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Trust in Banks: A Tentative Conceptual Framework

By Olivier Butzbach*

Abstract

Since the 2007 – 08 crisis, banks in many countries have been facing what seems to be a serious "trust crisis." This sharp decline in trust in banks and banking as well as the near-collapse of banking systems during the crisis is partly captured by a growing empirical literature. However, this literature presents several shortcomings which reflect a more general lack of theorization of trust in banks. This lack of theorization certainly has much to do with the distance between the economic literature on banks and banking and the sociological and economic literature on trust. This paper aims to bridge this gap by proposing a new conceptual framework, building on new institutional theories. In particular, the paper identifies three related dimensions of trust that seem to have relevance for the banking industry: "relational," "systemic" and "vertical" trust. While mainstream financial intermediation theory and agency theory provide a good understanding of relational trust, they are less well equipped to deal with the other dimensions of trust. The paper, therefore, builds on heterodox theories of money and debt to build a more comprehensive understanding of trust in banks. The proposed conceptual framework implies a new, institutional approach to banking in economic theory.

JEL Codes: B50, B52, G21, Z10, Z13

> "Commercial credit may be defined to be that confidence which subsists among commercial men in respect to their mercantile affairs. This confidence operates in several ways. It disposes them to lend money to each other, to bring themselves under various pecuniary engagements by the acceptance and indorsement [sic] of bills, and also to sell and deliver goods in consideration of an equivalent promised to be given at a subsequent period" (Thornton 1802, 75).
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> "It is commonly supposed that bankers act only as agents or intermediaries between persons who want to lend and those who want to borrow. Bankers never act as agents between those who want to lend and those who want to borrow. Bankers buy money from some persons : and Rights of action from others : exclusively with their own Credit" (MacLeod 1889, 375).

* Department of Political Science, University of Campania "Luigi Vanvitelli," Viale Ellittico 31, 81100 Caserta (CE), Italy. The author can be reached at olivierkarl.butzbach@unicampania.it.

Introduction

The 2007–09 global banking crisis has shed light on the peculiar problems of trust maintenance and erosion in banking. In the United States, post-crisis public opinion polls on "confidence" in banking have shown drastic drops in "trust;"[1] while in the United Kingdom, the long lines that formed outside of Northern Rock branches in the fall of 2007 seemed to epitomize the disruption of trust generated, presumably, by the crisis.[2] This problem — trusting banks — is not new, but public sensitivity about this issue may currently be unusually high, which explains how, in the wake of the 2007–08 crisis, more recent scandals (such as the Libor-fixing scandal that erupted in 2012) have immediately raised the specter of a collapse of trust in banks.[3] As a matter of fact, in the wake of the crisis several economists have identified what they see as a "trust crisis" in banking (Sapienza and Zingales 2012; see also Guiso et al. 2009; Mosch and Prast 2008; Knell and Stix 2010). In addition, policy-makers and banking regulators seem readily tempted to embrace the rhetoric of trust as a key driver for regulatory oversight, as public remarks pronounced in 2013 by the then Bank of England governor-designate indicate.[4]

Trust, indeed, matters a great deal in the banking industry. One could argue, with Henry Thornton, that confidence is the real business of bankers (Thornton 1802). Confidence (which we will equate for now with trust) is both a requirement for credit/debt transactions to take place — hence the expression "entrusting someone with one's money" — and the main reason why honesty is a key requirement for bankers.[5] As Mark Carney argued in 2013, restoring trust in banks is predicated upon ensuring higher integrity on the bankers' part. This view certainly resonates with a widespread indictment of bankers' "greed" as one of the main culprits of the crisis.

As mentioned above, in the wake of 2007–08, a small but growing economic literature has tackled the issue. Yet this literature, reviewed in the second section of this paper, presents several weaknesses that could lead to a better

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1 These two terms are used interchangeably by Gallup pollsters/analysts, which of course does not contribute to clarify the issue. They are discussed in the next section.

2 Section 5 of the present paper discusses the problem of causality in the disruption of trust in banks.

3 See, for instance, "Public trust in banks 'obliterated' over scandal", *The Independent*, July 2, 2012.

4 See "Carney warns of lack of confidence in banks", *The Financial Times*, February 25, 2013.

5 For instance, under current regulations the United Kingdom's banking regulatory body, the Prudential Regulatory Authority, assesses the "fitness" and "property" of the future managers of the banks whose creation it authorizes. This "approved persons" regime is similar to that in place in many other countries following the shift from structural to prudential regulation of banks in the past decades.

economic treatment of trust in banks. In particular, most economic works on trust in banks ground their findings on under-theorized notions of trust, which weaken the empirical claims made in such works. For instance, conceptualizing trust as a mere cognitive disposition towards a single (banking) entity, while useful in certain circumstances (for instance, to understand individual bank runs), does not allow us to understand the collective behavior of economic agents characterizing a "trust crisis."

Trust, of course, has given rise to a prolific literature in various disciplines, including psychology, sociology, political science, and economics among others. A general theoretical discussion of this concept does not fall within the scope of this paper. Rather, the present study aims at building on this vast and multi-disciplinary literature to propose a framework for understanding and assessing trust in banks. More importantly, a detour via trust theory, it is argued here, is actually a good way to understand the institutional nature of banks sometimes ignored in the contemporary economic literature on banking — while earlier banking theorists such as Thornton and Macleod took the institutional nature of banks for granted.

The paper is organized as follows: section 1 briefly discusses the peculiar importance of trust in banking; section 2 reviews the empirical literature on trust in banks and discusses its methodological shortcomings; section 3, drawing on the general literature on trust in economics and sociology, discusses the theoretical problems raised by the empirical literature. Sections 4, 5 and 6 present the conceptual framework, by highlighting its three dimensions, called "relational trust" (section 4), "systemic trust" (section 5) and "vertical trust" (section 6). Section 7 formulates a few methodological implications that derive from the proposed framework. Conclusions follow.

1. Banks as "Guardians of Trust"

In her seminal work on the institutional bases of trust formation in the United States in the 19th century, Lynne Zucker argues that the rise of banks in particular and of the services industry in general corresponded to a shift from interpersonal to institutional forms of trust. In other words, at a time when the traditional bases for interpersonal trust in US society were eroding, trust was restored through the emergence of institutions such as banks (Zucker 1986). A similar argument was made by Shapiro on a synchronic level (her analysis is not historical): when interpersonal trust does not work, impersonal trust can be exercised by "guardians of trust", "a supporting social-control framework of procedural norms, organizational forms and social-control specialists, which institutionalize distrust" (1987, 635).

Banks are especially well suited to be "guardians of trust." As a matter of fact, the contemporary literature on banking justifies the existence of banks in the very situations where trust matters: in the context of future, risky investment (financial contracts) where uncertainties are high and the possibility of opportunistic behavior exists.[6] These characteristics correspond to the existence of both imperfect information and information asymmetries. Indeed, as Boot put it, the theory of information asymmetries helps distinguish "modern theories of financial intermediation from the earlier transaction costs-based theories" (2000, 8), while Bhattacharya and Thakor argue, reflecting widely shared views among economists, that "intermediation is a response to the inability of market-mediated mechanisms to efficiently resolve informational problems" inherent to financial transactions (1993, 14).

