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Economic inequality and trust from a Smithian perspective

Globally, and specifically in South Africa, income and wealth inequality are on the increase. This has negative consequences for socio-political stability and sustainable economic growth. These negative consequences are in many cases directly linked to the breakdown of trust in financial institutions and society in general. However, the breakdown is encompassing and also includes interpersonal relations, trust in institutions and systems, and general perceptions of the unfair distribution of wealth. Trust is one of the pillars of economics and social stability in the work of Adam Smith. Although the economics of Smith's time (18th century) were far less complex and technologically not as advanced as contemporary economics and markets, his work is the foundation of contemporary economics and it remains important because it provides a value-driven and empirical perspective on economics. This value-driven and empirical perspective delves into the cognitive aspects of our being and instincts that are crucial to build trust. The purpose of this article is to revisit the notion of trust in the work of Smith to provide an analysis of trust and possible alternatives for sustainable economics and the flourishing of society. Generally, Smith views trust as multidimensional, with two dimensions of trust that can be distinguished, namely relational and structural trust. I will argue that multidimensional trust is important for the functioning of society and for economic justice.

Keywords: Adam Smith, trust, economic inequality

Introduction

In this article the focus is on Adam Smith's perspective of trust. It will be argued that Smith's (2005, 2007) perspective of trust may provide important insights from classic economics for business in contemporary society in order to address the mounting wealth and income gap globally and specifically in South Africa. Smith's perspective rests on the premise that trust is important for social cohesion, which supports sustainable business and the flourishing of society. Growing economic inequality erodes trust and destabilises the social cohesion that is crucial for free market economics and socio-political stability. This loss of trust develops from residual inequality associated with the general perception of low degrees of fairness in society. It must be noted that the dynamics of the labour market contribute to this income disparity (for instance higher salaries for scarce skills). Furthermore, in Smith's time (18th century), markets were simpler and more personal than the highly technical, digitised markets with anonymised agents and layers of trust by proxy. Smith's view of trust is multidimensional and comprises two inter-related dimensions, namely relational and structural trust.

The following structure will be followed: in the first section economic inequality will be discussed from the South African and global perspectives to advance the argument that this socio-economic phenomenon increases distrust in society. Next, is an analysis of Smith's understanding of trust based on *The theory of moral sentiments* (1759) (TMS), in which relational and structural trust are explained. This is followed by a discussion of the practical engagement between relational and structural trust in the book An inquiry into the nature and causes of the wealth of nations (1776) (WN), which clearly underscores multidimensional trust as a function of the economy as envisioned by Smith. Finally, the analysis of Smith's multidimensional trust will be used to provide insight into economic inequality.

Economic inequality

When focusing on economic inequality, it is important that differentiation is made between income and wealth inequality (Von Fintel and Orthofer 2020). Income inequality focuses on the difference between the earnings of the lowest paid workers and the salaries of the highest earners. Income includes all forms of revenue, such as salaries, bonuses, interest, dividends, rent, and so forth. This type of inequality accentuates the difference in spending power of consumers and the ability to fulfil daily needs but also wants, which may include luxury items and activities. The spending habits of the highest earners create the perception of excess and people who are struggling to fulfil their basics needs might feel that this is unfair and might reflect a lack of sympathy with their plight. Van der Berg (2011) emphasises that studies of economic inequality in South Africa have mainly underlined this criterion. However, wealth inequality remains high because of factors such as financial exclusion that perpetuates poverty through predatory lending practices, among others (Von Fintel and Orthofer 2020).

Wealth inequality refers to all the assets an individual or household owns, including property, equities, cash, bonds, vehicles, and so forth. Wealth inequality does not necessarily mean that the wealth translates into spending power. However, it does provide the collateral to obtain loans and/or income by leasing assets, among others. These assets are not always physical in nature (for example, shares in companies) and are not always directly observable by others. Generally, however, wealth inequality is flaunted in expensive assets such as luxury accommodation and expensive cars. The public display of opulence accentuates the wealth difference and separation between people. Flashy lifestyles accentuate the difference between wealth and non-wealth, such as a mansion compared to a shack without running water or electricity. This heightens the perception that the self-interest of the wealthy outweighs any sympathy for others. These perceptions cause trust to be eroded and increases the distance between people, because it seems that some only care about themselves while others are left to suffer. Furthermore, suspicion arises about how wealth has been created, for instance through privilege, racism and corruption, among others. Based on Smith's analysis of trust, it will be argued that the root causes of social and political tension are located in the erosion of trust between people and institutions.

