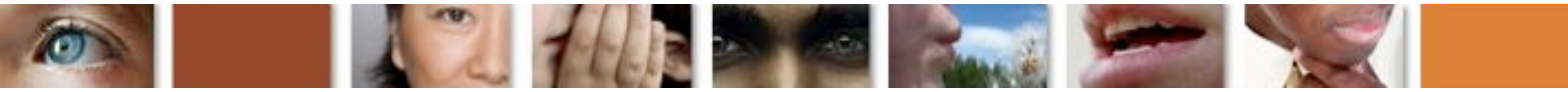
Charles H. Green, 2012



Can Income Inequality and Business Trust Co-exist?

For four decades now, social trust has declined. This may seem like a minor matter, but a modern economy requires ever-greater levels of trust to function well. Both OWS and the Tea Party are evidence that such trust is lacking.

A leading cause of declining trust is income inequality. And despite the problem worsening, no one in business or politics appears willing to touch it. Too bad for us all.

Simply put: can "good" corporate behavior generate enough trust to overcome income inequality?

Defining and Measuring Trust

When businesspeople hear, "Trust in business is down," most think of corporate trustworthiness or reputation management. When academics talk about trust, most think about the propensity of people to believe in the good intentions of strangers. One is about being trust*ed*; the other is about trust*ing*.

Those two perspectives collide around the issue of income inequality. Dr. Eric Uslaner, a trust expert from academia, explains that income inequality is a leading cause of declining business trust – it drives people to be less trust*ing*.

Most businesspeople don't want to hear that, preferring to believe that trust can be addressed by public relations and changed corporate behavior – that is, via the appearance and reality of corporate trust*worthiness*.

Simply put: can "good" corporate behavior generate enough trust to overcome income inequality? Or are such attempts doomed without fundamental change?

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At the societal level, the propensity to trust is not driven by levels of national income, but by high national levels of income disparity.

The Data on Trusting

The General Social Survey has been conducted in the US since 1972 by the National Opinion Research Center. It has always contained questions about the inclination to attribute good intentions to strangers; in short, the propensity to trust.

The general drift of trusting-ness is very slow, but also clearly downward since 1972 in the US. It is not whipsawed by current events, but in the long run is affected by a steady drip.

In academics' use of the GSS and other surveys, two linkages stand out:

1. At the individual level, nothing increases the propensity to trust more than educational attainment;
2. At the societal level, the propensity to trust is not driven by levels of national income, but by high national levels of income disparity.

The Data on Income Disparity

The US has become an economically stratified society. The US Census Bureau this month released data that startled even the Bureau itself: fully one-third of the US population is either in poverty or within 50% of the poverty line.

At the same time, income disparity has grown, especially at the top end; this is the result not just of recent events, but of longer-term policies.

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The combined stratification and ossification of our society doesn't add up to an economically healthy country.

Income disparity is not just a trust issue, but an economic issue as well. As James Chanos says:

Income inequality in this country is just getting worse and worse and worse. And that is not a recipe for stable growth.

But stratification is not the only problem. Some find it acceptable as long as one can aspire to a higher stratum. But what if mobility between strata has become ossified?

Unfortunately, income mobility in the United States is now well below that in Canada, Denmark, Australia, Spain, Germany, France, and several other OECD countries. (Great Britain and Italy still have sharper class divisions).

If you're poor, and have little prospect of improving your lot in life, you are not likely to be a trusting person. Instead, you are likely to be resentful, hostile, suspicious, skeptical, and not necessarily inclined to be law-abiding.

The combined stratification and ossification of our society doesn't add up to an economically healthy country.

The Problem

The economic value of high trust, at both an individual and a social level, is undeniably enormous. Yet, our inability to analyze the problem is exceeded only by our political inability to do something about it.

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It is probably still true that America is the land of opportunity for those with the right skills and attitudes.

Most "data" about trust consists of little more than popularity or opinion surveys. When we see headlines like "trust in banking declined," it is impossible to determine whether banks became less trustworthy, or people became less inclined to trust in general. This sort of data is useful mainly just as an indicator of PR effectiveness.

Trust Across America is one group striving to define trustworthiness at a corporate level; on the trust*ing* data side, we have the GSS, but little else. But even as the data come slowly into focus, nowhere do we see a willingness to face the implied political dilemma.

Can business continue to afford the ideology that got us here? A major shift from shareholder value to shared value is underway; various CSR initiatives are gaining strength. But these initiatives are aimed largely at making companies more trust*worthy*. They are laudable, but it's far from clear that such changes would have any effect on stratification or mobility.

In retrospect, a variety of social and political policy choices over time got us to the current state of low trust. Yet talk of reducing income inequality or increasing social mobility is the third rail in both politics and business in the US today.

It is probably still true that America is the land of opportunity for those with the right skills and attitudes. Unfortunately, Americans themselves increasingly don't match that description. And so the prospect of further declines in trust, and consequently in economic health, seems likely.

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