One key characteristic of banks, in other words, lies in the type of contractual mechanism used to solve informational asymmetries. Modern theories, in particular, insist on banks' "informational advantages" (with respect to markets) in reducing credit rationing (Stiglitz and Weiss 1983), acting as delegated monitors, and therefore reducing the cost of monitoring borrowers sustained by lenders/depositors (Diamond 1984). They also undertake relationship lending, which helps decrease information asymmetries and reduces the likelihood of both adverse selection and moral hazard (Boot 2000; Petersen and Rajan 1994).

Relationship lending, in particular, epitomizes the survival of relational elements within an institutionalized production of trust: In her study of 19th century capitalism in the US, Zucker notes that "while the economy as a whole became increasingly national, banking became increasingly local" (1986, 61). Relationship lending is also typical of the specificity of institutionally produced trust, as opposed to interpersonal trust. This is why it differs from the "re-embedding" strategies envisioned by Shapiro as the possible responses to opportunism. Re-embedding consists in limiting principals' relationships to "known agents" (Shapiro 1987). Relationship lending, by contrast, consists in creating long-term relationships with agents so that information asymmetries are reduced.

Of course, it should be emphasized here that not all contemporary banking theory is based on information asymmetries, or explains the existence or functioning of banks on the exclusive basis of informational advantages.[7] The existence of banks may be justified by transaction costs (Benston and Smith 1976) or the provision of liquidity insurance (Diamond and Dybvig 1983), for in-

6 Risk and uncertainty are prerequisites for trust to manifest itself. It is thus important to have a clear understanding of both terms as they are used in the economic literature. We will here rely on the famous distinction operated by Frank Knight almost a hundred years ago (Knight 1921). In the Knightian framework, both risk and uncertainty relate to the possibility of welfare losses generated by some future event. In the case of risk, this possibility is measurable (through, in particular, probability estimates). In the case of uncertainty, it is not.

7 Thanks to an anonymous reviewer for pointing this out.

stance. However, it is undeniable that the "informational turn" in economic theory (Lash and Dagos 2016) largely permeates a number of economic models in banking theory — such as the information-sharing coalition (Brealey, Leyland and Pyle 1977) and delegated monitoring (Diamond 1984) models. It is within the latter models that trust matters.

Indeed, viewed in a longer historical perspective, such information-based theories of banking implicitly compute a return back to the origins of modern banking theory during the early 19th century by emphasizing the importance of information asymmetries in explaining the emergence of banks. This is precisely what economists and practitioners such as Henry Thornton addressed when writing of credit as confidence, as the quote above illustrates. Then as now, trust was seen as a crucial component of banks' business. No wonder, therefore, that the measurement of trust in banks has become the object of study of a burgeoning literature.

2. Measuring Trust in Banks: Pitfalls of the Empirical Literature

The economic literature on trust in banking aims at identifying the determinants of certain aspects of economic agents' behavior, which are extremely relevant for the functioning of the financial system as a whole. In particular, trust may be directly associated with (i) decisions to hold money at the bank and not in cash (Stix 2013; Spicer and Oknatovskiy 2015); (ii) decisions to hold money at a particular bank rather than another (Spicer and Okhnatovskyi 2015); (iii) decisions to withdraw money from particular banks at times of crisis; (iv) decisions to withdraw money from particular banks in non-crisis contexts (see Jansen et al. 2015).

These aspects of economic behavior are important in that they may affect (i) the stability of individual banks or of the banking system as a whole (the loss of trust might be a decisive factor in generating bank runs); (ii) the loyalty of bank customers (both depositors and borrowers), and therefore the continuous availability of funds or demand for funds, which allow banks to fulfill their function of financial intermediation; (iii) the competitiveness of individual banks or entire segments of the banking sector — since a higher trust in banks' competitors (such as other financial intermediaries) might lead to a decline in market shares for banks.

The growing literature on trust in banks is mostly empirical and — particularly since the 2007 – 08 crisis — focuses on identifying signs of a *decline* in trust. Most of the measures of trust used in this literature are measures of public opinion and perceptions, usually collected from other sources. Guiso et al. (2009) for instance rely on the "Eurobarometer Surveys," for instance, while Knell and Stix (2010) draw on quarterly surveys produced by the Austrian National

Bank to measure trust in banks. In the wake of the 2007–08 crisis, two US economists, Paola Sapienza and Luigi Zingales, have set up their own public trust index: the "Chicago Booth/Kellogg School Financial Trust Index." Its mission is "to monitor the level of trust Americans have in banks, the stock market, mutual funds, and large corporations, and to regularly assess how current events, policy and government intervention might affect this trust."[8] Data is gathered by a specialized firm through quarterly surveys of opinions of a "sample of 1,000 Americans" (*ibid.*).

Unsurprisingly, analysis based on these measures of trust seems to indicate that trust levels are very much influenced by "subjective" characteristics (see Knell and Stix 2010; Guiso et al. 2009). In addition, bank staff's "emotional intelligence" can be associated with a bank's customers levels of trust (Heffer-man et al. 2008). The same conclusion is reached by Gallup pollsters (Wood and Berg 2011). Wang et al. (2015), in their study of mobile banking in Taiwan, similarly list a number of "trust antecedents" that compose an individual's disposition to trust.

These indications are useful to understand the psychological or, more generally, individual determinants of trust. However, they often rely on a very simple characterization of trust that generates important methodological shortcomings. The most extreme example comes from Gallup poll questions ("do you have trust in banks?"). More sophisticated (academic) studies, such as those presented by a Dutch team of scholars using repeated surveys of bank clients in the Netherlands over time (van der Cruijsen et al. 2016; Jansen et al. 2015), rely on a limited set of questions presenting survey participants with a few hypothetical scenarios to which they have to react. Such works, while extremely useful in measuring individuals' disposition to trust, are obviously biased towards finding that *subjective* values influence trust. The same problem can be found in general studies of trust that rely on similar measurement methodologies (Glaeser et al. 2000; Guiso et al. 2003; Wang and Gordon 2011).

Moreover, and more problematically, many of these works implicitly build on disputable theoretical assumptions, in particular on the exclusive understanding of trust as a property of either bank customers' outlook or banks' capacity to be trustworthy. As the Gallup pollsters put it in a recent note, "trust is more about what a bank is rather than what it offers" (Wood and Berg 2011). More fundamentally, trust can be measured that way when it is defined in purely *cognitive* (or "intentional," as Wang and Gordon (2011) put it) terms; but then it becomes difficult to understand how trust can have any effect at all. Trust is merely an output (of certain social or transaction-specific mechanisms) that can be beneficial in a general sense. However, these theoretical issues are intertwined with methodological difficulties in measuring trust. Most empirical studies on trust

8 See http://www.financialtrustindex.org/about.htm.

(both in banking and in other fields) rely on surveys investigating participants' *ex-ante* views on particular entities.

