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The Social Control of Impersonal Trust[1]

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How do societies control trust relationships that are not embedded in structures of personal relations? This paper discusses the guardians of impersonal trust and discovers that, in the quest for agent fidelity, they create new problems. The resulting collection of procedural norms, structural constraints, entry restrictions, policing mechanisms, social-control specialists, and insurance-like arrangements increases the opportunities for abuse while it encourages less acceptable trustee performance. Moreover, this system sometimes leads people to throw good "money" after bad; they protect trust and respond to its failures by conferring even more trust. The paper explores the sources and consequences of the paradox that the guardians of trust are themselves trustees.

In a recent issue of this Journal, Mark Granovetter presented a compelling theoretical commercial for examining the role of "concrete personal relations and structures (or 'networks') of such relations" in which economic action in modern industrial society is embedded (1985, p. 490). He pitted this "embeddedness" approach against those of both neoclassical and reformist economics which present, respectively, "undersocialized" and "oversocialized" explanations of action. Granovetter rejects the assumption, paradoxically shared by both these accounts, of an anonymous marketplace made up of autonomous actors atomized from their social moorings. Citing examples of trade associations, interlocking directorates, sociability among business elites, ongoing relationships between purchasing agents and suppliers, quasi-firm arrangements reflecting long-term associations between contractors and subcontractors, the structure of labor markets, and interfirm mobility, he asserts that "transactions of

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all kinds" at all levels of the firm "are rife with . . . social connections" (pp. 495–99).

The argument, of course, is not merely that accounts that fail to perceive the extent to which economic action is embedded in social relations are empirically blind and theoretically naive. It is that they also misunderstand the sources of economic behavior. Take the problem of generating trust and discouraging malfeasance in economic life. Granovetter argues that social relations and the obligations inherent in them, rather than generalized morality (the oversocialized conception) or institutional arrangements like contracts or authority structures (the undersocialized conception), "are mainly responsible" for the production of trust in economic life (p. 491).

Unfortunately, because this discussion serves as an example rather than being the main thrust of the article, it contains no definition of trust (which arouses some fear about whether the association posited between trust and social relations may be a bit tautological), and the evidence presented in support of assertions about the ubiquity of embeddedness and its link to trust is somewhat thin and anecdotal. Still, I think a relationship is undeniable and will be supported and elaborated by further conceptual and empirical work.

In this article, I take a related, though somewhat different, tack. I pursue an intriguing aside in the original article, one that was intended to disavow in the embeddedness perspective any of the functionalist underpinnings that plague the other two theoretical approaches. Granovetter suggests that there are two strategies for minimizing the risk of functionalist analysis:

> One is to recognize that as a solution to the problem of order, the embeddedness position is less sweeping than either alternative argument, since networks of social relations penetrate irregularly and in differing degrees in different sectors of economic life . . . The second is to insist that while social relations may indeed often be a necessary condition for trust and trustworthy behavior, they are not sufficient to guarantee these and may even provide occasion and means for malfeasance and conflict on a scale larger than in their absence. [P. 491]

This article explores the flip side of Granovetter's thesis. It examines the proposition that "networks of social relations penetrate irregularly and in differing degrees in different sectors of economic life." But it views variability in embeddedness not merely as the exception that proves the rule but rather as exposing significant and intriguing patterns of social organization that create unique problems for social order. Neither does it assume that social relations are a necessary condition for trust. It considers them sufficient conditions, at best, and investigates the sources of trust, if any, when economic transactions are *not* embedded in social relations. The article also amplifies Granovetter's second proposition—that the sources of trust may (ironically) provide the opportunity and means for its abuse. It describes the social-control strategies that respond to these abuses of trust and exposes the dialogue between deviance and social control that befuddles the institution of impersonal trust.

THE SOCIAL ORGANIZATION OF AGENCY

It is not surprising that Granovetter chose not to define trust. Its conceptualization has received considerable attention in recent years, resulting in a confusing potpourri of definitions applied to a host of units and levels of analysis.[2] Many of these definitions regard trust as a property either of individuals or of the emotional content, common understandings, or reciprocities of their interpersonal relationships (using "trust" more or less synonymously with feelings of faith, confidence, expectation, reliance, security, etc.). In these definitions, personal embeddedness implicitly represents a necessary, if not also a sufficient, condition for trust.[3]

One can tease out a third usage from the literature, in which trust describes a kind of social organization. This conception has two elements: an idea of "agency," in which individuals or organizations act on behalf of others (known as "principals")[4] and one of risky investment (Luhmann

[2] A sample of the various conceptions of trust in sociological and related literature includes Blau (1964, 1968), Cohen (1966, pp. 4–5), Deutsch (1958, 1962), Garfinkel (1963, 1967), Heimer (1976, 1978), Henslin (1968, 1972), Holzner (1973), Lewis and Weigert (1985*a,* 1985*b*), Lipset and Schneider (1983), Luhmann (1979), Reiss (1974, 1984), Short (1984), Silver (1985), and Zucker (1986). See, especially, Barber (1983) for a comprehensive review and analysis of the "logic and limits of trust."

[3] From this perspective, trust is established by the gradual escalation of properly conceived and timed reciprocities in personal ongoing exchange relationships. Peter Blau's work on social exchange exemplifies this view of embeddedness as the bedrock of trust: "Social exchange, therefore, entails supplying benefits that create diffuse future obligations. . . . Since the recipient is one who decides when and how to reciprocate for a favor, or whether to reciprocate at all, social exchange requires trusting others. . . . Typically, however, social exchange relations evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relation and engage in major transactions. Thus, the process of social exchange leads to the trust required for it in a self-generating fashion. Indeed, creating trust seems to be a major function of social exchange, and special mechanisms exist that prolong the period of being under obligation and thereby strengthen bonds of indebtedness and trust (1968, p. 454).

[4] E.g., ". . . to depend voluntarily upon the actions of others . . ." (Lewis and Weigert 1985*a*, p. 464) or ". . . to relinquish control over some valued possession, prerogative or event to another actor" (Heimer 1978, p. 3). Others write of partners in interaction (Blau 1968, p. 454; Deutsch 1962; Luhmann 1979, p. 42; Barber 1983, p. 9; Stenning et al. 1986). For discussions of the concept and implications of "agency," see the work of Jensen and Meckling (1976), Mitnick (1975, 1976, 1984), Stinchcombe (1986), and *Restatement of the Law, Agency* (1983).

1979, p. 24), of future contingency, inherent in agency relationships.[5] Trust is used here in this third sense, as a social relationship in which principals—for whatever reason or state of mind—invest resources, authority, or responsibility in another to act on their behalf for some uncertain future return. Common networks of social relations shared by principal and agent may provide a sufficient incentive for trust—but not a necessary one. In order to understand the various ways in which embeddedness penetrates these trust relationships, it is necessary to take a sustained look at both the sources of agency in complex societies and principals' responses to uncertainty.

Agency relationships are found even in relatively simple types of social organization, from the division of responsibility in the nuclear family to the informal reciprocities among children at play. But they especially accommodate more complex forms of organization. Agency fuels social differentiation. Agents bridge the social and physical distances that otherwise limit social exchange. Agents incite and facilitate collective forms of action.

The most commonplace forms of agency accompany role specialization and the segmentation of tasks into discrete operations associated with social differentiation and the division of labor. Responsibility for meeting basic human needs in differentiated societies is increasingly delegated to others, often, indeed, to a chain of strangers (see also Luhmann 1979, p. 52, and Simmel 1950, p. 313). With the weakening of the extended family, the state and formal organizations often substitute for kinship in providing for the needs of the young, elderly, and infirm. Parents entrust their children to day-care workers, teachers, and housekeepers; their parents to nursing homes; their senile and incompetent relatives to guardians or conservators; and their estates to foundations and to probate or surrogate courts. Employers transfer custody of their property to secretaries, clerks, truck drivers, assembly-line workers, and guards. Others turn over their assets or possessions to experts, stockbrokers, doctors, mechanics, dry cleaners, and the like, to provide services they are unable to perform themselves.

Specialization and differentiation require that agents be entrusted not only with property for processing, maintenance, investment, custody, or repair but also with the task of information collection. However capable

[5] Stenning et al. (1986) express this notion most evocatively: "Trust permits action to unfold in situations in which one party must act before they know that the other will play their part" (p. 5). Others make similar assertions: "trust as a gamble" (Luhmann 1979, p. 24); ". . . prepayment made by him who trusts" (Luhmann 1979, p. 53); choosing to take an ambiguous path that can lead to a beneficial or harmful event (Deutsch 1962); ". . . supplying benefits that create diffuse future obligations" (Blau 1968, p. 4).

they may be as data gatherers, individuals and organizations, constrained by their own specialized role obligations, rely on the representations of the news media, research services (like *Consumer Reports* or investment advisory publications), or advertisers. Corporate boards of directors depend on the information provided by management. Social science researchers use the material provided by interviewers or the classifications constructed by coders, not to mention secondary data like the U.S. Census, Uniform Crime Reports, and NORC General Social Survey. Science progresses by the cumulation of knowledge generated by competing scientists and laboratories.