In South Africa economic inequality is highlighted by its high Gini coefficient or index. The coefficient is a commonly used instrument to measure the distribution of income of a population and is used as a gauge of economic inequality. Its scale is from 0 to 1, with 0 representing perfect equality and 1 perfect inequality. In 2015, economic inequality in South Africa was the highest in the world, with a Gini coefficient of 0.63. This coincided with the shrinking of the middle class, which increases inequality. Bisseker (2019) notes that between 2003 and 2016, "the real incomes of SA's top 1% of income earners almost doubled. By contrast, the incomes of 95% of the population stagnated, or for those at the bottom showed only slight growth, in their case mainly because of social grants. In fact, nearly 60% of the population earned no taxable income at all during this period." Wealth inequality in South Africa is even worse, with the top 1% of the population owning 70.9% of the wealth while the bottom 60% only own 7% of the country's assets (Beaubien 2018). Furthermore, the redistribution of land is a major socio-political and economic factor in wealth inequality in South Africa. Although poverty is declining, inequality has arisen as a major socio-economic problem, specifically in previously disadvantaged areas such as the former homelands (areas set aside for black South Africans along ethnic lines during apartheid) (Head 2018).

A further problem is continued low economic growth, that makes the prospects of eliminating poverty by 2030 (as set by the National Development Plan) highly unlikely (Head 2018). In 2020 the Covid-19 pandemic turned an already bleak situation into a global crisis.

Recently, income inequality has been exacerbated in South Africa by growing corruption and the weakening of government institutions. Phakathi (2019: 1) points out that "Moody's highlighted IMF research that shows high income inequality negatively affects growth through the effect it has on health and education. It also finds that inequality, when it fuels economic, financial and political crises, can reduce growth by reducing investment and can lead to policies, such as protectionist measures, that dampen long-term growth." This negatively impacts on a country's economic strength and credit profile (Phakathi 2019: 2). According to Moody's there is a correlation between income inequality and lower sovereign ratings although there are other factors that also influence ratings, for example socio-political tensions, weak growth and vulnerable institutions. Income inequality may also be linked to long-term trends and recent phenomena such as globalisation, technology or policy changes.

It is clear that income inequality in South Africa is lower than wealth inequality, although income inequality has continued to increase in post-apartheid South Africa (Woolard 2019: 1; Von Fintel and Orthofer; 2020). A possible reason for this is that the programmes to address past inequalities – such as Black Economic Empowerment – have changed employment patterns to increase the number of black workers. Reducing income inequality is an important first step in addressing wealth inequality, which will take much longer to correct, as wealth inequality has an adverse effect on "social, political and economic norms" (Woolard 2019: 1). Programmes to address economic inequality must therefore stimulate the mobility of wealth (Woolard 2019: 2). Woolard (2019: 2) notes that a major problem for democracy in South Africa is the racial dimension of economic inequality. Black African[1] households own less than 4% of the wealth in comparison to white households who own 72%. This increases racial polarisation and perceptions of unfairness in the country. In order to address this imbalance, Woolard (2019: 3) suggests the introduction of a wealth tax.

The major problem in South Africa is the legacy of apartheid and colonialism, which is still increasing inequality of opportunity and outcome (Atkinson 2015). This means that some people (based on race) have more access to prospects to improve their living conditions than others. Some people have more opportunities to improve their income, for instance, while others do not. Outcome inequality

1 Coloured households own 15%, Indians 5%, co-owners 1% and other not specified groups own 3%.

leads to related socio-economic problems such as ill health, low education levels and unhappiness, which are related to one's location in the world. Atkinson (2015: 11) argues that "[i]nequality of outcome among today's generation is the source of the unfair advantage received by the next generation. If we are concerned about equality of opportunity tomorrow, we need to be concerned about inequality of outcome today."