This literature is of great interest to the understanding of the functioning of the banking and financial system, and more specifically the understanding of the behavior of savers and depositors. However, the reliance on a questionable theoretical understanding of trust weakens the robustness of the empirical findings presented in such studies. First, the level of trust measured in *ex-ante* surveys might not fit with the observed behavior of economic agents: this is why to a cognitive notion of trust one should add a behavioral one. Secondly, seeing trust as a set of either general cognitive dispositions (corresponding to such question as: "do you trust banks in general?") or specific intentions ("would you entrust bank X with your savings?") does not allow us to capture the coordination problems characterizing banking, and therefore characterizing trust in banks. Third, and finally, a purely cognitive conceptualization of trust does not enable us to disentangle trust from other determinants of economic behavior, *when analyzing such behavior ex-post*. For instance, the increase in cash holdings (versus bank deposits) can be explained by trust alongside other factors, such as memories of past banking crises and weak tax enforcement (Stix 2013).

3. From Measures of Trust to a Theory of Trust

Here the existing empirical literature on trust in banks would gain from a higher level of awareness of — and engagement with — decades of theoretical and empirical work on trust done mostly but not exclusively by sociologists. In particular, despite continuing debates in the (sociological) theoretical literature on trust, three notions seem to be widely shared — all three at odds with the narrow view of trust implicitly conveyed by the empirical economics literature cited above. The three notions are that (i) trust is behavioral as much as it is cognitive; (ii) trust is a social phenomenon; (iii) trust is not the property of individual transactions / relationships.

Trust: Both Cognitive and Behavioral

From some economists' point of view, the possibility for a transaction to take place (i.e. the whole basis of a market economy) depends on exchange partners' decision to "cooperate" (in a broad sense, that is, by exchanging goods, services and money). In turn, this decision to cooperate will depend on agents' expectations about their partner's future behavior — in other words, the trust they have for their counterparts (Arrow 1974). In the particular case of banks, depositors *entrust* banks with their money. Trust is cognitive, and expectations are a key component of trust besides risk and cooperation. Many theorists explicitly acknowledge this; for instance, Zucker defined trust as "a set of expectations shared by all those involved in an exchange" (1986, 2). Similarly, according to Möllering, trust should be seen as a "state of favourable expectation regarding other people's actions and intentions" (2001, 404).

Expectations are also especially relevant for a theory of trust in banks, since banks operate in a world of imperfect information and, as pointed out above, banks may be viewed as devices reducing, but not eliminating, information asymmetries. Luhmann (1968) wrote of extrapolated information (*"überzogene Information"*) in the sense that trust implies acting on the basis of limited information and consciously ignoring missing information. This aspect strongly resonates with the old and contemporary theories of banking evoked above.

However, trust is *not only* cognitive. One should not confuse reasons for trusting with causes of trust (Nooteboom 2006). Georg Simmel has been credited for being among the first authors to have identified the disconnect between information and action — this "mysterious" element that connects interpretations and expectations (Möllering 2001). Möllering further insists on the Simmelian notion of a "leap of faith" as the missing link between information, expectations and action. Similarly, one may add, Luhmann saw trust as a "leap into a limited and structured form of uncertainty" (1968); and Lewis and Weigert (1985) emphasize the "cognitive leap" at the root of trust.

Yet, as Möllering (2001) argues, even if some influential works on trust seem to follow Simmel's twofold argument (to trust, one has to have good reasons; and from them perform a leap of faith to reach a favourable state of expectations), they focus much more on the hermeneutic side of trust, emphasizing the reasons why people *should* trust each other. For instance, in a series of works, Russell Hardin and colleagues (Hardin 2002 and 2004; Cook et al. 2005) put forward a view of trust as "reflected trustworthiness," i.e. as belief about the trustworthiness or untrustworthiness of people or institutions. Other scholars have explicitly chosen a purely cognitive definition of trust. Wang and Gordon, for example, define trust as an "intention," i.e. the "willingness from one party to expect another party (parties) to act competently and dutifully 'in a risky course of action'" (2011, 584). This "willingness to expect" sounds like an incomplete understanding of the "cognitive leap" mentioned above, which consists of a *decision* to trust on the basis of expectations consciously founded on incomplete information.

By contrast, the view adopted here, following Möllering and others, is that trust is behavioural as much as it is cognitive. As Luhmann (1968) put it quite effectively, when "trustful expectations" are not decisive in a decision, we are not in the presence of trust, but merely in the presence of hope. Similarly, according to Piotr Szompka, "the full expression of trust is not only my belief that a certain woman will be faithful, helpful, loyal, and so on, but the fact that I marry her" (2006, 909). From an apparently opposite point of view, Watson (2009) criticizes the shift in meaning undergone by the notion of trust as treated by Garfinkel in his 1963 article — from a "tacit and necessary precondition" to

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a set of "attitudes," thus losing the sense of its connection to constitutive practices. Actually, the behavioral approach advocated here is paradoxically closer to the Garfinkelian notion of tacit understanding than it is to theories of trust as a disposition — precisely because it holds together the two ends of the "mystery" of trust as identified by Simmel.

Trust as a Social Phenomenon

One important detail in Zucker's definition, given above, is the word "shared." Indeed, the fact that for trust to exist expectations have to be shared is crucial in Zucker's analysis — and in many others'. In Garfinkel's view, summarized by Watson (2009), trust is a "background condition for mutually intelligible action." This mutual intelligibility, perhaps more than the exchanges to which trust leads, is the true foundation of the social nature of trust. In other words, trust is a "social reality" (Lewis and Weigert 1985) not so much because of the social nature of its realization (cooperation) than because of the shared expectations that gave rise to it. This is where, perhaps, a correct understanding of trust in banks might shift the emphasis back towards the institutional nature of banks — more on that in the next sections.

Trust as a Process?

A logical consequence of the acknowledgement of trust as a social phenomenon is to reject views of trust as a property of single transactions / interactions. The sharing of expectations involves, indeed, more than the two parties to an economic transaction. In the case of bank-depositor relationships, for instance, the depositor's trust in his / her bank presumably never relies exclusively on past or present interactions with the bank's staff; it always implies, to a certain degree, expectations about the behavior of third parties, especially in a context of high uncertainty — be they other depositors, in the case of a bank run, or the lender of last resort. One could, at this point, adhere to the view of trust as a "process," proposed by Nooteboom (2006). This view also works in favour of the conceptualization of trust in behavioural terms, as something that may be produced. Again, this view does not fit the implicit assumptions supporting the empirical literature on trust in banks cited above.

For all its merits, however, the sociological literature on trust does not, as it is, offer a consistent conceptual framework for thinking about trust in banks. Banks and banking, it is assumed here, are very peculiar types of economic organization and activity. An appropriate conceptual framework should mirror this specificity. As a matter of fact, as will appear in the last section, thinking about trust in banks might yield useful insights for the general literature on banks and banking.

