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1. Introduction

I am exploring the financial stakes that underpin the systems of trust related to Covid 19 pandemic evolving into an unprecedented economic crisis. Previous global crises are generally characterised by triggers from the financial sector activity while the corona crisis is triggered by a pandemic. The economic and financial implications may take years to unfold and yet to be seen. Initial estimates from the IMF forecast 3% contraction globally and 6% contraction for developed countries. At the onset of the Covid 19 pandemic in March 2020 stock markets across the world had jumps up to about 35% loss in asset prices. These falls are comparable to value losses during the 2008 crisis especially at the time of Lehman Brothers' collapse and the great depression of 1929. Does trust play a role in a pandemic turning into a crisis? If so how? Who, in this process, do the households trust and who do they not? In a similar vein, when we consider investors and corporations, who do they trust and who not? How did trust evolve with several layers of governance and authority emergency responses to Covid 19? Can we develop any insights emerging from a pandemic that triggers the fear of death, about the trust in financial decision makers at all levels, households, investors and corporations?

2. Trust and financial activity

The existence of trust is an essential component of all enduring social relationships (Seligman, 1997 page 13). Yet, the role of trust in financial relations is understudied. Guiso, Sapienza and Zingales (2009), for example is one of the few papers that study the country specific characteristics of trust to show that lower bilateral trust leads to less economic exchange. They argue that trust between countries arise from the differences in the amount of information they have about each other and the biases in their perceptions or behaviour. This framework provides a restricted analysis of trust in economic exchange. In studying the Covid-19 pandemic and related finance issues I will adopt the rational-choice approach. Trust in this approach is a cultural rule. It is located among the social facts in the sense of Durkheim (1964a) or at the level of social reality in the sense of Lewis and Weigert (1985). I will base my analysis on rational choice theory and show that trust between financial decision makers and policy makers during the Covid-19 pandemic is determined by their past economic exchange. In turn, these rational determinants of trust explain the economic exchange not explained by trust defined with biases in perceptions and behaviour alone.

The rational choice theory (Elster, 1989, Coleman, 1990; Hardin, 1991, 1993, 1996) establishes that both the truster and the trustee are rational actors attempting to maximise their utilities by rational calculations taking into account the available information. Trust is seen here as encapsulated interest (Hardin 1991 p.187). A specific quality of trust is the presence of basic uncertainty or risk i.e. incomplete information about the partner's future action. If there is less uncertainty, there is more trust and vice versa. In economic exchange during Covid-19 we would expect financial decision makers facing explicit government policy targeting them would be more trusting. I will discuss this type of trust when I cover the corporations and their employees under risk of bankruptcy. On the other hand, if there is no explicit government policy in place, households will be less trusting, and I will cover this in discussing the supermarket runs.

Across various societies the process of globalisation has bound them in the network of tightening interlinkages (Sztompka, 1999. 12) including economic and financial interlinkages. Cooperation is a pressing need, but also a challenge due to uncertainties. "...The ongoing process of global interdependency will only increase the demand for trust as an essential condition for cooperation" (Mistzal, 1996; p.269). Trust must be taken as a solution to a particular type of risk (Saligman, 1997) in economic and financial relations in today's contingent and global conditions. Simmel in his Philosophy of Money argues that "without the general trust that people have in each other society itself would disintegrate for very few relationships would endure if trust were not as strong as or stronger than rational proof or personal observation. Trust makes money transactions possible" (Simmel, 1907/1978. 178-179).

Saligman (1997: 43) defines trust as belief in the goodwill of the other, based on the opaqueness of other intentions and calculations. In economic exchange how do we know the intentions or the calculations of others? If we are considering the intentions of another household or an investor or a firm how can we believe that they have the good will? When we say we trust someone we are referring to the decision-making agent. For example, when we say we trust our mothers to feed our younger siblings that is because of our past experience to that effect. Similary in economic exchange trust is built on past actions. We measure our belief in the goodwill of others to take part in economic exchange using their past experiences. I will cover this when I discuss stock market reactions to firms that survived death once during the 9/11 and their performance during the covid pandemic.