Agents process and interpret data as well. Most principals are unable to render medical diagnoses, to test the safety and purity of food and drugs before ingesting them, to conduct structural tests of skyscrapers before entering them, or to make safety checks of elevators, automobiles, or airplanes before embarking on them. They must rely on the representations and assessments of experts.[6]

The proliferation of agency relationships derives as much from the increasing scope of production and exchange that creates barriers of access to information and property as from the mere existence of specialization and differentiation and the efficiencies that arise from delegating to agents. Principals entrust agents to bridge the barriers of direct physical access to information and property.[7] They often rely on data provided by agents because their own physical distance from the sources—be they starving children in Bangladesh or Ethiopia, news events in Latin America, choice vacation property in Arizona or Florida, gold mines in South Africa, or tanks of salad oil in Bayonne, New Jersey—precludes personal data collection.

Agents provide access by bridging social distance as well. To create efficiencies and facilitate exchange in dispersed and impersonal markets, agents mediate, broker, represent, lobby, "interface," "network," and so on. Other agency relationships compensate for institutions of secrecy or privacy that protect data sources and bar investigation by principals themselves. Investors, for example, must rely on the official disclosures of certified independent auditors because exposing corporate books and records to public scrutiny would reveal proprietary information or trade

[6] Barry Mitnick has labeled agency relationships created because the principal lacks ability or expertise, "contentful agency," and those created because of the need to delegate responsibility for performing tasks of which the principal is capable, "practical" or "structural" agency (1984, pp. 18–19). See also Stinchcombe (1986) and White (1985, p. 204).

[7] See also Harrison White's concept of "rooted specialization," "specialization by localization, by accumulating familiarity with the details of local situations" (1985, p. 205). See also Stinchcombe (1986).

secrets useful to competitors. Newspaper readers will generally accept unsubstantiated accounts when reporters have had to promise confidentiality to their sources.

The richest and most intricate agency relationships arise from collectivization. Principals often entrust their property to strangers, having recognized the value of aggregating their assets with those of others to enjoy economies of scale and to spread risk.[8] By joining a money market fund, they command higher rates of interest for their meager savings than are otherwise available. By entrusting funds to an insurance company, they enjoy considerable protection at relatively small cost (see especially Stinchcombe 1984). Investment in corporate securities, participation in pension and retirement funds, membership in credit unions, and the like represent aggregative strategies to increase the value of personal property while minimizing risk.

These collective forms of agency frequently expand the temporal frame of social exchange, systematically anticipating and exploiting future contingencies. Principals transfer money or property to organizational agents in the expectation of some future payoff in the form of interest, dividends, pensions, inheritance, insurance benefits, or better health. Many important personal and corporate decisions about whether to invest money, extend credit, permit a surgical procedure, or grant tenure are based on representations about future risks, probabilities, and prospects. These "futures transactions" require even more resilient agency relationships than those that delegate property or responsibility to employees, experts, data collectors, or brokers. They demand that commitment be conferred far in advance of payoff without any necessary confirmation during the interim that the return on investment will eventually be honored.[9] Agency arrangements serve as a temporal conduit, connecting relevant past events and future contingencies with present resources.

The proliferation of intangible symbolic forms of wealth and property represents still another manifestation of collective agency. Symbolic capital supplies the currency of complex collective-agency relationships, creating liquidity and lubricating futures transactions. These "new properties" include forms of government largesse: licenses, franchises, medal-

[8] Mitnick would label this type of relationship "systemic or collective agency," which arises when agents act as entrepreneurs, absorbing the risks and reducing the uncertainties, to achieve collective forms of action (1984, p. 19).

[9] In this light, it comes as no surprise that futures institutions have chosen names like "securities," "social security," "insurance" (which means to guarantee, to make safe), and "credit" (which derives from the Latin "to believe") and that many banks and insurance companies bear names containing the words "trust," "fiduciary," "fidelity," "guardian," "guaranty," and "assurance," not to mention, "prudential," "provident," "beneficial," and "equitable."

lions, subsidies, social insurance, contracts, etc., to which Charles Reich (1964) referred when he coined the term. They also include promissory symbols such as paper money, checks and credit cards, bank accounts, pensions, patents, and royalties. Investors enthusiastically buy commodities futures contracts for pork bellies, potatoes, soybeans, or stallion semen (Flanagan 1984), items of which they never plan to take possession. Others forsake ownership of stocks or bonds, themselves rather elusive forms of symbolic ownership, for the even more ethereal investment in options to buy these stocks. Meanwhile, still others abandon the commodity or corporate equity that supports their investment, opting instead to place their wealth in such second-order instruments as stock-index, interest-rate, or currency futures or options.[10]

With the vast assortment of symbolic forms of wealth available, individuals can continually roll over their investments, trade one account, certificate, contract, or option for another—often by electronic means—without ever taking possession of the underlying wealth that these symbols represent. They willingly substitute worthless pieces of paper or plastic or electronic impulses (often held in custody by yet other strangers) for material wealth in the belief that symbolic promises can be readily exchanged for tangible property of equal value.

THE DILEMMAS OF AGENCY

In a provocative essay, Niklas Luhmann argued that trust serves to increase the potential of a system for complexity (1979, p. 8). As we have seen, the potential for complex forms of social organization afforded by agency relationships seems infinite: global exchanges unencumbered by distance, time, commodity, or familiarity, economies of scope and scale, transactional liquidity, expanding temporal possibilities, protection from risk, the magical ability to create wholes that are greater than the sum of their parts, and a rich material and cultural life.

Yet these very factors that drive principals into agency relationships also offer opportunities for agent abuse (Clark 1985, p. 77). Trusted individual and organizational agents control property they do not own. They have the capacity to create wealth and discretion over the distribution of opportunity. Agents create and disseminate information that cannot be verified by its recipients because of their lack of expertise or access to data sources (Arrow 1985, pp. 38–39). Agents structure futures trans-

[10] Indeed, these "so-called derivative securities have become more important than the markets they shadow. The value of all NYSE (New York Stock Exchange)–listed securities traded daily now averages $3.5 billion, while the underlying value of stock options is three times that—$11.2 billion" (Lee 1986, p. 150).

actions that require commitment far in advance of the promised payoff and therefore provide a temporal niche in which to amass and exploit these investments without regard for future obligations. Agents create and administer symbolic wealth, often taking custody of tangible property in exchange for worthless promissory symbols of potential earnings. And, even when they resist these temptations, trustworthy agents are beset by conflicting claims from their various role identities that may undermine overall fidelity. Agents therefore hold structural opportunities to "take the money—in all its manifest forms—and run," while unwitting principals, blinded by distance, organizational structure, secrecy, and lack of expertise, idly await the future dividends of symbolic promises made by faceless strangers.[11] Hence, the problem of trust.

Principals cope with these potential risks and uncertainties in a number of ways. Some avoid or limit their participation in agency relationships. A proverbial few keep their money in mattresses, literally and figuratively—fearful of futures transactions and cautious about transforming their tangible property into a symbolic share of collectivized wealth. Some forgo the benefits of a rich division of labor, delegating little responsibility or property to others and becoming jacks-of-all-trades. Others develop selected expertise to reduce their reliance on agents—becoming lay doctors, mechanics, financial planners, "jailhouse lawyers," and art experts (Molino 1984)—or, at least, seek out second opinions. Large corporations acquire the expertise of formerly independent agents by buying them out and merging them into the corporation as a subsidiary (Stinchcombe 1986); vulnerable economic transactions are internalized within hierarchically organized firms rather than performed by market processes across these firms (Williamson 1975). But forgoing these agency relationships considerably constrains efficiency, affordability, richness of experience, and protection from risk. Carried to an extreme, it produces paralysis.