The following sections propose thus a conceptual framework aimed at overcoming the weakness of current approaches to trust in banks, bridging the two vast literatures very briefly reviewed above, in line with the view of trust as a multilevel phenomenon, endorsed by several authors (Wang and Gordon 2011; Curral and Inkpen 2006). In particular, the various dimensions of trust identified in the next sections are seen as inter-dependent and "co-evolving," in line with the arguments set forth by Curral and Inkpen (2006).

4. "Relational" Trust in Banks

As argued in section 2, many streams of contemporary banking theory converge with the analyses of Zucker and Shapiro to consider banks as financial intermediaries specialized in reducing information asymmetries — or in producing trust. Others are less optimistic. For instance, according to Chamley et al., the 2007–08 global banking crisis "exposed 'trust me banking' for what it is — a system that no one can really trust because no one external to the banks can verify what the banks really hold and no one external can have access to this information because of the claim that it is proprietary" (2012, 3).

This general claim about the banking industry yields an important insight for the first level of enquiry into the specific issue of trust in banks proposed here. The relationship between a bank and its depositors (among other stakeholders) can be conceived as an agency relationship. We find ourselves in the same situation envisioned by Shapiro when she asks who can trust the guardians of trust? Indeed, while the existence of banks can be justified on the grounds of a reduction in information asymmetries, banks generate information asymmetries of their own. And, as Shapiro (1987) points out, agency relationships proliferate especially in situations where principals have little access to information or little capacity to process and analyze that information.

In this context, given the complexity of banks' businesses, and the multiplicity of a bank's stakeholders (owners, managers, depositors, borrowers), trust can be seen as the outcome of a multifold strategic interaction. The question then becomes whether individual banks and/or organizational forms are more or less successful at reducing agency costs (i.e. fostering trust). Here again, agency or contractual views of trust strongly resonate with mainstream theories of banking. While these theories draw on information asymmetries to explain the existence of banks (as opposed to financial markets), there is a second tier of theories that aim to explain the impact of differences in banks' organizational forms on banks' abilities to minimize agency costs. In other words, banks elicit different degrees of trust on the basis of their governance characteristics — or agency arrangements, which, according to Shapiro, "serve as a temporal conduit, connecting relevant past events and future contingencies with present resources" (*ibid.*, 628).

One may call "relational" trust this particular dimension of trust, whereby principals may choose between a variety of agents on the basis of agents' capacity to lower agency costs, i.e. they offer less opportunities to exploit information asymmetries to their advantage. Relational trust is mostly synchronic and produced by specific governance arrangements. Relational trust can differ across transactions; and different organizations (the agents) may elicit different degrees of trust from their customers (the principals). In the case of banking, then, relational trust may vary from one banking organization to the next for reasons that have to do with the governance arrangements associated with different types of banks.

However, trust in banks cannot be reduced to this relational dimension, for at least three reasons. First, an agency-based view of trust misconstrues the latter as a set of dispositions or attitudes attached to one or both exchange partner(s), thus overlooking the relational and process nature of trust, which, as argued previously, should instead be central to our understanding of trust. Secondly, there is no reason why contractual obligations and governance arrangements should be the only bases of trust. Zucker (1986) has shown how trust can be produced by contracts; similarly, Bradach and Eccles (1989) have argued that trust, price and authority are not mutually exclusive mechanisms, but can be combined within and across firms. Within this perspective, trust may arise out of norms of obligation and cooperation — norms of fairness, for instance, or norms transferring obligations from one realm to the other.

Third, and perhaps more importantly, the reduction of trust to its relational dimension would imply accepting the notion that trust may emerge in and characterize single, bilateral interactions separate from each other. Zucker criticizes such transaction-based views of trust that consider only *separate* transactions. While trust may indeed arise out of separate transactions in various industries, it is certainly not the case in banking. Banking transactions, be they debit or credit transactions,[9] are not separate from one another: each transaction between a bank and its customers is really a transaction between banks. In addition, (deposit-taking) banks are creators of money — each banking transaction has a money creation side that implies the acceptance of money as universal equivalent. In other words, a single banking transaction implies the very social acceptance of an economy-wide unit of account. For these two reasons, the nature of banking lends itself, better than any other industry, to the social dimension of trust discussed in section 3 — what we call"systemic trust."

A related weakness of the relational reduction of trust lies in the issue of infinite regressions. As Shapiro argues, the more the control provided by impersonal trust mechanisms, the more the opportunities for abuse of trust, thus creating an "inflationary spiral of escalating trust relationships" (1987, 652). Governance arrangements, therefore, which are the key determinants of "rela-

[9] Credit transactions include the decision to open a bank account and subsequent decisions to increase the money held in such account; debit transactions include the decision to apply for a bank loan.

tional" trust, do not put an end to the process of trust; and any understanding of trust must go beyond them.

For all these reasons, trust in banks does include, but is not limited to, a relational component linked to governance arrangements. As is argued in the next section, observation of banks and the banking industry actually sheds light on another key component of trust, which fully reveals its nature as a "total social fact."

5. Systemic Trust in Banks

5.1 Bank Runs

The long lines that formed outside of Northern Rock branches in September 2007 were undeniably the sign of a disruption of trust. However, as Shin (2009) has argued, it was the bank's failure that *caused* a bank run rather than the other way round. One may add that the bank's failure, provoked by the collapse of its standing on wholesale money markets, is a modern version of a bank run whereby those who run first are not retail customers, but wholesale money lenders. The specific case of Northern Rock notwithstanding, bank runs represent episodes of disruption of trust in banks that reveal the systemic nature of trust in banking. Bank runs were frequent during the 2007–08 crisis. One could mention depositors' run on Washington Mutual, for instance, among the largest in recent US history (cf. Grind 2012). Bank runs are also useful for our purpose in that they fit the second indirect way to measure trust indicated by Zucker (1986) — i.e. assessing group reactions to disruption of trust. More importantly though, bank runs shed light on a component of trust that is not transaction-specific or, as argued before, relational.[10]

One characteristic of retail banking is the guarantee to get one's money back on demand. This "gives each creditor more assurance of recovery if she sees smoke before other creditors see fire, but less assurance of getting paid back if all creditors see smoke at once and simultaneously rush to withdraw" (Chamley et al. 2012, 2). There is a collective action problem that has to do with trust — but a kind of trust not captured by the relational view exposed above. Bank runs do not manifest the irrational exuberance of banks' clients; rather, they show agents' rational expectations about the way banking works. In other words, it

10 Our aim here is not to reduce bank runs to manifestations of trust disruption. Again, there is a vast literature on bank runs that does not center on trust. For instance, bank runs are often analyzed within a "global games" framework that emphasizes the coordination problem at the root of such phenomena (see Dasgupta 2007). Thanks to an anonymous reviewer for pointing this out. Our brief discussion of bank runs here aims at illustrating the potential explanatory power of multiple dimensions of trust (i.e. what we here call "systemic trust").

would be mistaken to see bank runs with the exclusive lenses of social psychology — as the manifestations of collective irrational behavior verging on panic. Indeed, while irrationality might and often does play a role in the process of the disruption of trust, the potential for bank runs is inherent to the very nature of trust in banks.