Trust is not the orientation we take towards the natural world. It does not seem proper to say I trust the rain to fall or I trust the sun to shine. Trust belongs to human, not natural discourse or objects. The domain for trust is social phenomena: other people and their actions and "No one can know how another human being will act in the future (Dunn, 1988.85). "Full monitoring and control of somebody's performance makes trust unnecessary (Giddens, 1991: 19). "Trusting becomes the crucial strategy for dealing with an uncertain and uncontrollable future. "Trust is a bet about the future contingent actions of others" (Szompka, 1999: 25). I will discuss this when I present the initial response of stock markets worldwide at the onset of the Covid-19 pandemic. The disease was new and policy response was unprecedented and thus hard to anticipate. Stock market investors reflected this as lack of trust in corporate sector via frequent trading and jumps in volatility.

Luhman's (1979) primary thesis is that trust is a solution for the problem of complexity for both the individual and the society. By reducing the world of possibilities of future action, i.e. complexity, trust makes social action possible. In modern society the form this trust takes is increasingly removed from the individual and placed on the system. "For example rarely does one know the person who owns or manages the bank that secures one's money so it is impossible to base a financial decision on this individual. Instead soundness of the institution of banking in the community provides the basis for decision making (Weber and Carter, 2003:6). Familiarity is a precondition for trust (Weber and Carter, 2003:7). In this manner Covid-19 is not familiar to economic agents nor is it known to policy makers tackling it. Therefore, we would expect reductions in all economic exchange and that is reflected in huge losses in stock markets. As the pandemic becomes more familiar and policy response is more or less clear most of these losses are recovered. In this sense trust makes social life possible and similarly “trust makes economic exchange possible” (Weber and Carter, 2003:1).

According to Sztompska (1999) there are three basis on which we determine the primary trustworthiness of targets: reputation, performance and appearance. Reputations means simply the records of past deeds (page 71). “Rarely it is the case that the exchanges requiring trust are ahistorical single instances (Good, 1988:33). In our daily lives, for people we rely on several credentials. One type of these is stories, biographies, accounts by witnesses, CVs, resumes, or publication lists for academics. The sheer fact that an author has published ten books or ten articles in the Journal of Finance helps us build trust that he will write another. So the continuity of the virtue is important in developing trust. Future expectations, generally based in ongoing experience, contribute much of the force that binds in a trusting relationship (Hardin, 1990:190). We measure past performance with the exposure of firms to another deadly disaster, 9/11, and show investors perceive them more favourably during the Covid-19 pandemic.

The second category of clues taken into account in the estimate of trustworthiness goes under the label of performance. Performance means actual deeds, present conduct, currently obtained results (Sztompska 1999; page 77). For example, in professional tennis getting a seeded position at a tournament is based only on recent results as reflected in a position on constantly updated ranking lists not on past achievements even if great. Similarly, for airline pilots an earlier perfect record of good health is deemed irrelevant who have to undergo periodical tests checking their current condition. I discuss performance of government with respect to furloughs and their communication to public as generating trust among the owners and employees of firms under risk of bankruptcy.

The third type of clues that are used to estimate trustworthiness of others are their appearance and demeanour. For some people we say they look suspicious while for others we do not. Among the external characteristics that have symbolic value are designer clothes indicating wealth or smiling indicating friendliness. Trust depends on what we have such as the car we drive, the house we own or the area we live in etc. Trust depends on who we are. Those can be inferred from our appearance such as race, ethnicity gender and age. The link between such ascribed features and trust is usually mediated by stereotypes and prejudices as well as to familiarity in a positive sense reducing uncertainty. Luhman (1979:33) points out that the familiarity of the trustee is undoubtedly a vital factor. Hardin (1993:510) stresses the importance of close “thick relationships” in substantiating trust. By implication anonymity and distance breed distrust as they block access to relevant information and prevent judgements of trustworthiness (pages 81-82). I will discuss the anonymity of other shoppers in supermarkets and other investors in stock markets as important in the lack of trust in counterparties of the exchange and generating supermarket runs on the one hand and huge losses in stock markets on the other.