Outcome inequality has an intensifying effect on income because of the desperate conditions in which people have to function. It is clear that if an economy is continually in a state of crisis because citizens experience health problems, there is a strong possibility that the economy and society will not flourish, but rather become sick and falter. Outcomes may also impact on values – and because trust depends on common values, a large income gap increases the sense of differing values: a situation described by Gould and Duval (2016: 7) as "familiarity breeds trust". The income gap increases social stratification of society. Gould and Duval (2016: 8) found that income inequality decreases trust, specifically at the bottom of the distribution, which is most adversely affected by inequality. It may be concluded that increased trust among citizens could be beneficial to the economy and reflective of greater inclusivity.

Increased economic inequality is not only limited to emerging markets, such as South Africa, but is also found in advanced economies. The World Inequality Report (2018) stresses that inequality is on the increase in the world, but at different rates across geographical locations. According to Petri (2019) unemployment in the United States is at a "five-decade low and workforce participation is at the highest level in six years. Yet half of Americans are struggling to get by: Some 44% of those age 18 to 64 are low-wage workers, according to a new report. That's 53 million people who aren't reaping the benefits of a supposedly booming economy."

Phakathi (2019: 2) points out that income inequality is highest in countries in Latin America, Sub-Saharan Africa and in India. The United States is an exception because advanced economies more often have a less unequal income distribution than emerging markets. Phakathi (2019: 2) reports that "[a]mong emerging markets, East European sovereigns are the only group with consistently low levels of inequality, as a result of decades of communist rule that prioritised equal income distribution". Income inequality is also rising in advanced economies and India, with a slight decline in China and Latin America.

The erosion of trust due to economic inequality in many cases can be seen in the increase of corruption and other means of self-advancement at the expense of others in general, because the perception exists that no one cares. A study by Gould and Duval (2016), entitled Growing Apart, Losing Trust? The impact of inequality on social capital, analysed data of the American National Election Survey (ANES) and The European Social Survey (ESS) in order to determine whether there was a relationship between economic inequality and trust. The study found a link between economic inequality and trust based on the fact that trust positively contributes to economic activity and reduces transactional costs. In addition, it promotes international trade, financial development, innovation, entrepreneurship and productivity (Gould and Duval 2016:5-6).

Below, it will be argued that income and wealth inequality in South Africa can be linked to low economic growth and development, due to the erosion of trust.

Adam Smith and trust

In this section, references to trust in *The theory of moral sentiments* (1759) (TMS) and *An inquiry into the nature and causes of the wealth of nations* (1776) (WN) will be discussed. In TMS, Smith differentiates between relational and structural trust. The analysis of WN and economics accentuates that in the practical aspects of society, these two dimensions of trust are both present in a multidimensional engagement with special reference to employment, business and the government.

Trust and moral sentiments (TMS)

Relational trust

Relational trust is rooted in human instincts and focuses on the relationship between people, according to Smith (2005: 309). The term "relationship" also accentuates a degree of proximity and mutual dependence between people (Smith 2005: 148). Relationships may vary and can be of a personal variety (e.g. friendship, marriage, partnerships), or more formal in the case of the relationship between an employer and employee, customers and sales people, among others. Both forms of relational trust require a degree of proximity for communication to take place and also require integrity.

Smith (2005: 110) notes that trust (formal or informal), as an expression of personal interrelationship and mutual dependence, is important to enhance feelings of security and confidence. Therefore, trust and the good opinion of friends set a person free of disagreeable doubt. On the other hand, the distrust and the unfavourable opinion of others increase self-doubt. When someone is falsely accused, for example, the unfavourable opinion of others will increase doubt (Smith 2005: 110). This is qualified by Smith in terms of the degree of sensitivity of a person. The more sensitive a person is, the greater the insecurity and self-doubt. The loss of trust might cause slight discomfort for some, while for others it may be like an earthquake (Smith 2005: 148). Trust is important for relationships, however, and Smith (2005: 148) therefore describes it as a universal phenomenon: "Humanity does not desire to be great, but to be loved. It is not in being rich that truth and justice rejoice, but in being trusted and believed ... ." Smith (2005: 309) also asserts that trust is a natural instinct and an aspect of human nature that is part of the sociology and anthropology of humanity, because liars and deceivers will be perceived as always telling untruths this is not the case in all circumstances because in general they are more inclined to be truthful than to deceive. For example, when a liar works with others to extort money from someone, they will have to trust one another to successfully reach their goal. In other words, trust among thieves is as important as trust among saints.