Second and alternatively, principals attempt to reduce their exposure to agent abuse by spreading their risk (Heimer 1976). Banks frequently sell their consumer and corporate loans to other corporations, pension funds, and insurance companies (Sandler 1984). Insurance companies develop reinsurance arrangements whereby they resell portions of their policies to other insurers who accept part of the risk in return for a share of the premium. Corporations enter interest-rate swaps, exchanging a

[11] Economic analyses of agency relationships imply that such abuse is economically rational and, indeed, inevitable under certain conditions (see, e.g., Jensen and Meckling 1976, p. 313). But equating the structural opportunities to abuse agency and the actual seizing of these illegitimate opportunities obscures the difficult task of accounting for the latter (something to which neither economists nor sociologists have made much of a contribution).

fixed-rate cash flow for that with a floating rate (Bleakley 1985). Investors purchase stock-index futures or options to hedge against possible loss from their securities holdings (Lee 1986). But these actions escalate problems of abuse as much as they reduce them (Sandler 1984; Bleakley 1985). They create new forms of collective agency. They increase the physical and social distance in agency relations, further impeding surveillance. They introduce new disabilities of expertise, since the second-order principals who repurchase risky transactions rarely have the particularistic risk-assessment experience possessed by the original. And they diminish the incentives for these first-order principals to enter agency relationships cautiously (so-called lending discipline in banking) because they are able to pass along these unwarranted risks to others (Sandler 1984).

Personalizing the agency relationship by embedding it in structures of social relations (Granovetter 1985) represents a third coping mechanism. Principals may limit their relationships to known agents, members of their social networks, kinship or ethnic groups, or neighborhoods. They entrust parties with whom they have ongoing relations, whose performance has been tested in the past and is readily subject to surveillance in the future. In short, principals forge agency relationships based on familiarity, interdependence, and continuity that provide strong incentives for trustworthy performance and a potent array of informal social control options to punish abuse (Granovetter 1973, p. 1374; Granovetter 1985, p. 490; Zucker 1986, pp. 60–63; Burns 1977; Macaulay 1963; Velez-Ibanez 1983; Galanter 1974, pp. 124–35; Heimer 1976).[12]

Granovetter is probably correct in observing that, when faced with the choice, individuals and organizations invariably opt to transact with those of known reputation or, better yet, with those with whom they have had past dealings (1985, p. 440). His use of examples, cited earlier, of the social ties that bind *established* firms and their members who are engaged in *repetitive* transactions or have *ongoing* relationships in the *same* community, industry, or labor market clearly illustrates this preference. But embedding agency in social relations is not always possible. Indeed, there is a systemic link between the sources of agency—particularly those bridging physical and social distance and facilitating collective action—and the absence of opportunities to personalize these relationships.[13]

[12] Granovetter goes so far as to suggest that leaders ". . . have little motivation to be responsive or even trustworthy toward those to whom they have no direct or indirect connections" (1973, p. 1374).

[13] See Zucker's (1986) intriguing analysis of the effects of increasing cultural heterogeneity (arising from immigration and internal migration); exchange across group boundaries and social and geographic distance; and the volatile growth, failure, and turnover of organizations on the demise of what she calls "process-based" (i.e., personal) trust in 19th- and early 20th-century America.

This coping strategy, for example, virtually precludes participation in collectivized forms of agency that aggregate and depersonalize and limits transactions in symbolic wealth effected by faceless market mechanisms. In complex labor markets, one can still find the dedicated family doctor among the one-shot specialists and interchangeable HMO staff physicians, the loyal attorney among the anonymous collection of law firm associates and the highly turned-over stable of franchised legal-clinic lawyers, the trusted neighborhood mechanic among the AAMCO transmission and Midas muffler shops, and other familiar specialists who provide ongoing expertise to meet individualized needs (however, see Stinchcombe 1984, pp. 864–65). But analogous long-term relationships with trusted bankers, stockbrokers, insurance agents, and others (who usually represent huge corporations that merge and divest or shift their management and ownership and, therefore, their "identities," and who often act as intermediaries between still other faceless individuals and corporations) merely provide a personalized smokescreen for inherently collective forms of action.

Collective agency not only makes a sham of the possibility that principals control the selection of agents; it also undermines the other two tenets of personalized social control: that agent performance is accessible to principal's scrutiny and that ongoing relationships between principals and agents provide the mechanisms to deter and, if necessary, to punish unacceptable agent performance. I will say more about this shortly.

Contract represents a fourth strategy by which principals can assume some control over the behavior of those who act on their behalf.[14] Contracts enunciate the principal's preferences and priorities, disclose the responsibilities and obligations of agents, explicitly state the procedures agents are to follow and the decision rules they are to employ (thereby limiting agent discretion), plan for contingencies, create incentives for contractual compliance, and specify sanctions to be imposed if agreements are not kept. Principals and agents engage in "norm making"; they formulate a unique normative agenda appropriate to their relationship.

Although contractual control offers an alternative to those unable to personalize their transactions, its efficacy in complex agency relationships is still limited (Pratt and Zeckhauser 1985, p. 16). First, there are so-

[14] Research findings suggest that transacting parties—even sizable business firms—prefer personalized over contractual control (Macaulay 1963). Still, the long history and popularity of prenuptial agreements and wills (Barber 1983, pp. 30, 40–43) suggest that contract plays a role even in transactions most securely embedded in structures of social relations. For a less contemporary and Western view of the trade-offs between personalized and contractual control, see Roy Mottahedeh's (1980) rich analysis of loyalties of category and acquired loyalties as the bases of commitment among men in western Iran and southern Iraq in the 10th and 11th centuries.

called specification costs (Mitnick 1984, p. 5). Principals cannot possibly control every agency relationship with contracts or pseudocontractual stipulations. From the treatment plant that purifies the water for their morning coffee and the multinational corporation that prepares their breakfast cereal to the television reporters who wrap up the nightly news for them and the pharmaceutical company that manufactures their sleeping pills, principals participate in agency relationships—many of them indirect, impersonal, or trivial—dozens of times every day.

Second, even if principals chose to exercise their contractual options, many agency relationships bind a single agent to scores of principals holding conflicting agendas about the exercise of agency discretion. It is far from clear how a responsible agent would reconcile the differing preferences of their principals for investment safety or profitability, for curing the majority or protecting a minority from serious side effects, or for saving an endangered species or spurring economic growth. Indeed, because agents are typically "repeat players" and principals "one-shotters," the benefits of repeated experience, access, and power that usually devolve to the former suggest that agents rather than principals generally set the normative agenda (Galanter 1974; Kessler 1943). Realistically, the only ready option available to the one-shotter principal for controlling diffuse, impersonal, collective agents is that of "exit"—boycotting firms or products, selling stock, moving bank accounts elsewhere, and so forth (Hirschman 1970).

A third difficulty with contractual specification of the norms of agency is that it often requires expertise and sophistication. Principals can place contractual limitations on agent performance; for example, they can ask auto mechanics to return the parts they replaced or require stockbrokers to consult with them before they trade their portfolio. But many principals hire a mechanic because they have not the faintest idea whether the parts are in working order and a stockbroker because they do not know when it is best to buy, sell, or hold on to their securities. It is precisely because principals are incapable of contractual specification that many of them enter agency relationships in the first place. Moreover, as critiques of contingent-claims contracting assert, uncertainty and complexity make it costly, if not impossible—even for sophisticated parties—to anticipate all future contingencies and specify appropriate adaptations at the outset (Williamson 1975, pp. 9, 64–67, 94).[15]

[15] Feldman and Kanter elaborate: "For even moderately complex problems . . . the entire decision tree cannot be generated. There are several reasons why this is so: one is the size of the tree. The number of alternative paths in complex decision problems is very large. . . . A second reason is that in most decision situations . . . neither the alternative paths nor a rule for generating them is available. . . . A third reason is the problem of estimating consequences. . . . For many problems, consequences of alterna-

Fourth, even if they are able to specify the responsibilities of agents, many principals are unable to monitor the performance of contractual commitments. Decedents cannot evaluate whether the executors of their estate truly complied with the stipulations of their wills. Secrecy, as well as the physical, temporal, and social distance inherent in many agency relations precludes principals' surveillance of agent behavior.[16] And lack of expertise further limits the ability of principals to evaluate what they are able to observe. Principals who lack the specialized knowledge of their agents and are excluded from the sites of agency action are therefore unable to articulate or enforce the norms that should govern agent behavior.

Despite their significant differences, personalized and contractual responses to the vulnerabilities of trust both require social connection between or, at least, access to their agents by principals. Indeed, in law, the concept of agency assumes that ". . . the alleged agent and principal have met each other face to face, or have talked on the telephone, or have otherwise communicated in a specific, individualized way"; moreover it also assumes that "the principal retains the power to control and direct the activities of the agent" (Clark 1985, pp. 58, 56). But, as we have seen, embeddedness, however desirable, sometimes proves elusive. Significant and far from exceptional acting-for arrangements, forged to bridge distance, provide expertise, or collectivize action, fail to meet the assumptions of personal and contractual control. In law, they are usually considered "fiduciary" relationships (Clark 1985, p. 217, n. 5); the basis of trust, if any, is therefore impersonal.

