reconcile arguments from political culture, the new institutional economics, Renaissance history, and many other sources to come up with a grand theory of the basic underpinnings of politics. I was also dissatisfied with Putnam's account of trust and cooperation in Italy in ways that I at first had difficulty describing, even to myself, and I started to pull, in a not very organized way, on loose threads to see what might give.

As I began to define my question better, I became aware of the extensive literature in game theory and rational choice on institutions and cooperation, in large part as a result of the tutelage of Jim Johnson. Yet I found this literature unsatisfactory too, especially when it tried to explain the more diffuse kinds of trust and cooperation that Putnam and others had written about. This book represents my efforts to come up with a better answer than either approach and, more generally, to try to use the rational choice theory of institutions as a way of understanding how individuals could come to trust and cooperate with each other, not only in the well-specified ways that game theoretic accounts describe but also in fuzzier situations, which are not clearly defined.

I owe intellectual and personal debts to many people. I also, to my very happy surprise, found that my intellectual conversations and research collaborations concerning this topic became the seedbed for many friendships. This is something that seems obvious now, but it was not at all obvious to me when I began as a graduate student to research this topic and write about it. When you enter into a community of argument, you find that it is a community in more than one way.

First, and most importantly, I am enormously grateful to my dissertation committee. I owe a great intellectual debt to my graduate school mentor and dissertation adviser, Sam Barnes. Not only did he provide me with a fine academic grounding in the understanding of trust and in Italian politics, but he also gave me free rein to build out from these foundations in unorthodox directions. Colin Crouch provided me with more specific guidance in comparative political economy and with a broader institutional framework in which I could pursue my particular interests. Margaret Levi gave me a much needed grounding in the literature on both trust and institutions. Mark Warren provided me with comments that helped me to see both the broader implications and more specific limitations of my argument.

In addition, I owe specific debts to Jack Knight and Jim Johnson. Many arguments presented in this book emerged from my running debate with Jack on trust and institutional theory over the last few years – we have written together on this and related topics, and we plan to write more in the future. As I have mentioned, Jim Johnson's ICPSR course on rational choice provided me with many of the intellectual tools that I have used (or abused!) to write this book.

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book was originally published as Henry Farrell, 2005, “Trust and Political Economy: Comparing the Effects of Institutions on Inter-Firm Cooperation,” *Comparative Political Studies* 38(5):459–483. A much earlier version of Chapter 5 was published as Henry Farrell and Jack Knight, 2003, “Trust, Institutions and Institutional Change: Industrial Districts and the Social Capital Hypothesis,” *Politics and Society* 31(4): 537–566. The newer version interprets the evidence differently: any mistakes in the earlier version are mine, not my co-author’s.

Russell Hardin’s ideas are omnipresent in this book; my claims owe much to his accounts (developed in his solo-authored work and his work in collaboration with Karen Cook and Margaret Levi) of the encapsulated interest account of trust. He has been extraordinarily intellectually generous. Diego Gambetta deserves considerable thanks both for his generosity in making his database of Mafia-related information generally available and for some very helpful e-mail conversations about the Mafia and trust. Both Gary Herrigel and Jonathan Zeitlin provided me with good advice and tough, useful criticisms at early stages of this project. While both disagreed (and still disagree) vigorously with many of my claims, their intellectual generosity helped sharpen my arguments. Sven Steinmo’s conversation with me in a Brussels cafeteria also helped shape this project by forcing me to clarify my claims.

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