Self-command is a crucial characteristic when it comes to trust. A person who is easily affected by circumstances and does not have a degree of self-command cannot be trusted to overcome challenging situations. From the perspective of employment relations, this characteristic can limit a person's employability because such a person cannot be trusted with tasks that require responsibility (Smith 2005: 138). Employers and consumers thus expect a high degree of consistent behaviour. This is important for a business to flourish because consistent behaviour creates trust in the capability of an employee.

Another important characteristic is transparency. Smith (2005: 309) argues: "Frankness and openness conciliate confidence. We trust the man (sic) that is willing to trust us." This is an important aspect of interpersonal relationships that increases confidence and integrity. It implies that a person is open and transparent and makes a trustee feel responsible, without demanding any collateral. Transparency must be exhibited through transparent conduct and communication. Trust between people in a relationship can also change for the better. When transparency increases, it affirms that the person is open and does not conceal information, and that the person can therefore be trusted. On the other hand, an untrustworthy person is seldom frank and others will perceive this as reason to believe that the person is concealing information and can therefore not be trusted.

Finally, murder is an extreme failure of trust. If two people are in a trusting relationship and the one kills the other, it is perceived as a total failure of trust because a person should be limited by the instinct to preserve life and refrain from violence. However, the proximity and dependence between two people also increases passion between them, which may turn into rage, violence and murder because of real or perceived betrayal. According to Smith (2005: 141) an offence such as murder is judged as inhumane and detestable. When trust is broken, others judge it harshly because it is a sacred bond for the functioning and well-being of society.

Structural trust

Structural trust involves various forms of institutional and authoritarian structures, for instance legal systems, markets, financial institutions, churches, military, family and others (Smith 2005: 73, 306, 215). These institutions have officials (who have different duties, authority and power), such as judges and magistrates, government officials, religious leaders, military officers (for instance "sergeant", "general"), parents and so forth. The difference between structural and relational trust is that for structural trust, the relationship between officials and the public is based on the trust placed in the institution and not in the personal characteristics of the office bearers as such. In general, the relationship is not relational or equal. The public is more or less dependent on institutions and officials to fulfil their duties in a responsible manner.

Two of the most important aspects of structural trust that enhance public opinion and confidence in an institution are dependability and integrity. The legal system has the responsibility to preserve the liberty and rights of citizens and therefore officials (for example magistrates) are entrusted with the duty to maintain peace by administering justice for the good of society (Smith 2005: 73). The administering of justice must be based on consistent processes and evidence, without compromise by officials (Smith 2005: 156). This also includes the judgment and sentencing of perpetrators, which must be consistent with the type of crime and its veracity (Smith 2005: 196). Smith also notes other forms of justice that are linked to cultural norms and are not based on legal principles and that are referred to as "murders under trust", for instance contract killing or mob justice. Murder under trust is also a type of institutional trust that is based on the culturally determined functioning and principles of trust (Smith 2005: 196). However, the danger of this form of justice is that the people involved are more relationally bound to the perpetrator/s and subjective presentation of facts may compromise the dependability of the system.

A second aspect of institutional trust is its role as a restraint and enabler of preferred behaviour, as is clear with religious institutions such as churches. The restraint that an institution advocates is to limit and/or eradicate certain behaviour (for example murder). The assumption is that a religious person is accountable to God (the supreme authority) and that this places an external constraint on the conduct of that person (Smith 2005: 151). Therefore, religion is viewed as a negative constraint because it comes from an external authority and not the person as a locus of control of her behaviour. In other words, it is rooted in fear of reprisal. Alternatively, structural trust can also be an enabler of preferred or socially acceptable behaviour based on the superior wisdom of God (Smith 2005: 263). Both the restraint and enabling functions of religion are closely linked to the traditions, sacred text and rituals of the institution. The administering of the restraint and enabling function is closely linked to the office of the clergy (Smith 2005: 306-307), which is entrusted with a responsible position and power to perform rituals and functions on behalf of a god. In this case, God or "the great Conductor of the universe" is the absolute delegating authority who oversees all aspect of our existence and justifies restraint and acceptable behaviour (Smith 2005: 214). This can also negatively be extended to the role of trust between a master and servant (Smith 2005: 286), where the abusive and restraining institutions of slavery (and not the authority of the master) is the reason for obedience.