Impersonal trust arises when social-control measures derived from social ties and direct contact between principal and agent are unavailable, when faceless and readily interchangeable individual or organizational agents exercise considerable delegated power and privilege on behalf of principals who can neither specify, scrutinize, evaluate, nor constrain their performance.

Impersonal trust should be thought of as a continuous variable. The placement of an agency relationship on this continuum is determined by the availability to discrete principals of alternative mechanisms of social control that *they* can exercise to regulate their agents. The purest trustee role serves principals in cases in which they are unable to constrain their

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tives are difficult, if not impossible, to estimate" (1965, p. 615, as quoted in Williamson 1975, p. 23).

[16] See also Williamson's discussion of the intersection of "opportunism" (self-interest seeking with guile) and "information impactedness" (informational asymmetries)—the contractual problems that arise from "the proclivity of individuals to distort to their advantage the data to which they have preferred access" (1975, p. 255).

agent's performance. These cases can occur when (1) agency relationships are not embedded in networks of social relations, (2) relationships are episodic rather than continuing, (3) principals are "one-shotters" and agents "repeat-players," (4) principals cannot evaluate agent performance (because they lack access or expertise, are literally incompetent, or are committed to futures transactions and necessarily await delivery on agent promises), (5) agents have actual possession of principals' property (and, therefore, exit may not be a viable option for aggrieved principals), or (6) agency offerings are not easily rescinded or reversed (e.g., surgery).

THE GUARDIANS OF TRUST: THE SOCIAL ORGANIZATION OF DISTRUST

By definition, the principals of impersonal trust are vulnerable and impotent. Many of them certainly respond with avoidance, opting to forgo the rich benefits of agency; they choose not to trust. Yet others, who can neither bear the specification costs nor effectively persuade the myriad agents in their lives to comply with their preferences or act in their best interests or both, continue to participate in trust relationships. They walk into an unfamiliar branch office of their bank or into a hospital emergency room, pick up a newspaper or an issue of *AJS,* send off a premium to a life insurance company or a contribution to a charity, with assurance.

Even though they are dealing with strangers, these principals nonetheless put their lives, their fortunes, and their understandings of the world at considerable risk. Many rely on the trustees or guardians of trust, a supporting social-control framework of procedural norms, organizational forms, and social-control specialists, which institutionalize distrust (see also Zucker 1986, pp. 89–100).[17] Guardians make no assumptions about whether actors are oversocialized, undersocialized, or, instead, striving for social connection in their economic relations. They skeptically embrace all three accounts, offering a mix of normative prescriptions, socialization opportunities, institutional arrangements, structural constraints, and networking strategies. Which of these social-control measures (and the theoretical assumptions it reflects) best insures agent fidelity is, of course, an empirical question.

Some of these control measures are undertaken by agents or trustees themselves, many by government, some by principals collectively, and others by private entrepreneurs; indeed, there are markets for trust production (Zucker 1986). It may seem curious that agents voluntarily under-

[17] As Luhmann observes, "In practical terms, control over trust can only be exercised as someone's main occupation. Everybody else must rely on the specialist involved in such control, and thus is forced to remain on the periphery of events" (1979, p. 57).

take self-control. Many have learned that social-control initiative has considerable entrepreneurial value. By reassuring potential principals of their trustworthiness, agents may recruit formerly self-sufficient principals to use their services or divert agency business from competitors (Larson 1977; Gastwirt 1974, p. 6; Norris 1978). By undertaking industry-wide control measures, trustees seek to create or preserve monopoly, limit competition, or protect trust capital from erosion resulting from abusive practices of wayward colleagues.

The guardians of trust simulate the practices of risk spreading, personalizing, or contractually limiting agency relationships that principals ordinarily exert on their own behalf. Procedural norms and structural constraints on trustee roles imitate contract. Agent-selection procedures and policing mechanisms mimic personal social control. Insurance-like arrangements collectively spread risk or offer compensation for failures of social control.[18] Because these guardians offer delegated, collective, impersonal, generic social control, their imitations of principals' coping mechanisms fall short in significant ways that pose paradoxical dilemmas to principals and trustees alike.

Procedural Norms and Structural Constraints

When it is structurally difficult to tell agents how to behave or exercise their discretion properly, and even more formidable to specify the desired outcomes of their efforts, norms that procedurally constrain the agency process provide an alternative. The relationship between these general norms and the unique contractual norms that ideally control a given agency relationship is somewhat akin to that between procedural law and substantive law or secondary rules and primary ones (Hart 1961).[19] Just as a constitution provides a framework for creating and amending ancillary rules, conferring and defining legitimate powers and constraining the

[18] Granovetter would surely argue that these measures "do not produce trust but instead are a functional substitute for it" (1985, p. 489), as he would also suggest about risk spreading and contractual control by principals, described earlier. In contrast, I am arguing that only strategies that virtually eliminate agency and uncertainty are functional substitutes for trust. All efforts to reduce uncertainty—whether through familiarity, reciprocity, threats of sanction, procedural rules, policing, compensatory side bets, or whatever—seek to induce trust. I do not consider personalized control to be all that different from the other measures. For one of the few approaches that supports my view that institutional mechanisms produce trust, see Zucker (1986).

[19] See also Lieberman's discussion (1981, pp. 20–24) of the evolution of law from "contract to fiduciary," marked by a major change in the expression of legal norms from operationally precise substantive rules to broad, flexible, but rather vague standards. (He subsequently argues that the resulting imprecision provides the impetus for the litigation explosion.)

exercise of authority by custodians of the public trust, other norms set procedural limits on the legitimate conduct appropriate to agency roles. They articulate a kind of overarching private constitution to regulate the inherently unrestrained access, opportunity, and power of those who act for others in complex societies (see also Barber 1983, p. 15).

The most basic fiduciary norms, those that are enunciated in ethics codes, standards of practice, regulatory statutes, judicial decisions, and the like, respond to the generic structural opportunities for abuse available to trustees of all sorts that arise from their custody of and discretion over property and opportunity, their special access to information, and their expertise (Abbott 1983). Correspondingly, they prescribe disinterestedness, full and honest disclosure, and role competence, diligence, duties of care, or performance consistent with that expected of a "reasonable person" under the circumstances (Clark 1985, p. 76; Stinchcombe 1984, 1986; Barber 1983, pp. 15–16; and Mitnick 1975).

Disinterested trustees are expected to place the interests of those they represent over their own, to deal at arm's length and disqualify themselves from agency relationships that create conflicts of interest, to limit their compensation and other position-related benefits, and to refrain from self-dealing (exercising legitimate discretion for personal advantage)[20]—and, of course, from misappropriating the assets or property of which they have custody.

Norms about disclosure apply particularly to agents in information dissemination and interpretation roles, for example, journalists, accountants, or scientists. Procedural regulations embellish the norm. They touch issues such as standards of proof (corroboration, replication, or second opinions), sampling, randomization, surprise or spontaneity, control groups, statistical inference (or other assessments of validity, reliability, alternative interpretations, side effects), confidentiality or the proprietary nature of information, and the threshold (what is material, what can be omitted) and timing of disclosure. These rules for gathering and disseminating information do not generate objective truth, of course, but do provide a set of explicit conventions by which principals can interpret the data offered by agents.[21]

[20] Examples of self-dealing include directing corporate business to firms in which the agent has a financial interest, exploiting organizational resources to create new opportunities from which the agent can benefit (a municipal official rezoning a spouse's property for commercial use, a banker extending unsecured bank loans to his friends, a conservator using the assets of an incompetent widow to invest in personal real estate deals), or using corporate information for personal advantage—so-called insider trading.

[21] Frances Fitzgerald's discussion of the conventions of journalism is particularly apt: "There is no such thing as objectivity in writing. When people talk about ethical

Expectations of role competence appear most problematic analytically, given the difficulty of specifying abstract standards of competence (particularly regarding esoteric or highly specialized roles) and of teasing out abuses of trust from mere differences in the talent or commitment of the agent. Here, I take a minimalist view, simply that the most basic role-specific procedures—of science, medicine, law, pension fund management, auto repair, etc.—have been followed. For example, before a routine elective abortion is performed, a pregnancy test must be administered. Before corporate directors vote affirmatively on a $688 million takeover offer, they must make some inquiry about the company's worth or the fairness of the offer (Koenig 1985).[22] If the role is a credentialed one, the norm requires that the agent have actually obtained the credentials legitimately. (Purchased degrees and fabricated licenses or certificates fall outside the ambit of trustworthy agency.) There is still plenty of leeway in the norm for errors, bad decisions, gratuitous surgery, botched repairs, inaccurate news reports, and audit failures to detect financial fraud, so long as agents conform with basic procedures.[23]

To facilitate compliance with these norms, measures fashioned by government regulators, professional associations, insurance companies, accounting firms, rules of incorporation, and trustees themselves manipulate the social organization of agency. These structural solutions attempt to reduce the opportunities for self-dealing, blocking, distorting, or falsifying information, and committing or concealing incompetence available to individuals and organizations who hold trusted positions.