In fact, the literature on bank runs explicitly distinguishes cases of panic from "information-based bank runs" (Jacklin and Battacharya 1988). Again, while the process of the disruption of trust within bank runs might evolve along socio-psychological lines far away from economic rationality, which lead several authors to focus on the mechanisms of contagion (cf. Saunders and Wilson 1996; Iyer and Puri 2008), the main reason for the disruption of trust in banks as expressed in a bank run has to do with depositors' expectations about how the bank may fare in the immediate future. These expectations are "reflexive" in that they are expectations about other agents' expectations. Most works in the literature on bank runs share this view, even if some emphasize information asymmetries among depositors, arguing that bank runs occur on the basis of information accessed by certain groups of depositors — information showing that the bank's health is deteriorating (cf. Jacklin and Bhattacharya 1988; Chen 1999). Several authors have treated information asymmetries as secondary, focusing instead on coordination problems among depositors (cf. Diamond and Dybvig 1983; Postlewaite and Vives 1987; Goldstein and Pauzner 2005; Rochet and Vives 2004).

In this case, by contrast with the cases envisioned by Zucker, the extension of disruption of trust across transactions does not imply an "attribution of intentionality" (1986, 10). Rather, bank runs occur as an endogenous process of trust disruption in opposition to exogenous factors emphasized by Zucker (*ibid.*). Again, this does not mean that no exogenous factor may play a role in a bank run; that would be a ludicrous claim, given the importance changes in external conditions have had in provoking bank runs in many instances.[11] What is meant here is that the specific case of disruption of trust embodied in bank runs might occur precisely because trust in banks is not simply relational; it is, equally, systemic. The fact that bank runs occur in specific banks and not across the board (as was the case with Northern Rock) does indeed seem to demonstrate that trust is relational in that it varies from one bank to another. But in this case, trust in banks is also systemic in that the sudden erosion of trust in Northern Rock among its clients owes much to the systemic problems encountered by British (and global) banks in 2007 – 08 (Shin 2009).

[11] Such as in the case of the bank runs on Washington Mutual, which were clearly spurred by growing uneasiness among depositors around the extent of the bank's exposure to subprime mortgage lending at a time where mortgage markets were collapsing; see Grind (2012).

5.2 Systemic Trust as Reflexive and Reliant on Shared Expectations

Systemic trust, i.e. the second dimension of trust in banks and banking, has four key characteristics: (i) it concerns the whole banking system, rather than individual banks; (ii) it is reflexive; (iii) it relies on shared expectations; (iv) it emerges along chained transactions / interactions. The reflexivity of trust was noted by Luhmann (1968) who called this characteristic "trusting trust." Similarly, in the words of Bradach and Eccles, trust "possesses a self-fulfilling quality: the existence of trust gives one reason to trust" (1989, 107). In his discussion of "trusting trust," Luhmann also recalls Parsons' observation about money: "the rational ground for confidence in money is that others have confidence in money" (2000 [1968], 80). The self-fulfilling dimension of trust in banks has, it seems, a strong connection to the nature of confidence in money. This connection consists of two elements: (i) the nature of money as a form of debt (or credit); and (ii) the fundamental role played by confidence in the functioning (the stability) of both the monetary and the banking system.

Confidence is consistently overlooked in mainstream monetary theory: it emerges (or fails to emerge) *after* money has been issued; it is not constitutive of what money is — essentially, a means of payment exogenous to the world of exchange. By contrast, in heterodox economic theories, confidence is central to the functioning of the monetary system precisely because money is endogenous, and money is endogenous in part because it is created by (private) banks. This was the point made by "traditional" Keynesians in the 1960s (see Tobin 1963) and Post-Keynesians later (see Minsky 1986).

However, a perhaps more useful analysis of the mechanism of monetary confidence (and therefore systemic trust in banks[12]) is provided by another brand of heterodox monetary theories, namely the "mimetic" approach put forth by French regulationists Aglietta and Orléan in a series of works (1982, 1998 and 2002), building, in part, on Georg Simmel's theory of money. While banks are viewed here as "guardians of trust," money can be seen, following Aglietta and Orléan (1982), as the institutional solution to the potential violence unleashed by mimetic desire.[13] From this point of view, the problem represented by "trust

12 We choose to refer to trust in money as "monetary confidence" given the term's higher level of generality, while trust in the banking system as a whole is called "systemic trust" to emphasize its constitutive ties to other aspects of trust in banks explored here. However "systemic trust" is very close to what some authors have called "contextual confidence," i.e. the general level of trust in a given society's institutions (Child and Möllering 2003).

13 In a nutshell, Aglietta and Orléan, drawing on both René Girard's literary studies and anthropological works on money, argue that the causality posited by neo-classical economists, i.e. that money arose as a means to facilitate exchange, should be turned upside down: money is the necessary condition for exchange to occur because exchange

in the guardians of trust" is very similar to the one raised by confidence in money. The reflexive nature of confidence and of systemic trust implies that individual behavior (e.g. the behavior of bank clients) is primarily social in the Weberian sense of the word[14] — which, again, reduces the relevance of transaction-based views of trust, at least when applied to banking.

The other two characteristics of systemic trust in banks — shared expectations and chained transactions — also characterize confidence in money. Shared expectations lie at the root of theories of bank runs based on coordination problems, as argued in the previous section; they are also what gives rise to the possibility of money in the first place, according to Aglietta and Orléan (2002). Of course, shared expectations are central in several theoretical accounts of trust. Zucker (1986), in particular, identifies two kinds of expectations that give rise to the possibility of trust: first, constitutive expectations, which are tied to the specific interaction between the trustful principal and the trustworthy agent; and, second, background expectations, which commands certain kinds of rule-like behavior in various social settings. In the cases of banking and money, these two types of expectations are strongly related.

Finally, as shown in the case of bank runs, banking transactions are not separate from one another — therefore, disruption of systemic trust can "cascade" down a chain of transactions or bank relationships. Similarly, confidence in money brings about the externality of money as a means of payment: the more economic agents will use a particular monetary means of payments for their transactions, the more other agents will use it. The "chained transaction" characteristic of systemic trust is a logical consequence of its reflexive characteristic.

Systemic trust is circular (or reflexive), which means it is always prone to be disrupted — or, in other words, confidence in banking is in permanence susceptible to be shaken, because of the working of banking itself. In yet other words, systemic trust is unstable and needs an external anchor. Again, this reasoning is similar to that followed by Aglietta and Orléan in their works on money. As noted by Orléan (1995), the "relational" forms of trust identified with governance mechanisms and agency conflicts do not suffice to explain aggregate clients' behavior. Such behavior is often reduced to a "pure immanent logic" by mainstream economic theory; yet, contractual solutions to agency problems cannot fully satisfy the economist desirous to establish the absolute immanence of economic transactions, precisely because they involve a third party.[15] Repu-

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partners are not, as assumed by mainstream economists, individuals with different preferences seeking to coordinate their behavior. They are, on the contrary, individuals moved by the desire for the same object (since, according to Girard, most desires are mimetic) and their rivalry, in a world without money, would lead to destructive violence.