This accentuates a third aspect of structural trust, namely its delegated authority. This is particularly evident in social structures such as the family. The family and the authority of parents (for instance clergy) are also regarded as a form of entrusted authority based on social conventions. This authority may be viewed as a religious duty and therefore delegated by God (for instance through baptism). In most secular societies the government acts as the trustor or delegating authority (Smith 2005: 191). The child is totally dependent on this institution and is required to have blind trust in a parent or caregiver: the child is "entrusted" to the parents who must do everything to the child's benefit (Smith 2005: 308). Therefore, a child must believe everything she is told for survival and must totally submit to the authority of the parents. This relationship is not mutual or relational, but depends on the ability of the parent to care for the child. Conversely, it is clear that the trust placed in parents may be abused: recurring harm, danger and discomfort experienced by children are examples of abuse of the trust placed in parents by society and the church. This breaks down the integrity of the family as an institution of care and the parents as caregivers.

The final aspect highlighted by Smith (2005, 2007) is the link between institutional trust and confidence. In the military it is important that soldiers trust their higher ranking officers. This creates confidence that the orders that they are expected to follow will be to their benefit and will not bring them to undue harm. Alternatively, if there is a high degree of danger in the execution of their duties, it also enhances confidence in leadership if the soldiers are made aware of this danger so that they may be vigilant and may prepare for a possible fatal battle. An untrustworthy military general will not encourage confidence, because he creates uncertainty in the minds of soldiers regarding his motives and/or outcome (Smith 2005: 214). Soldiers' confidence in the leadership may also positively influence the outcome of the battle, because they will enter the battle with less hesitation and with more certainty in the strategy of the person in authority. Smith (2005: 253) notes that confidence in leadership is generally based on the function of a particular institution and the increase of the common good of society. The soldier goes to war to protect the integrity of the borders of the country that will keep people safe and not because he wants to sacrifice his life for a trustworthy leader.

Towards multidimensional trust

Smith's (2005, 2007) assessment of trust in TMS highlighted the relational and structural dimensions of trust. However, these dimensions do not function independently, as will be explained in in the next section. Below, it will be argued that for Smith the successful functioning of society requires relational and structural trust to complement each other in what can be described as multidimensional trust. Relational trust focuses on the most basic social engagements between people. For these engagements to be meaningful and authentic, it is important that a basic level of trust is present – for example integrity. Relational trust is complemented by structural trust, which involves systems and their institutional manifestations, such as the legal system and the judiciary; economic systems and financial institutions (for instance banks, stock exchanges) and the governance and government institutions (for instance the department of home affairs).

Relational and structural trust complement each other at the point where structures (or institutions) and people meet. Relational trust is embedded in the structures of society – it influences the functioning of society and vice versa. An example is the friendship between soldiers that differs from schoolyard friendships because the expression of friendship in a military context is camaraderie, whereas it is characterised by playfulness in the schoolyard. Failure of structural trust may erode the culture of trust of a military unit; or, positively, it may increase the trust between friends in order to overcome an unstable and uncertain situation. This complementary nature of multidimensional trust is important to address failures of trust of either dimension and can result in positive relations and influence the structures through example.

The functioning of multidimensional trust relates to the practical functioning of society and to illustrate this, we turn to WN and the economy. In the next section the dynamics of multidimensional trust will be analysed in terms of the functioning of different aspects of the economy, for example work, markets and the role of the government.

Multidimensional trust and the economy (WN)

Trust and work

An important aspect of the labour market is the remuneration of employees for the work that was done. The employer trusts that the employee performed the tasks that needed to be done, and at a satisfactory quality; and the employee trusts that the employer manages the finances of the business in a responsible manner and will pay for the work done at the time agreed upon (Smith 2007: 576). Trust is also a key element in the pricing of work (Smith 2007: 42). The higher the level of trust placed in a certain occupation, the higher the remuneration for the responsibility placed in a particular person. Labour that only requires the worker to follow the orders of a supervisor is measured in terms of the completion of a particular task. The more hours a labourer works, the higher the remuneration due to the quantity of the task completed. The supervisor has a greater responsibility to communicate instructions and oversee the successful completion of the task. The labourer will therefore receive less monetary compensation for work. Likewise, a skilled artisan will produce work of a higher quality and should receive more income than a trainee artisan. Although responsibility, quantity and quality of labour are very important in pricing the level of remuneration, trust can disproportionally increase compensation and vice versa.