Trustee organizations establish lines of control and impose systems of internal supervision, governance, accountability, and liability (Stone 1975). They mandate disclosure and complex record-keeping systems. To

standards in journalism—'objectivity,' and so on—they are really talking about a set of conventions that have been created in this country over the past fifty years or so. These conventions tell the journalist how to write, and the reader how to read, a news story in an American newspaper. They set out what sort of information should go in the lead, who should be quoted in reference to what, and so on. As newspaper readers, we are so accustomed to these conventions that we barely notice them anymore. But their effect is to allow the reporter and the reader to share certain markers. You as the reader cannot be certain that what you are reading is 'the truth'; you cannot be certain that it is 'objective' in any real sense. But you can be sure that the reporter will interview certain people and ask certain questions, that he will go about constructing the written account in a certain way, and that certain standards of accuracy and, if you like, fairness will be observed" (Lapham et al. 1985, pp. 40–41).

[22] In this case, the fact that the directors decided to sell the corporation after a hasty, apparently unresearched, two-hour board meeting did not especially exemplify their role competence in the eyes of the Delaware Supreme Court, which found them liable for damages.

[23] See also Harriet Zuckerman's distinction between "reputable" and "disreputable" errors in science (1977, pp. 110–13).

limit access to sensitive information, they develop information controls specifying required pathways of information, "need to know" rules, restrictions on making paper copies of confidential or proprietary data, and the use of locks and computer passwords. They specify organizational routines, decision rules, and restrictions on the scope of agent-discretionary prerogatives to constrain autonomy further. They devise interpersonal checks and balances, often by collectivizing performance and decision making, to limit the opportunities for self-interested behavior and its concealment.[24] Individual and organizational functions are separated in order to maximize the impediments and effort required to collaborate on illicit acts; crucial tasks are sometimes delegated to more disinterested outside third parties (Heimer 1985). Personnel are frequently rotated to extinguish established conspiracies of collaboration and cover-up and thereby maximize costs of conspiratorial reorganization. Intentional redundancies or duplications of function are structured into the division of labor to expose or compensate for the delicts of agents with overlapping responsibilities.

Moreover, organizations establish regulations to create role distance or to diminish role conflicts that often compromise fiduciary conduct. For example, they fill a specified number of positions on boards of directors with corporate outsiders. Organizations require agents to divest their stockholdings or place them in blind trusts, to develop rules of celibacy or, in the case of Plato's Guardians, prohibitions against family membership (that otherwise creates powerful intimate bonds that compromise norms of disinterestedness). They place restrictions on agent employment transitions (to minimize the "revolving door" phenomenon and the endemic conflict-of-interest temptations that arise).

Selection Procedures and Policing Mechanisms

Where agency is embedded in structures of social relations, principals are able to select familiar trustees with known track records, continually monitor their activity, and deliver powerful sanctions to deter and, if necessary, punish wrongdoing. Where principals must rely on strangers to act on their behalf and lack access, expertise, and clout to specify, evaluate, and constrain their performance, they often entrust a second tier of agents—some familiar and others themselves strangers—to be the gatekeepers to and watchmen over positions of trust.

Max Weber's analysis of the routinization of charisma and the problem of charismatic succession (1968, pp. 246–54, 1121–57) provides a model

[24] Stinchcombe refers to this feature of the social organization of agency as "collegiality" (1986). See also Katz (1979), Simmel (1950), and Vaughan (1983).

for understanding the transition from embeddedness to impersonal trust and the dilemma of selecting trustworthy agents from among unfamiliar candidates.[25] Weber describes several strategies to dissociate strictly personal charismatic authority from the individual and to make charismatic qualification objective, impersonal, and transferable. The first strategy, that of hereditary succession, has parallels in the world of trust in which discriminatory entry restrictions and blockages to intergenerational mobility create a castelike system in which attributes of class, race, ethnicity, and gender often figure prominently in the allocation of positions of trust (Auerbach 1976).

The designation of successors by the original charismatic leader, a second strategy described by Weber, represents an important gatekeeping mechanism regulating trustee roles. Selection systems based on recommendation, nomination, or reference; professional licensing, certification, and accreditation; and peer review ask trustees to reproduce themselves on the basis of either personal acquaintance with candidates for positions of trust or the trustees' ability to recognize and assess necessary qualities in their successors.[26]

The third strategy, designation by a charismatically qualified staff of gatekeepers, has the most diverse complement of exemplars overseeing candidates for trustee roles: government agencies administer registration or prior clearance requirements (e.g., to market pharmaceuticals or operate a nuclear power plant). Private testing firms scrutinize professional knowledge and competence, educational aptitude, talent, psychological well-being, truthfulness, chemical dependence, or product safety and integrity. Other gatekeeping firms conduct investigations, examinations, and audits or perform background checks of past performance or deviance.[27]

Finally, the conviction that charismatic capacity can be taught and learned is reflected in education, continuing education, apprenticeship, and internship requirements for positions of trust, overseen by yet another complement of gatekeepers.[28] These educational institutions offer

[25] Thanks to an anonymous referee for reminding me of this connection.

[26] On credentialism, see Freidson (1986, pp. 63–88); on peer review, see Zuckerman and Merton (1971), Cole et al. (1978), and Cole and Cole (1981).

[27] See especially Weber's (1946) analysis of Protestant sects in America as gatekeepers of the trustworthy. Weber describes the rigorous investigation of moral worth, probation, and balloting that preceded baptism and admission to a local congregation and argued that the resultant certificate of membership insured credit everywhere, even from out-of-town strangers and nonmembers of the sect.

[28] Weber's (1968, pp. 1143–45) observation that charismatic education is steeped in asceticism, isolation, physical and psychic exercises, and continuous testing has obvious parallels in many contemporary trusteeship "prep schools."

training in the delivery of trust, socialization, extended scrutiny of candidates' performances and assessment of their trustworthiness, and credentialing. Moreover, by limiting eligibility for training programs (often according to many of the criteria already used by the other gatekeepers), they introduce yet another layer of entry restrictions.[29]

A few of these gatekeepers, professional associations that issue credentials and accreditations or regulatory watchdogs that register and provide clearance, also serve to monitor the performance of and punish abuse committed by candidates after they have been installed in positions of trust. These are joined by a huge complement of additional social-control organizations that audit trustee books and records, conduct surprise inspections, engage in undercover scrutiny, or encourage and follow up on complaints from consumers, clients, business associates, and in-house whistle-blowers. Such organizations also set up sting operations and other strategems to induce, participate in, or observe deviant conduct; surveil stock-market trading patterns, advertising, telephone billing records, and other indirect output of trustee activities for inferences of potential misconduct; crossmatch data bases (e.g., of welfare and payroll records); and so forth.[30]

Many of these policing activities are found within trust organizations and institutionalized in the functions of compliance officer (brokerage firms), inspector general (government agencies), fact checker (magazines), internal-affairs division (police departments), morbidity-mortality review committee (hospitals), quality-assurance review (public accounting firms), and the like. Because of the difficulties of disinterested self-regulation, some surveillance is contracted out to independent third parties hired by trustees who provide examiners access to their workplaces, products, inventories, and records. Corporations buy the services of certified public accountants to validate their financial conditions for investors or creditors. Bond issuers pay bond-rating firms, like Standard and Poor's or Moody's, to evaluate their risk for potential investors (Ubinas 1984).[31] Kosher butchers and companies preparing other kosher foods hire kash-

[29] Selection criteria of these kinds are the hallmark of professionalization that is, in part, an entrepreneurial strategy whereby those acting under its auspices assert an institutional presumption of trust not as readily available to nonprofessional occupations (Freidson 1975, 1984; Larson 1977; Rueschemeyer 1983; Barber 1983, pp. 131–63). But restrictions on entry, though artfully devised by professional organizations, are by no means restricted to these agency roles.

[30] On the unique impediments to and opportunities in policing trust relationships, see Shapiro (1987).

[31] Those in the business assert that companies that are not rated by at least one of these two giants will have difficulty selling bonds. Indeed, some now advocate three ratings (including one from one of the smaller rating firms) to give investors "a greater sense of security" (Ubinas 1984).

ruth inspectors to certify that animals were slaughtered properly and meat and other foods prepared according to Jewish law (Gastwirt 1974).