14 "Action is 'social' insofar as its subjective meaning takes account of the behaviour of others and is thereby oriented in its course" (Weber 1978, 4).

tation, viewed by some economists as a corrective mechanism (cf. Kreps and Wilson 1982), actually suffers from the very same flaws.[16]

The only way economic exchanges can work, according to Aglietta and Orléan (1982; 2002), is through the dual process of election and exclusion of money (i.e., its institutionalization) as unit of measurement of goods and services' value. Once money has been identified as the "pure quantity" against which all goods are valued, it is accepted. Acceptance of money has two sides, however: it obliges users to accept seigneurage, and monetary authorities must ensure that money is legitimate. As a result, money users are both accepting and legitimizing money. This view of money as a social institution gives a first hint as to the nature of banks as institutions.

But a fundamental difference between money as an abstract representation of social needs and social wants (a universal equivalent), on the one hand, and banks as organizations, on the other hand, lies in the fact that banks cannot be elected or excluded: as firms and organizations, they fully participate in the working of the social world. Thus banking needs a mechanism that substitutes the election / exclusion mechanism characterizing money. In other words, trust in banks cannot be complete without a transcendental element, which we here call vertical trust.

6. Vertical Trust: The Role of Authority and History

6.1 Uncertainty, Risk and Trust

Risk and uncertainty about the future are two key components of trust acknowledged in most of the theoretical literature.[17] According to Luhmann (1968), trust becomes necessary in cases of "risky investment." On the other hand, as Shapiro puts it, "only strategies that virtually eliminate agency and uncertainty are functional substitutes for trust" (1987, 636). It is because of this uncertainty about the future that there is a risk that the agent will not perform as desired by the principal — therefore, in order for the transaction to take place, the principal will have to trust the agent. Uncertainty lies in future events outside of the transaction and interaction; in the future behavior of the agent; and, as

[15] That is why responding to the problems of trust disruption by seeking to avoid trust altogether and relying instead on perfect information, as advocated by Chamley et al. (2012), is illusory.

[16] Indeed, Orléan argues that "the mechanism of reputation [as proposed by Kreps as a purely endogenous production of trust] implicitly relies on the use of non economic resources: the belonging to certain social networks" (2000, 60, author's translation).

[17] Interestingly, some recent works on bank runs have suggested to view the latter not merely as coordination problems, but as sudden increases in "uncertainty aversion" (Uhlig 2010; Epstein 1999).

noted by several authors, it is produced by trusting behavior itself (Bradach and Eccles 1989; Luhmann 1968).

Uncertainty and risk, however, have been understood in very different ways, which has bearing on our analysis of trust — "a theory of trust presupposes a theory of time," writes Luhmann (2000 [1968], 10). For neo-classical and transaction cost economics alike, risk consists of "exposure to probabilistic outcomes" (Williamson 1993, 466). There is no real difference between the future and the present; some economists do not have a "theory of time." Some sociologists seem to subscribe to this view too. For instance, Gambetta writes that trust lies in "the probability that [someone] will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with him" (1988, 104). For heterodox economists, on the other hand, uncertainty is of the "Knightian" type, i.e. not reducible to probabilistic risk. As Keynes writes, future events "can only be forecasted with more or less confidence;" significantly (for our present purpose) Keynes calls the state of "psychological expectations" about future events the "state of long-term expectations" (1973 [1936], 148). Building on Keynes, Minsky (1986) attributes to uncertainty the key role in the unstable dynamics at the heart of financial systems.

Knightian uncertainty also underpins banking and money. As John Commons (1934) argues, banks, as providers of credit, provide a present value to expectations about future income. It is this "futurity" that lies at the heart of debt relationships — including money. Money, in fact, can be seen as "debt issued primarily to transfer purchasing power from the future to the present" (Wray 1992, 301). The importance of "futurity" in banking has been acknowledged by early theorists of banking, such as Henry Thornton and Henry MacLeod. But it has been largely downplayed in more recent works within the financial intermediation theory, mostly geared towards understanding the role played by banks with regard to the reduction in information asymmetries (as shown in section 1 of the present paper). An exception, in this regard, is the suggestion by Allen and Gale (1997) that one of the key functions of banking is to smooth inter-temporal risk. That is, banks are able to accumulate capital in good times and use it in bad times. As Ayadi et al. point out, "[c]reating and unlocking reserves is a specific technique of risk management" (2010, 108). This argument is an extension of the liquidity creation thesis (Diamond and Rajan 2000), according to which access to refinancing at low cost and the ability of banks to enforce repayment or liquidate bad loans are key determinants of banks' ability to create liquidity. However, while the liquidity creation thesis is pretty much a synchronic theory of banking, Allen and Gale introduce a diachronic element that overcomes the limitations of mainstream intermediation theory, thereby establishing a link with institutionalist or "chartalist" theories which placed uncertainty at the heart of their understanding of credit and money.

Yet this does not help us to make significant progress in our understanding of trust in banks. Banks, indeed, help reduce uncertainty about the future by giving a present value to expectations about future income and therefore provide a sounder basis for trust in commercial transactions. But this brings us back to one of the problems identified earlier by Zucker and Shapiro, and discussed in the first sections of the present paper: if, indeed, banks produce trust by reducing uncertainty, what does that tell us about trusting banks themselves? How can we trust the guardians of trust?

6.2 From Hierarchical Confidence to Vertical Trust

The discussion in section 5 has established that trust in money (and in banks) "is not an inter-individual relationship, but the relationship of each private agent with society as a whole" (Aglietta and Orléan 2002, 104). Systemic trust (or confidence) is a key element of the "institutionalist" or "chartalist" theories of money on which Aglietta and Orléan base part of their analysis. As seen above, Aglietta and Orléan have argued that money arises out of a dual process of election and exclusion. For money to work (as a third party "arbitrating" mimetic rivalry), however, agents need to have confidence in it. Confidence is the "unconditional acceptance of money" according to the same authors. Since it is both reflexive and unnatural (because not founded on an elusive intrinsic value), it is fragile; since it is fragile, it needs to be maintained. To be maintained, it needs an external anchor.

This is where monetary authorities play a key role. This crucial anchoring of systemic trust produced by regulatory institutions also helps stabilize uncertainty. This is something that economists who emphasize the role of trust and at the very same time seek to establish a strong negative connection between regulation and trust, even in banking, do not seem to understand (see, for instance, Aghion et al. 2010). Aglietta and Orléan (1998) call this element "hierarchical confidence," and it is dependent on the authority of the state — after all, the history of money shows a close relationship between confidence or acceptance and sovereignty. In addition, money is not limited to private transactions — it is used by the state directly when it taxes and spends.