We entrust our health to the physician, and our fortune and sometimes our life and reputation to the lawyer and attorney, Smith (2007: 86-87) explains. Such confidence could not safely be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in society that requires such an important trust. The long time and the great expense which must be invested in their education, when combined with this circumstance, necessarily enhance the price of their labour still further (Smith 2007: 86-87). The difference between trust in a doctor and in apothecaries (persons selling wine, herbs and spices to physicians and in many cases also giving advice to the poor) is a good example of the different trust levels: greater trust is placed in a doctor than in apothecaries (Smith 2007: 92). When it comes to crafts and professions that are related to an acquired skill, the effort and time which the worker invested in an apprenticeship increases trust in the quality of the skill of the worker. Remuneration increases further when there is a great demand for a particular skill or profession (Smith 2007: 69). This may change in times of scarcity of demand, in which case a person will do any work, even for much lower wages, to secure income. This highlights the important role of market dynamics, which will be discussed in the next section. A job that requires high levels of trust in employees most of the time will be rewarded through monetary means, if the market functions effectively. One trusts that the doctor will make the correct diagnosis and prescribe the correct treatment – this high level of trust is also rewarded and therefore most doctors earn a higher salary than someone that requires less trust, such as a porter (Smith 2007: 42). There are many exceptions, however. A teacher has a very important role in the education of children, for instance, but is generally not well rewarded.

The references to trust and various forms of employment in most cases rely on relational trust. In other words, trust is based on mutual benefit and proximity. In the case of a doctor, the patient places trust in the skill of the doctor to make a diagnosis and in the doctor's ability to prescribe the correct treatment and/or medication. This is the same for apothecaries and artisans, although both afford a lower degree of trust based on the responsibility of the person. Trust in doctors also contains a measure of structural trust in terms of the training and support of the medical system. This institutional dimension and increased responsibility are also linked to the higher salaries of doctors. Structural trust has a strong laissez-faire character, which means that structural trust will be disrupted if any form of intervention takes place. The rules and expectations of institutions must not be questioned and must be left to function without interference.

The failure of relational trust may also negatively influence structural trust. Smith's (2007: 86-87) reference to labour and professions such as those of doctors suggests that the relational trust between a patient and a doctor is important because of the expectation that a doctor is equipped to diagnose and treat the ill health of a patient. The patient must have trust in a particular doctor to go to her and pay for the consultation. However, once trust has been depleted because of several misdiagnoses, a patient may feel robbed by the doctor but may also feel that the medical profession has failed her. The reason for this is that doctors are subject to the training and regulations of the medical profession, which is the basis of structural trust.

Trust and markets

The functioning of the markets is based on trust, as argued by Smith (2007: 333). The free market system is rooted in trust to purchase what is needed in times of scarcity of a particular product or resource, with no constraints on supply to a willing buyer (Smith 2007: 333). The levels of trust are tested in foreign trade because it creates risk to capital due to unfamiliarity and lack of knowledge of foreign laws when problems arise. Knowledge of a trade partner is also limited because one does not always know the character and circumstances of a trade partner, for instance in the case of merchants who do business across different territories (Smith 2007: 348). Trade in colonised[2] areas was preferred due to access to resources not found in Europe and pricing leverage. However, a high premium was placed on trustworthy local trading partners because this relationship was a challenge to manage due to the distance from the territory of the coloniser (Smith 2007: 478).

2 This conclusion of Smith can be viewed as the product of European stereotypes of colonised people who were viewed as untrustworthy. However, it can also be argued that Smith's conclusion is rooted in the importance of trust when trading with a stranger or a person from a different culture or locations in general. The implication is that the absence of knowledge of the persons culture, laws and traditions is a big risk for any person whether from European decent or not. This risk places a greater premium on trust.

Trust is also involved in the procurement of resources and/or products for manufacturing and/or trade. The procurer trusts in the timely supply and delivery of stock in a good condition. However, in the case of unstable and perishable stock, the levels of trust are lower because of the nature of the stock (Smith 2007: 635). Hence, greater risk is priced in to the transaction.