Sometimes principals, rather than their trustees, buy the private services of independent trust validators or inspectors; for example, they consult corporate or consumer credit–reporting agencies such as Dun and Bradstreet or TRW Credit Data Corporation (Norris 1978; Rule 1974). One bond-rating firm charges investors, rather than adopting the standard practice of receiving compensation from the companies issuing bonds.[32] Other research organizations also sell reports testing or validating the representations of others: *Consumer Reports* and Underwriter's Laboratory are two of the more successful exemplars (Walsh 1985*a;* Heimer 1985, p. 67). A number of entrepreneurs—private investigators, résumé sleuths (Johnson 1983), firms that prepare moral-hazard reports (Heimer 1985, p. 38), phone-bill bounty hunters (Guyon 1984), and outfits that administer employee polygraphs—market their services to those dependent on the trust of others (Freedman 1981; Applebome 1982; Reichman 1983, pp. 355–68). Other principals join membership associations and support public-interest group watchdogs or collectivize to share the costs and enjoy the economies of scale involved in protecting their trust.[33] Collectivization also serves as an embeddedness strategy, since these associations are more likely than their constituents to have dense, repetitive, or ongoing ties to trustees that enable them to select, monitor, and control those who act on their behalf (Galanter 1974). These "unauthorized" surveillants who represent principals rarely have access to the inner sanctums of the agents under scrutiny and must therefore devise more innovative inferential models and unobtrusive measures of trustee performance, integrity, candor, or competence.

The response of these social-control organizations to discoveries of trustee misconduct varies with their relationships to the agents they investigate. Credentialing, self-regulatory, and some government regulatory agencies can revoke or suspend licenses or registration, disbar, decertify, or disaccredit and thereby remove the entitlement to hold positions of

[32] Its president worries, "Sometimes you've got to wonder" because "they're [the competition] getting paid by the people they grade" (Ubinas 1984).

[33] E.g., insurance companies, routinely victimized by fraudulent claiming, have formed organizations like the Insurance Crime Prevention Institute and the National Auto Theft Bureau to investigate some of the broader patterns of abuse (Reichman 1983, pp. 338–54). Music composers and publishers (entitled to a royalty every time their composition is played on the radio, television, films, jukeboxes, concert halls, discos, skating rinks, or Muzak speakers and unable to monitor them all) assign their royalties to a performing rights society such as "ASCAP" or "BMI" that conducts the surveillance and then distributes royalties accordingly (Ackerman and Zhito 1969, pp. 119–46).

trust. Surveillants punish the trustees they oversee by disclosing the unfavorable activities they discover, refusing to certify financial statements, or issuing a bad rating.[34] Aggrieved principals or intermediaries may fire or boycott their trustees or debar them (e.g., military contractors can be excluded from bidding on Pentagon contracts; doctors, hospitals, laboratories, and pharmacists can be denied participation in Medicare or Medicaid programs; and city ambulance services can refuse to patronize hospitals with inadequate oversight of interns and residents). Government agencies, self-regulatory organizations, and principals who initiate civil litigation are able to enjoin unacceptable practices, force the rescission of transactions and the disgorgement of profits, or secure restitution, other compensation, or punitive damages. They can order the trustees to undertake remedial action, modify business practices, or reorganize their firms. And, of course, particularly wayward trustees may find themselves the target of criminal proceedings and ultimately face fines, probation, alternative sentences, imprisonment, or worse.

Risk Spreading and Insurance-like Arrangements

A different group of institutional guardians of trust responds to the futures component of trust and the reality that most agency offerings are inherently contingent and therefore risky and uncertain. As noted earlier, one of the vulnerabilities of agency to abuse results from the fact that trustworthiness can often be ascertained only some considerable length of time after trust has been conferred. Some institutional guardians anticipate this possibility of normative or social control failures by providing advance protection against future deviant outcomes or compensation for accomplished misdeeds.

These side bets or anticipatory protections against abuse come in several forms: collateral or minimum reserve requirements, guarantees or warranties, and insurance or bonding, purchased by wary principals or offered by agents as inducements. The examples abound. Conservators assigned by the courts to handle the financial affairs of the mentally incompetent buy a fiduciary bond equivalent to the value of the estate. Doctors, psychotherapists, architects, accountants, engineers, and other professionals take out malpractice or "errors and omissions" insurance.

[34] The likelihood of receiving a bad rating from firms like Standard & Poor's or Moody's these days seems somewhat unlikely. Because of the growing complexity of financial markets and the securities they offer, rating firms are increasingly taking on the role of regulators and rule makers as well as judges. Ratings become negotiable as corporations structure their deals to accommodate the demands of the raters and thereby get the ratings they need (Monroe 1986). The same seems true of raters of insurance underwriters (Adams 1986).

Corporations buy liability insurance protection for their officers and directors and bond their lesser employees. Brokerage firms, banks, and insurance companies must meet minimum reserve or net capital requirements; investors selling securities short must maintain margin accounts with their brokers. Those desirous of bank loans are usually required to put up collateral equivalent in value to the loan to protect creditors against default, while the banks that lend them the money take out insurance. Federally chartered banks contribute to the FDIC or FSLIC insurance funds as protection for depositors against bank failure, pension plan sponsors pay into the Pension Benefit Guarantee Corporation (PBGC), and many brokerage firms participate in the Securities Investor Protection Corporation (SIPC)[35] for the same reason. Several money market funds now offer insurance to entice otherwise reluctant depositors away from federally insured bank accounts. Insurance is available (and increasingly popular) for municipal bondholders (Sandler 1984).

Opinion on the efficacy of these institutional compensation mechanisms is mixed. Some argue that the proliferation of insurance arrangements has a self-fulfilling quality—that the possibility that insured trustees will find their sizable insurance coverage a comfortable cover for carelessness and lax internal control facilitates violations of trust (Heimer 1985; Berton 1985). Others counter this "morale hazard" argument with the observation that insurance actually provides an ancillary layer of social control. Instead of creating incentives for carelessness, these arrangements foster the development of vigorous and effective intraagency control. Insurance companies, for example, apply pressure on their policyholders to undertake measures for minimizing liability (Heimer 1985; Walsh 1985*b;* Bardach and Kagan 1982, p. 10). They may set standards, require record-keeping systems, inspect operations, audit books and records, advise on systems of internal control, supervise hiring, mandate intervention or joint control by disinterested third parties, or provide incentives for trustworthy behavior by offering deductibles or experience ratings (Heimer 1985).

The Social Organization of Guardianship

These diverse trust-guardianship options, offered by both the public and private sectors on behalf of agents and principals alike, are rarely pursued in isolation. Rather, a complicated matrix of social-control strategies—that intervene at different points in the delivery of trust and scrutinize different roles, records, or organizational routines from different perspec-

[35] And then some brokerage firms buy "excess SIPC" insurance from private companies to protect their clients from losses that exceed the $500,000 SIPC ceiling.

tives, for different purposes—is assembled to protect a particular trust relationship.[36] Unrelated institutions of trust and trusteeship become interconnected in a somewhat precarious partnership. In some instances, this rich overlapping texture of social-control strategies provides a safety net when one guardian fails. In other instances, a single failure of trust or social control can touch off a geometrically escalating chain reaction of associated failures among interdependent institutions (Shapiro 1987).

WHO GUARDS THE GUARDIANS?

Ironically, the public and private guardians of trust also stand in a trust relationship with those whom they hope to reassure. Guardians of trust are agents. They perform social-control roles for principals who have conferred trust on others (or who consider doing so) and they act to collectivize and spread the risk of these trust relationships through insurance-like schemes. As agents, guardians hold the same precarious relationships with their principals as do those trustees they now oversee: guardians frequently have greater expertise than their principals and are therefore relatively immune from principals' assessments of their role competence. They require a considerable amount of discretionary power (that can also be exercised for self-interest). The physical and social distances that necessarily separate guardians from principals minimize the opportunities for the latter to scrutinize role performance. And insurance-like arrangements provided by these trustees of trust often constitute futures transactions that offer few intrinsic guarantees that future promises or obligations will be met.

Like the primary trustees they oversee, the guardians are expected to tell the truth, fulfill their role obligations competently, follow established procedure, and act like disinterested fiduciaries. And, like other trustees, guardians of trust have considerable opportunity to abuse it. Guardians can lie, misrepresent the safety and security of their services, ignore misdeeds, steal, self-deal, accept bribes, and overlook their own conflicts of interest. Many of the social-control strategies just described are vulnerable in some way.