In Aglietta and Orléan's analysis, however, "hierarchical confidence" is limited. In particular, it is "insignificant in front of the unleashing of rivalries triggered by the power of money" (2002, 105). Moreover, the power of hierarchical confidence is limited by the rise of the individual, which is, as Aglietta and Orléan argue along with many others including Norbert Elias (1987), concomitant with the affirmation of absolutist states. There is an individual form of confidence — termed "ethical trust" — that bounds sovereignty: "To be legitimate from an ethical point of view, monetary policies must be in conformity to a monetary order, [which subjects monetary policy] to the primacy of the maintenance of the value of private contracts over time" (Aglietta and Orléan 2002, 105 f.). There is, in other words, a dialectical relationship between "hierarchical confidence" and "ethical trust:" none is self-sufficient, they both depend on the other. This conclusion is in line with Aglietta and Orléan's theory of (endogenously generated) money, whereby it "proceeds from a diffuse and rooted confidence that is originally founded in mimetic adhesion" (2002, 102).

This view pits Aglietta and Orléan against authors linked to Chartalism, such as Georg Friedrich Knapp, who insisted, in apparent conflict with the endogenous view exposed above, on the state origins of money (and credit): "Money is a creature of law" (1924, 1). There are two ways Knapp himself reached that conclusion: first, by observing the arbitrary nature of the choice of a means of payments by rulers of the state. Secondly, as Knapp pointed out, money is a form of debt. Since the state plays a key role as the final guarantor of debt repayments, it is indeed the ultimate creator of money — and as such the main source of confidence in it. The differences of opinion held by Aglietta and Orléan, on the one hand, and by Knapp, on the other, have a double origin. First, while Aglietta and Orléan analyze the genesis of money from a purely abstract perspective, Knapp's analysis is firmly grounded in history — more precisely, in legal history, as he himself points out. The historical key role played by the state in the transformation of debt and money actually seems compatible with the view of money as the outcome of mimetic rivalry. Secondly, it seems that Knapp and Aglietta and Orléan do not put the same emphasis on private credit as a source of money. Of course, Aglietta and Orléan, like most heterodox thinkers, acknowledge both the nature of money as debt and the *historical* role of private credit (i.e. banking) in creating money.[18] But their theoretical model does not leave room for banks and furthermore downplays the importance of the state in banking transactions: "the debt-credit private relationship can become the vector of capital circulation that is only distantly dependent on monetary authorities" (2002, 142).

By contrast, Knapp recognized early on the role banks play in creating money, anticipating to a large extent the crust of Keynesian theories of banking sixty years later, while observing that this role leads to a very strong relationship with the state: "if at first we entirely disregard its relation to the State (which often comes in later), a bank is a private undertaking for profit, which carries on a strictly defined kind of business. But, because its activities are at the same time undeniably beneficial to the public, the State, with all its restrictions and supervision, takes pains to give them its powerful support" (1924, 129).

Knapp's views on banking and the state are echoed in John Commons' writings, which should allow us to better grasp this "hierarchical" component of trust in banks. As Commons argues, banks operate in a regime of monetized

18 See, in particular their edited volume (1998).

debt: money *creates* a new regime of impersonal debt relations. Thus it is not socio-demographic change that undermines the bases of personal trust (Zucker 1986), but the formation of modern capitalism is consubstantial with impersonal interactions; this gives confidence and/or trust an even more central role to play in capitalism.

Another major insight to be found in Commons' works lies in the argument that commodification (of debt) and institutionalization (of money) proceeded hand in hand — they are two interrelated phenomena. On the one hand, indeed, what started as metallic money to pay tax and private debt eventually "ceased to be a commodity. It became an institution, namely, Legal tender, the collective means of paying public and private debts" (Commons 1934, 392). On the other hand, release from debt meant that the personal promise involved with repayment of debt should be abandoned, i.e. that the personal link between debtor and creditor should be severed. Until then "a promise had been considered a duty to fulfil the promise only to the person to whom the promise was made. It was a personal matter. […] a promise to marry cannot even yet be sold to a third party. It would be slavery, peonage, or concubinage, under the guise of freedom of contract" (*ibid.*, 393). Instead, the promise to pay legal tender money could be bought and sold. This was, in Commons' words, a lawyer's invention. Indeed, Commons sees the emergence of a capitalist system based on monetized debt as the outcome of a process of legal transformation that was in part motivated by merchants' desire to better enforce contracts (through the "parol" or "behaviour" contract, which appeared in common law in the 16th century) and improved the negotiability of debt.

This analysis seems close to the arguments put forward by Knapp. The legal foundations of modern capitalism (and the credit system in particular) confer to the state a primary role in stabilizing expectations about the future.[19] In banking, both regulations and the existence of a lender of last resort fulfil that role. In modern economic theory Keynesians have, again, been forceful in arguing that, while banks are private firms motivated by profit (Tobin 1963; Minsky 1986), their ability to create money is kept in check by central banks since, as Wray puts it, "prices do not serve as sufficient check on credit demand" (1992, 305). In addition, as Minsky points out, central banks are the ultimate way to satisfy banks' preference for liquidity.

In other words, banks' ability to reduce uncertainty about the future (and create trust) is conditioned by a form of "hierarchical confidence" that is the outcome of a long historical process. We call this form of confidence "vertical trust,"[20] and "synchronic" that form of vertical trust created by bank regulations

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19 This view also fits Pierre Bourdieu's observation (2012) that the state operates as a principle of legitimate representation of the social world and intervenes in the structure of temporality itself.

and regulatory institutions. Of course, this form of trust immediately raises the issue of infinite regression already mentioned by Shapiro (1987).[21] There is no definitive answer to this objection. However, the democratic state as the sovereign political institution does represent additional guarantees (of trustworthiness).

6.3 Vertical Trust: Diachronic Elements

The "synchronic" aspect of vertical trust seen above provides an anchor to systemic trust and operates on the banking system as a whole. However, there is a second aspect of vertical trust that operates at the level of single banking organizations — we call this "diachronic vertical trust." This form of trust is produced by individual banks' history. Bank-client relations are, indeed, historically embedded, and the varying degrees of historical embeddedness of bank-client relationships might determine varying degrees of trust in particular banking organizations (types). For instance, the rooting of most European cooperative banks in a long, local history might be the reason why clients trust them more than joint-stock banks for returning their deposits on demand (see Butzbach and von Mettenheim 2014). Indeed, there is substantial empirical evidence showing the greater stability of cooperative banks (and the preference of bank clients for this type of bank) in times of crisis (see Ayadi et al. 2010; for a review of the literature, see Butzbach and von Mettenheim 2014, especially chapter 3).

Such source of trust is "vertical" in the sense that it transcends the particular position of bank *i* at time *t*. Thus it operates on similar grounds as "synchronic vertical trust," which also transcends the particular position of any bank, this time through the authority of sovereign political power.