In actual estimates of trustworthiness people often take all three (reputation, performance, appearance) or various combinations of them into account sometimes arranging them in a preference order (Sztompska 1999; page 83). I use a similar approach in this paper. I take into account all three foundations of trust. “In daily life there are not only differences in the emphasis attached to various dimensions of trustworthiness but significant patterned differences in the choices of concrete types of cues. The trustworthiness of various objects of trust may be due to not only to their imminent qualities-reputation performance or appearance- but also to some features of external context in which their actions take place (Sztompska 1999). There are some contextual conditions that make the actions of persons or institutions more trustworthy independent of any other characteristic they might have. I shall similarly distinguish three types of contextual conditions most relevant for enhancing trustworthiness: accountability of the trustees, pre-commitment and trust inducing situations (ibid, pages 86-87).

Accountability means enforcement of trustworthiness or more precisely the presence of agencies monitoring and sanctioning when breech of trust occurs. For example we trust less when we buy a Rolex from a street vendor as opposed to buying from a shop registered as a Rolex dealer. In the case of Covid-19 I will discuss government and government bodies as more accountable and thus more trustworthy. Corporations, although almost 99% of them under risk of bankruptcy, their owners and employees trusted the government policy and did not challenge the furlough measures nor shutdowns.

Pre-commitment refers to a situation when metaphorically speaking, people are willingly binding their hands or burning bridges (page 91). For example when couples make prenuptial financial arrangements in marriage they are willingly binding their hands. The fact that it is not chosen when it is available shows trustworthiness of the partners. In the following, I will discuss some economic exchange to be less binding then others. Both in the case of supermarket runs and stock market panic sales there is no pre-commitment form the counterparties of this exchange.

The final source of derivative trust is the character of the situation in which the truster and the trustee find themselves. There are some features of the setting in which the relationship takes place, that exert general facilitating or constraining pressure on the trusters to grant or withdraw trust because they raise or lower the prima facie trustworthiness of the trustees (page 93). For example it is easier to trust in a village community that is intimate rather than in London which is large and anonymous urban crowd. An important trait of such communities is high density and intensity of relationships, a high degree of interdependence and continuing and long lasting existence. Examples are nomads, early tribes peasant villagers and gold and diamond dealers. When people are implicated in such dense intimate networks they are horizontally constrained to keep trust. If one cheats another the rest will intervene in defence of the easy flow of interactions beneficial for all. Today during the Covid pandemic in villages and towns we observed less supermarket runs. Yet in big cities across the world supermarket runs were common. Similarly, across all stock exchanges of the world where buyer and seller do not know each other we observed rapid and huge falls.

Why is trust important in economic exchange? Trust liberates and mobilizes human agency; releases creative, uninhibited, innovative, entrepreneurial activism toward other people (Luhman 1979:8). The uncertainty and risk surrounding their actions is lowered and hence possibilities of action increase proportionally to the increase in trust (Luhman, 1979: 40). We are more open towards others, more ready to initiate interactions, to enter into lasting relations with them. “Where there is trust that is justified there are increased possibilities for experience and action” (Hardin 1993: 512). We insulate ourselves against untrustworthy conduct and its dangers. Therefore, I argue faster recovery of the Covid crisis depends on higher economic exchange among highly trusting agents and less economic exchange with not so trustworthy agents will make recovery from the corona crisis harder.

There are a number of functional substitutes of trust. When trust is missing, the vacuum will be filled with some alternative arrangements providing similar functions and meeting universal cravings for certainty, predictability, order and the like. (page 116). Sztompka classifies these into five categories. The first is the regression towards fate rather than effort. The second is corruption (Elster, 1989:266). Bribes provide a sense of control over decision makers and the guarantee of a favourable decision. The third is taking into private hands the direct supervision and control of others, whose competence and integrity is seen as weak. The fourth is excessive litigiousness. If business people do not trust their partners a handshake will no longer do. The fifth mechanism is ghettoization, that is closing in and building impenetrable boundaries around a group in an alien and threatening environment. This is similar to being a closed economy. I will discuss them as viable threats to economic exchange and financial transactions.