Take self-regulation. The observation that this guardianship option,

[36] Guardianship in the stock market, e.g., is shared by entry restrictions and prior clearance rules (examination and registration requirements), internal social control (boards of directors, compliance officers, and disclosure and other regulatory requirements), industry self-regulation (the stock exchanges, National Association of Securities Dealers, and American Institute of Certified Public Accountants), private surveillants (auditors and investment bankers, analysts, and advisers), state and federal regulation, an aggressive securities bar eager to initiate litigation, and insurance (the Securities Investor Protection Corporation and officers' and directors' liability insurance).

embodied in stratagems like trustee-imposed restrictions on entry, intrafirm control, and trustee oversight by professional associations, is fundamentally suspect is, by no means, an original contribution of this paper.[37] Critics charge that self-regulatory schemes may effectively protect principals against the most reprehensible misdeeds of trustees who are weak and marginal. But, under such arrangements, questionable activities that are standard professional practices or more serious abuses that are committed by mainstream practitioners may be ignored.[38] Conflict of interest is intrinsically untrustworthy because it directly violates norms of disinterestedness. Self-regulation is a form of institutionalized conflict of interest; financial reporter Lee Berton (1986) proclaims the concept "oxymoronic."

Still more problematic is that almost all these guardianship arrangements are ripe for corruption. Validation and inspection are inherently discretionary activities. And discretion can be compromised. The incentives provided by the targets of trust enforcement to look the other way are often considerable, given the fact that guardians of trust often have the power to abort a profitable illicit scheme or to allow it to flourish by giving it a stamp of approval. (Indeed, some swindlers intentionally try to get inspected, licensed, or certified—they hope, by incompetent or corrupt guardians—since a passing grade confers significant market appeal.) As a result, bribery scandals implicating police officers, government regulators, public and private inspectors, independent testing laboratories, and the like are legendary and their numbers staggering. And the somewhat more subtle problems of cooptation of regulators by the regulated and the conflicts of interest and favoritism in the exercise of discretion that arise from the inevitable revolving door between positions in the public and private sectors are no less frequent or threatening to the institution of trust (Kneier et al. 1976).

Validators paid by trustees themselves have special problems. A negative report provided by these so-called independent guardians is usually

[37] For a critical evaluation of the efficacy of self-regulation and/or the ethical principles of professionals, see Akers (1968), Barber (1983, pp. 131–63), Carlin (1966—on lawyers), Auerbach (1976—on lawyers), Briloff (1972, 1976, 1981—on accountants), Lewis and Lewis (1970—on doctors), Freidson (1975—on doctors), and Zuckerman (1977—on scientists).

[38] Self-regulation has its defenders, too. Advocates point to the fact that private inspectors, unlike external regulators, are on site continually, "are more specialized and more knowledgeable about the risks generated by their company's operation," "are more likely to have the trust of the people they regulate and thus to have access to finer-grained and more relevant information," and "can tailor protective standards more closely to the hazards presented by the particular enterprise" (Bardach and Kagan 1982, pp. 219, 272).

tantamount to terminating the business relationship. For accounting firms, for example, half or more of whose revenue may be provided by a single client, truthful negative revelations are often acts of corporate suicide. Critics allege that these downbeat disclosures impose considerable cost on even big accounting firms, since, potentially, they also jeopardize sizable contracts with the companies the firms audit for management consulting and computer, financial, and tax planning (Dingell 1985; Klott 1985). Even when CPAs are too scrupulous to accept bribes to cook the books or look the other way, their firms may be unable to afford to lose valuable clients by pursuing full candor (Seidler, Andrews, and Epstein 1977). Critics have also questioned the independent judgment and integrity of law, investment banking, and bond-rating firms on similar grounds (Hassett 1983; Stein 1986; Ubinas 1984). Moreover, since these independent social-control organizations compete with each other for trustee business, the standards they employ may be somewhat softer than principals might otherwise hope for and expect (Heimer 1985, p. 102; Willoughby 1986, p. 134).

Even where trustees of trust ignore these illicit opportunities—as most undoubtedly do—the question remains whether the protections some of them guarantee and most principals assume exist can be attained. Have guardians honestly represented their capacity to shore up the institution of trust? Do guardians offer competent role performance? How effective are traditional corporate boards of directors or changes in organizational structure and governance in controlling corporate wrongdoing (Stone 1975)? Do entry restrictions really contribute to the trustworthiness of those in positions of trust; indeed, is it possible to make predictions that are anywhere close to accurate about the future risks of deviance implicit in the justification of these restrictive criteria (von Hirsch 1976)? Are certified public accountants really capable of uncovering fraud when management is intent on deceiving them (Barrett 1984)? In general, how effective is the technology employed by inspectors, regulators, and other surveillants, and how adequate are their resources to penetrate well-concealed misdeeds (see, e.g., Carrington and Beazley 1984; Shapiro 1984*a*, 1984*b*)?

When these guardians of trust that simulate strategies of personalized and contractual control fail, principals turn to their insurance policies, collateral, and margin accounts. Unfortunately, they discover that these institutionalized risk-spreading and compensation mechanisms are no less vulnerable than the institutions they are meant to protect. Forms of fidelity insurance, collateral, and bonding, for example, are futures transactions. They require the trust that claims that are submitted in the distant future for compensation or reimbursement for insured or collateralized abuses of trust will, in fact, be honored.[39] Principals who accept collateral or other security on futures transactions trust that the collateral will retain its value and will be collectible in the case of foreclosure, expectations that are not always satisfied (Sandler and Hertzberg 1985; Ingersoll 1985). Both trustees who buy insurance policies and principals who have been reassured by the ancillary insurance protection trust that the insurance company is properly capitalized and takes reasonable risks. Moreover, they presume that premiums are invested properly, free of the specter of misappropriation or self-dealing.

There is no reason to be more trustful of fidelity-like insurance than of other insurance or, indeed, of any other futures transaction. On the contrary, there is good reason to believe that insurance deals offered simply to entice wary principals to participate in some other agency relationship are considerably less trustworthy. Many securities swindles use this ruse (Bennett 1985; "How Bank of America" 1985). Those seeking investments in a relatively unknown company represent to potential investors that funds will be insured by "Fidelity Fiduciary Guaranteed Trust Insurance, Inc." (with a corporate logo that closely resembles that of the FDIC). In reality, this guardian of trust is a straw company with no assets, frequently run by the stock swindlers themselves or by their associates. This added feature often convinces many investors that the prospect is safe and induces their commitment.[40] It is curious that even the most cautious in conferring trust can be easily taken in by trust-trusteeship scams.

Some of these guardians of trust and risk-spreading institutions are more vulnerable to abuse, error, or failure than others. And social-control measures can be refined to minimize the likelihood of negligence, abuse, inadequacy, or corruption. But, by and large, the guardians and trustees of trust simply demand a higher order of trust.

[39] A reviewer provided one example of the dilemma: "In the early days of surety bonding, courts commonly asked the surety to give some evidence of his/her ability to make good if the principal should default. But these statements of financial standing were not kept current, so while a surety may have been financially reliable when the suretyship arrangement began, he/she was not necessarily in good financial standing when the principal actually defaulted years later." For examples of economic crisis occasioned by the inadequacy of insurance reserves, see Shapiro (1987).

[40] In the latest twist, new low-grade securities that have no record "rent a rating," purchasing a guarantee for payment of principal and interest from a reputable insurance company. "Lacking time to do thorough analysis of the entire project, overworked credit analysts simply look to the quality of the guarantor and then, if the firm is respectable, issue an investment grade rating." Investors see the AAA rating and lose their shirts (Willoughby 1986).

THE PARADOX OF PROCEDURALISM

So who guards the guardians? Trust does. The guardians of trust are held to the same standards of disinterestedness, full disclosure, and role competence as those they oversee. And because of the fear that they are no more likely to abide by these norms than are first-order trustees, third-order trustees of trustees of trust—systems of social control over social-control agents—respond. In complex societies in which agency relationships are indispensable, opportunities for agent abuse sometimes irresistible, and the ability to specify and enforce substantive norms governing the outcomes of agency action nearly impossible, a spiraling evolution of procedural norms, structural constraints, and insurance-like arrangements, each building on the former, seems inevitable. One of the ironies of trust is that we frequently protect it and respond to its failures by bestowing even more trust. In the jargon of investment, we sometimes throw good money after bad.

With each cyclical revolution of *n*th-order trust relationships and their associated guardians, of new strains of deviance and new procedural cures, one gets the unsettling feeling that the original agency agenda has become distorted along the way. Listen to the frustrated voices of some practitioners and trustees of trust:

New York Times Editorial Lamenting the Departure of William Ruckelshaus as Head of the Environmental Protection Agency

> . . . one of his frustrations in office was that the E.P.A.'s Administrator is trusted too little. Congress has shaped environmental laws in a way that "assumes they will not be administered fairly," he complained last week. By allowing the E.P.A. too little discretion, the laws stifle progress in protecting the environment. . . . Inflexible laws serve no one's long-run interest. Scientific unknowns and changing technology make it impossible to write good prescriptive environmental law. Mr. Ruckelshaus is right in principle: with more discretion, the Administrator could protect the environment in more rational ways. For that to happen, industry and environmentalists will have to stop demanding that Congress write laws leaving E.P.A. no room for judgment. . . . It will take time for any administrator to earn the trust that Mr. Ruckelshaus commands, but to deny flexibility is to step from mistrust to misgovernment. ["Environmental Protection Paralyzed" 1984]

Forum of Journalists on the Truthfulness of the Press

> Wicker: Most people would agree that a reporter who deliberately prints a lie is violating ethical standards. Now, suppose that in following the con-

ventions of journalism the reporter does not dispute a statement he knows to be a lie.