7. Methodological Implications

The approach proposed here consists of viewing trust in banks as a multidimensional phenomenon, both in cognitive and behavioral terms. The loss of simplicity in conceptualization certainly presents several challenges. One such challenge is to find alternative methods for measuring trust with respect to the rather straightforward measures of cognitive trust performed through surveys of bank clients. If, as is argued here, trust is both cognitive and behavioral and is also social and processual, then trust loses predictive power as a variable. On the other hand, however, a multi-layered conceptualization of trust such as the

[20] Again, for the sake of terminological clarity, we opt for the term "vertical trust," which is, however, synonymous to "hierarchical confidence" in the realm of money.

[21] The regression is: "who will guard the guardians of trust?"

one proposed here may open the way for fruitful methodological approaches that may be better at hypothesis-testing. Other authors (cf. Marozzi 2015) have proposed composite indicators to measure trust, on the ground that trust is a multi-dimensional phenomenon.

The various dimensions of trust conceptualized here might be easily transposed in a questionnaire for survey-types of investigation. However, such studies should be integrated with data over realized preferences and *ex-post* behavior by economic agents. The same distinctions operated by Spicer and Okhnatovskiy (2015) in their study of Russian banking might be used to analyze actual behavior by bank clients, and in particular (a) the decisions to hold cash over money in bank accounts (for measuring systemic trust); (b) the decisions to hold money at one specific (type of) bank rather than another; (c) the decisions to withdraw money from one bank and transfer it to another type of bank. An illustration of such measure in line with the point made in the previous section may be drawn from the experience of not-for-profit, cooperative banks in the United Kingdom (building societies) during the 2007–08 crisis. The data in figure 1 shows how at the peak of the banking crisis (between September 2008 and March 2009), when British commercial banks experienced large withdrawals of funds, British building societies actually saw an increase in funds held.

Conclusions

This paper has presented a tentative framework to conceptualize trust in banks. Trust in banks has three dimensions: it is relational, systemic and vertical. As figure 2 shows, each of these three dimensions corresponds to a particular level and a particular basis of trust: relational trust is specific and combines cognitive and behavioural elements; systemic trust is general (system-wide) and also combines cognitive and behavioural elements. By contrast, vertical trust mostly relies on a cognitive basis. As argued above, vertical trust has two aspects: synchronic and diachronic elements. Synchronic vertical trust is general: it closely resembles the mechanisms that lead to the acceptance of money and is generated by the functioning of general state institutions. Diachronic vertical trust is specific, i.e. it is linked to specific organizational forms; it is rooted in the historical depth of bank-client relationships.

More importantly, perhaps, these different dimensions of trust are interrelated, as Curral and Inkpen (2006) suggest. "Co-evolution" of trust in banking consists of a peculiar articulation of its various dimensions: relational trust in banks participates in building systemic trust; on the other hand, an erosion of systemic trust also affects relational trust. In other words, in a banking crisis bank customers start evaluating the comparative performance of their bank with more attention—relational trust is more fragile. Systemic trust, for the reasons seen above, is also fragile because of its reflexive nature — it needs a transcendent anchor, provided by synchronic vertical trust, i.e. bank regulations and state institutions. Finally, diachronic vertical trust is influenced by synchronic vertical trust. If, for instance, the banking sector is undergoing fundamental changes in its organization and functioning due to regulatory changes and synchronic trust therefore weakens, bank customers will tend to put a premium on the bases for diachronic vertical trust, i.e. value more an alternative anchor for their expectations, namely the historical embeddedness of their bank-client relationships. On the other hand, diachronic trust strengthens and feeds into relational trust.

The conceptual framework presented here is sketchy and needs to be fleshed out: in particular, there is a need for establishing a better connection between trust theory, as presented here, and measures of trust in banks. However, this is, we believe, an important task. Despite the peculiarity of banking, or perhaps because of it, a better understanding of trust in banks might yield interesting observations for more general theories of trust. More importantly perhaps, it may help solidly anchor contemporary banking theory into institutional analysis. If trust in banks is simultaneously, as argued here, relational, systemic, and vertical, it is because of the twin nature of banks as individual organizations and as interrelated institutions.

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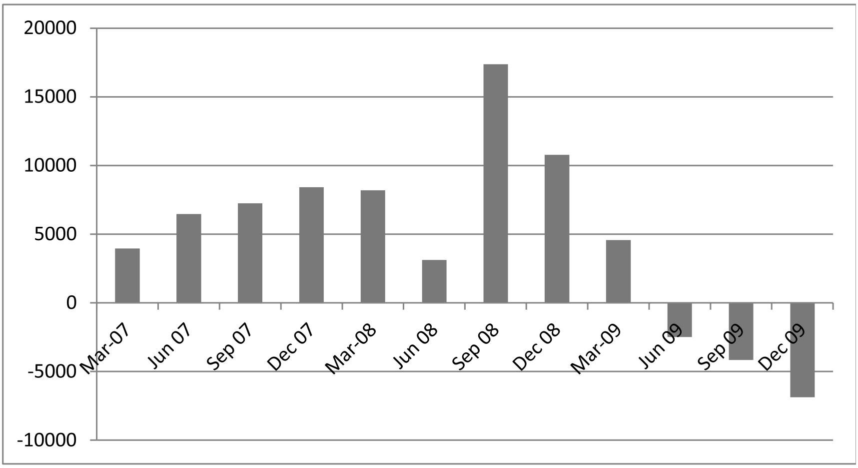
Appendix



Source: Bank of England statistics

Figure 1: Quarterly changes in holdings
at British building societies' accounts, amounts outstanding, 2007 – 2009

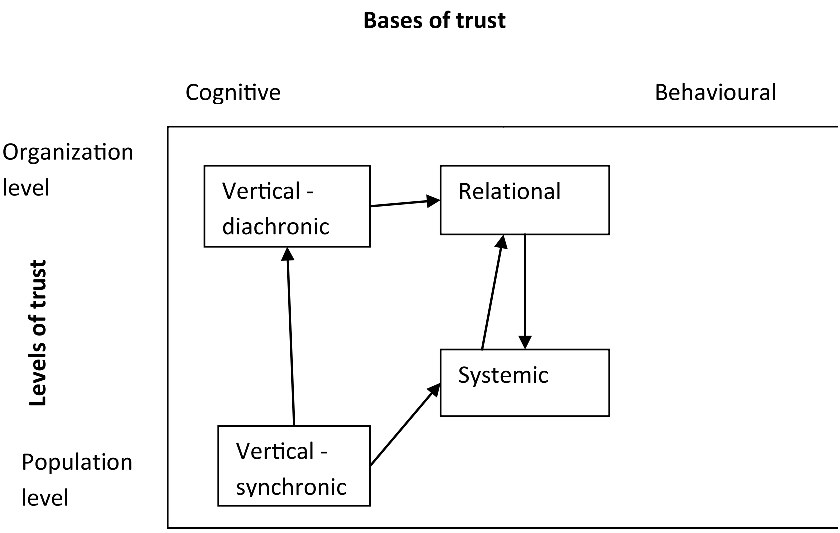


Figure 2: Articulation between the different levels of trust in banks