2. Supermarket runs: Why not trust the supermarkets?

In Eshraghi and Muradoglu (2021) we use the Callon (1998) framework and replace the atomised behaviour of economic agents by their dependence on their natural environment and each other. Accordingly we do not study recent pandemic shocks as an 'externality' or a 'black swans' but discuss that Callonian overflows are common to both bank runs and supermarket runs associated with the Covid-19 pandemic. We start with the appeal of a National Health Service (NHS) nurse, who could not find food after a 48-hour shift and asked people to stop panic buying; "…So I just came to say while I could, there is no food and veg… I just wanted to get some stuff in for the next 48 hours… there is no fruit there is no vegetables; I just don't know how I am supposed to stay healthy… And those people… they are just stripping the shelves, the basic foods.. you just need to *stop it* (emphasis hers) because people like me they're gonna be looking after you… when you're at your lowest, *just stop it* (emphasis hers) please."[1] Her belief in humanity at a time of considerable loss of trust among shoppers worldwide is noteworthy.

Supermarket runs are historically unprecedented and indicative of loss of trust among households as economic agents at extreme levels. Supermarket runs are dangerous as they put vulnerable sections of the society at risk. Loss of trust and related radical uncertainty associated with the panic runs has severe societal impacts. Why did households not trust that the supply chains will continue intact: that the supermarkets will feed the nation? Why did they lose trust to supermarket chains?

[1] The Guardian, UK edition, 20 March 2020: https://www.theguardian.com/world/video/2020/mar/20/nurse-in-tears-coronavirus-panic-buyingleaves-shelves-empty-food-video

If supermarkets and their customers during the Covid-19 acted in their best interest, supermarkets would maximise their sales by supplying what customers demand and customers would minimise their costs by not creating excess demand pressures that will increase prices. Trust defined as encapsulated interest (Hardin 1991) was not observed during the supermarket runs. The uncertainty about government policy and relatedly how other buyers would act led shoppers be less trusting, and run supermarkets. The clues normally used in judging trustworthiness of others such as appearance and demeanour also reduced trust in two ways. Either they were not observable to online customers or what was observable on the shop floor was hoarders. On the one hand anonymity and distance of online customers fed distrust while on the other hand what could be observed on the shopfloor, hoarding customers, was also anonymous other shoppers in supermarkets. This distance created a spiral of lack of trust that ended in supermarket. Besides, there is no precommitment from customers to each other in any sense closer to that in marriage for example among couples or closer to social norms among friends.

The character of the situation or the setting in which the relationship takes place, is important in building trust. Among supermarket customers the setting itself is anonymous and urban rather than intimate in a small village where everyone knows each other and will have to face consequences of their actions. We did not know anyone else in the supermarket most times, and we did not expect to see those who could not find what they needed either. There is no interdependence or continuing and long lasting relations among supermarket customers and they were not forced to keep trust. There was no one as there would be in a nomad community to intervene to protect the customers who could not hoard either because they did not have enough money to do so or were old and fragile and could not carry or store excess shopping. Supermarket runs, in fact were common in big cities across the world rather than in villages and towns where people know each other.

3. Why did the markets not trust policy response?

In Izzeldin et al (2021) we investigate the impact of Covid-19 on stock markets across G7 countries (the US, the UK, Canada, France, Germany, Italy and Japan) and various sectors in these countries (Consumer Goods, Consumer Services, Financials, Healthcare, Industrials, Materials, Oil & Gas, Technology, Telecommunications and Utilities). We show transition to a crisis regime for all countries and all sectors. The trust in stock markets worldwide has broken universally immediately at the onset of the Covid-19 pandemic. The major jump we show in volatility in stock markets is a reflection of loss of trust and uncertainty in response to covid-19 pandemic.

Trust refers to other people and their actions and in that sense is a social phenomena (Dunn, 1988.85). Future is unknown and trust works as a strategy to deal with the uncertain future contingent on the actions of the others. At the onset of the Covid-19 pandemic, the disease was new and government policy response worldwide was thus hard to anticipate. Stock market investors reflected their lack of trust in the performance of corporate sector via frequent sell orders that led to sharp falls in prices and jumps in volatility. According to Luhman (1979) trust provides a solution for complex problems by reducing the alternatives for future actions. Therefore, familiarity is important in building trust. Covid-19 was not familiar to investors or governments undertaking policies in response. The immediate response of stock market investors revealed a loss of trust. As Covid-19 became more familiar and policy response from governments more clear, volatilities declined. Also note the initial response of stock market panic sales indicates there is no pre-commitment form investors and no interdependence which is natural in stock market exchange. Across the world in all transactions at stock exchanges buyer and seller do not know each other. The stock markets are not like village communities built on pre-commitments, interdependence and proximity.