SCHMERTZ: That's just as bad.

WICKER: Exactly. But under the conventions of journalism prevailing today, there is sometimes no alternative to doing just that. It is impossible, under those conventions, for a reporter to step in and refute a false statement in his own voice.

KARP: It's unreasonable to expect to gain a full understanding of public life in America from the daily newspaper, but the citizen ought not to be deprived of information the reporter has. Yet because of our rules of journalism, this often happens. For example, it seems to be an unwritten law in the journalism profession that a reporter cannot, in a news story, infer a motive from the actions or words of a public figure; only another public figure can do that. The reporter can discover two facts, but he can't add them together to make four, at least not in his own voice. The reporter has to present the secretary of state with his facts, and ask: Mr. Secretary, does this make four? If the secretary replies, No, that makes five, that's what the reporter has to print. I've read so many newspaper stories over the years in which the obvious political motive behind an action or a statement goes unstated. Instead, we get an analysis by some interested party. [Lapham et al. 1985, p. 42]

SOCIOLOGIST'S REMARKS TO AN ACCOUNTING CONFERENCE

. . . to argue that embezzlement and management fraud can be prevented by rigid accounting methods is to overlook the pertinent point: If strict controls were imposed on all corporation personnel, then embezzlement, management fraud, and other trust violations would be greatly reduced, but very little business would be done. . . . Removing "the temptation, the opportunity, and even the suggestion to violate the solemn trust which has been placed in officers and employees," as one accountant has proposed, would be to eliminate both "solemn trust" and a large percentage of all modern business transactions. It seems reasonable to conclude that accountants never should have argued that they can institute surveillance and detection measures so tight that no embezzlements, frauds, and concealments can possibly occur. "Weak" accounting controls are essential to modern business, just as "weak" police controls are essential to modern democracy. [Cressey 1980, pp. 125–26]

These laments illuminate the paradoxes of proceduralism and of trust as a potentially self-defeating prophecy.[41] By buying or requiring "fidelity" insurance, we discourage internal discipline and control and thereby increase the likelihood that trust will be abused and the insurance protec-

[41] On the role of irony in sociological thought, see Merton (1936), Schneider (1975), and Marx (1981).

tion will be necessary.[42] By increasing agent liability for failures of trust, we foster self-protective acts—unnecessary tests or surgery, unwarranted conservatism, trustees buffering or insulating themselves from the channels of bad news—that usually make matters worse. By creating guardians of trust, we foster all kinds of ancillary certifications or guarantees of trustworthiness (such as government registration, CPA certifications of financial statements, credit ratings, licenses, lie-detector scores) that are readily manipulated yet are now essential to principals who have abdicated their distrust to these new guardians. Hence, as Granovetter has suggested, the proliferation of trust-trustees increases the opportunities to exploit less wary principals.

In short, by creating procedural norms, structural impediments to abuse, and discretionary restrictions, we ensure that agency offerings will be less to our liking in other respects. Rotating personnel, separating functions, locking the revolving door between the public and private sectors, substituting external regulation for self-regulation, and eliminating the appearance of conflict of interest protect agent fidelity but also limit the efficiency, information, access, and experience that agents require to maximize their return to principals. Restricting discretion simultaneously lessens the extent to which it can be abused and sabotages the very purpose of trust (principals' inability to tell agents how they should act).

The paradox of trust is akin to the choice between Type I and Type II errors. Should the procedural constraints of trust be set so narrowly that desirable agency behavior is deterred or so flexibly that inappropriate behavior is tolerated? Most often, principals equivocate: they really hope that trustees do not take their instructions too literally yet simultaneously fear that they will not.

[42] Even aside from the problem of morale hazard, evidence of the vicious cycle incited by insurance protection continues to accumulate. Take portfolio insurance, in which investors use "stock index futures contracts to offset positions in the stock market to limit their losses to a predetermined proportion of their original investment. . . . It is one of the ironies of this complex computerized age . . . that an approach designed to insure against more losses than they are willing to accept is seen by some as contributing to the very volatility that makes the markets so treacherous for so many investors. . . . Critics of the approach contend that the portfolio insurers' growing use of stock index futures sets up opportunities for traders using complex computer programs to seek out instances when prices in the stock and futures markets move out of synch and then race to buy or sell massive blocks of stock and thousands of futures contracts . . . thus laying the groundwork for bigger swings in stock prices" (Bennett 1987, p. F12). In short, the "market's volatility makes portfolio insurance more attractive," which, in turn, roils the market (Bennett 1987).

CONCLUSION

I have argued that impersonal trust permits complex developments in social organization and exchange that create distinctive opportunities for abuse. These are responded to by new social-control strategies that unfortunately share some of the same structural properties as the original developments. Therefore, similar opportunities for violation emerge and stimulate new social-control measures that contain the structural seeds of further deviance. And so on. The paper exposes an inflationary spiral of escalating trust relationships and the paradox that the more we control the institution of trust, the more dissatisfied we will be with its offerings.

I would be violating norms of full disclosure and sociological role competence if I stopped here. I have sketched the worlds of trust with very broad strokes and with a sweeping authority and empirical irreverence that seem to portend the inevitable. Despite the searing indictment, though, impersonal social exchange and agency relationships persist, principals still willingly trust strangers, and the engine of social complexity presses onward.

Given the inherent tensions, contradictions, and paradoxes that confound agency relationships, why the persistence of impersonal trust? To argue that principals in complex society have no choice but to trust is far too simple. Indeed, there is enormous variability in the extent to which, and the conditions under which, they exercise that choice.[43] The task of discovering and teasing out explanations for that variability arouses the sociological imagination. Take the following examples:

On the social organization of trust.—How are trust relationships established? Under what conditions are they severed? Why are some institutions more successful in attracting agency relationships than others? Why are some considered more trustworthy?

On the violation of trust.—Given the myriad structural opportunities to abuse trust, why are these illegitimate opportunities so rarely seized? What kinds of agency relationships are most vulnerable to abuse and why? Is there a (negative) relationship between embeddedness and the amount of misconduct, as Granovetter (1985, p. 491) suggests? What is

[43] E.g., Viviana Zelizer contrasted the popularity of life insurance and trust business in 19th-century America, arguing that public apprehension of the former as a hazardous enterprise stymied its growth: "The charters of Pennsylvania, Massachusetts, New York Life, and Girard companies gave them the power to do trust business, and their trust departments flourished while life insurance foundered. It was an unexpected development, for these companies had anticipated doing most of their business with life insurance. The Massachusetts Hospital Life Insurance Company started its life insurance and trust business in 1818. In 1823, it collected $696 worth of life insurance, while its trust business yielded almost $70,000. In 1827, it issued only 35 life policies, but almost 304 annuities and endowments in trust. By 1830, the trust business of the company amounted to almost $5 million" (1979, p. 4). See also Zucker (1986).

the effect of trust-abuse scandals on subsequent willingness of principals to enter trust relationships? Why are truly ominous failures that expose systemic vulnerability often ignored by principals, while trivial or isolated problems arouse near-panic?

On the social control of trust.—Why do particular trust institutions have the type and extent of guardianship that they do? (E.g., why does our society place so many entry restrictions on who can be a doctor or a lawyer, but so few on who can be a child-care worker or a soldier or, for that matter, own a bank or hold public office?) Are there distinctive patterns of trust guardianship that arise after scandals that are unlike those that develop in the normal course of agency relationships? How do the trust guardians compare in their abilities to deter or limit the opportunities for abuse, to provide adequate protection in the event of social-control failure, or to minimize the undesirable consequences of proceduralism? Which seem best able to withstand abuse themselves? What is the relationship between regulation/deregulation and trust?

We have come full circle. Exploring variability in embeddedness inspired this inquiry; acknowledging the need to investigate variability in the social organization and social control of impersonal trust is how it ends. This article offers only a partly elucidated idea and a number of derived questions. But I hope it conveys enough of the seductiveness of impersonal trust—the paradoxical choices it demands, its self-perpetuating and self-defeating tendencies, and, most of all, its subtle insinuation into the most complex and commonplace threads of the social fabric—to entice others to help search out some of the answers.

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