4. Why do Investors trust more to Firms that survived Prior Disasters?

In Eshraghi et al (2021) we show firms' that had prior exposure to prior disasters survived the Covid-19 disaster better. Trust was built for these firms due to their previous resilience to disastrous situations. We start with the 9/11 terrorist attacks and study firms based in New York City back then during the Covid-19 episode now. Although 9/11 and Covid-19 are categorically different as a terrorist attack versus a pandemic they are similar in inflicting a fear of death in the nation. We show that firms that 'survived' 9/11 financially also survived – or suffered less – the covid-19 episode. The return differential between 9/11 survivors and control group of firms without exposure, is economically and statistically significant by about 7% annual returns. Trust built in the eyes of investors via previous immunisation to disasters helps firms two decades later survive a second disaster.

Saligman (1997) argues that trust can be defined as belief the in the goodwill of the other people. This goodwill, in return is based on their intentions and calculations and our past observations about them. In the case of 9/11 survivors trust in those firms can be built on their past actions that enabled them to survive another near death experience. They coped successfully coping with 9/11 and managed their employees, office spaces, supply chains and related financial affairs well. Reputation is an important characteristic of the trustworthiness and refers to the past deeds. In Eshraghi et al (2021) we measure reputation with past performance that survives 9/11 a major deadly disaster. We show investor trust them more due to their their financial resilience observed in the in the past. The trust built for these firms is reflected in the 7% higher returns compared to firms that were not exposed to the 9/11, and represents billions of dollars of market value. trusted in them compared to our control group.

5. Why do the corporations trust the government?

Holtemoller and Muradoglu (2021) investigates the consequences of shutdowns during the Corona crisis on the risk of bankruptcy for unlisted and listed firms in Germany and United Kingdom. We use a rich database, Amadeus that contains millions of firms of various sizes, micro, small, medium, and large. We estimate distress using their capacity to service their debt. We estimate under three months of shutdown almost all firms in shutdown industries face risk of bankruptcy: in Germany, about 99% of firms and in the UK about 98% of firms. The furlough schemes reduce the risk of bankruptcy only marginally to 97% of firms in shutdown industries in Germany and 95% of firms in shutdown industries in the United Kingdom. In sectors that are not shutdown, we estimate widespread bankruptcies ranging from 76% of firms in Germany to 69% of firms in the United Kingdom. Why are the owners and employees of these firms and their unions silent and not lobbying the governments to end the shut downs? I will argue this is due to trust in governments by these stakeholders. There is no precedence of wide-spread bankruptcies due to government policy and these stakeholders happen to be voters in masses, so they trust they will not be left alone.

Financial distress has long term consequences and some firms are already liquidated and some more will be liquidated in the future. Survivors will encounter other difficulties such as having extended periods of negative earnings inability to make capital expenditures and new investments becoming targets of hostile takeovers, suffering very high debt ratios. Yet, neither the owners of these enterprises nor their workers question shutdown policies. Trust in government policy is sustained even under severe risk of bankruptcy. It could be due to the general trust to authority. Alternatively, the transactional relation between governments and voters build the trust that the masses of voters cannot be sacrificed for the greater good.

Trustworthiness of governments were also built on their actual deeds. Furloughs and related loan schemes for firms under shut downs were communicated in a timely manner and in detail. This was helpful in generating trust among the owners and employees of firms under risk of bankruptcy. During the Covid-19 pandemic these constant announcements regarding government policy to mitigate harm to corporate sector employees and firm owners made governments and government bodies seem as more accountable and thus more trustworthy. Corporations, their owners and employees, although almost 99% of them under risk of bankruptcy, trusted government policy and did not challenge the furlough measures nor shutdowns.

Conclusions

Trust is important in economic exchange. Trust makes economic exchange possible. Trust makes possible cope with the uncertainty and risk inherent in financial transactions and brings out the potential for action. In financial decision making settings as well, we are more open towards engaging with other parties and initiating interactions when there is trust and shield ourselves against untrustworthy conduct. and its dangers. Faster recovery of the Covid-19 crisis depends on higher economic exchange among highly trusting agents. For the future lack of trust might lead to excessive litigiousness and ghettoization in the form of closed economies both of which are viable threats to economic exchange and financial transactions.

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