In many cases, merchants are entrusted by producers and manufacturers with large amounts of money that pass through their hands, as is the case with private individuals (Smith 2007: 709). This also creates room for abuse of the trust placed in merchants, who may profit from the trust placed in them through unscrupulous dealings. Therefore, making profit must be based in the honourable office of trust (Smith 2007: 614)

Smith's view of business is closely linked to the history of mercantilism. This phenomenon is dependent on both relational and structural trust. The former is important to secure stable business operations between the merchant, suppliers and the markets. Relational trust existed between the merchant and supplier in terms of price, supply and quality of goods. However, this more complex form of trade was dependent on the support of government to increase the exports of nations and therefore the wealth of the nation. This highlights the structural underpinning of mercantilism that relied on a system of political-economy that favoured the merchant classes. In other words, the merchant had to trust the resources of the government when purchasing goods from suppliers, with the certainty that these goods would be exported as part of the market dynamic. Mercantilism differs from normal business where produce, goods or skills are exchanged for money or bartered, because it is solely rooted on relational trust. Trust has become a purely structural phenomenon in contemporary markets with their complex structures, the role of agents and digital systems.

The above-mentioned is an expression of multidimensional trust that underlines the complementary relationship between traders and the government. Smith's discussion of mercantilism and government is a good example of a situation where the failure of structural trust also erodes interpersonal trust. When the government is viewed as corrupt and colluding with the mercantile classes (specifically with access to international markets), it does not take long for office bearers and officials to follow. This has a direct influence on business and trust in financial institutions because the collusion between the government and mercantile classes gives unfair advantage to these classes, who have more capital and resources to influence local markets. This has a negative effect on relational trust between trading partners and the dealings with consumers.

Trust and the government

The government has the responsibility to secure the liberty and freedom of citizens to engage in business, protect property, and provide justice and security – in other words, the space for free market commerce (Verhoef and Rathbone 2013). Evensky (2011: 254) observes that a "free-market system depends on the citizens' trust that their fellow citizens are generally good citizens and that government will provide the policies to discourage destructive behaviour of those few who are not so good". On the other hand, laws that impede the liberty of citizens and places obstacles in the way of free trade, restrict the self-interest of the individual. Rather, the responsible execution of the self-interest of the individual must be trusted as beneficial to society (Smith 2007: 409). The implication is that merchants – for example the corn merchant's trade – should be trusted to the merchants themselves and be left totally free, without government intervention and without regulations (Smith 2007: 412). The government must, however, establish a stable trade environment in which citizens and business trust the legal system and the execution of justice (Smith 2007:559).

Smith (2007: 710) argues that commerce and manufacture cannot flourish in a government where the administration of justice does not take place, where there is no security of private property and faith in contracts that are supported by the law, and where the enforcement of the payment of debt does not take place. Smith (2007: 710) points out that "[c]ommerce and manufacture, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government". The implication is that trust in the government to protect the investments of citizens against criminal activities, corruption and disorder, is critical for the flourishing of the economy (Smith 2007: 710). The hoarding of money would be clear evidence that citizens distrusted the ability of the government to administer justice, among others. This may be in terms of systemic reasons and structures of government and/or officers of the government or statesmen that are not trusted, because of unscrupulous or presumptuous behaviour (Smith 2007: 350).

Trust is expanded when it comes to credit because then it is not only about the currency and the efficiency of the government to administer justice and good governance, but it is also about the relational trust between the provider of credit, the bank and their customers. Therefore, the responsibility of government is to monitor these institutions for the welfare of the nation because of the danger of bold projectors (Smith 2007: 710). Evensky (2011: 256) points out that "the activity of imprudent and/or unethical projectors can exploit this access to credit, draining the bank of resources and endangering its solvency". Consequently, the failure of institutional trust in the government to monitor the activities of the banking sector can be catastrophic for the economy and lead to the collapse of the banking system due to the failure of relational trust between citizen and banks. Hence, it is important that banks should submit to government legislation "to ensure public trust in the banking system" (Evensky 2011: 256).

In Britain, during the time of Smith this faction was represented by the mercantile system that strove for monopoly over the trade in the colonies (Evensky 2011: 257). This resulted in corrupt relations between the governing and mercantile classes that consequently had an impact on the institutional trust in society. Smith (2007: 710) describes how this corrupt relational trust between these influential classes would ruin the British economy because it diverted the natural flow of capital to sectors of the economy that could easily be corrupted. The problem was that the maintenance of this monopoly was carried by society and not the beneficiaries. An end had to come to the self-serving policies implemented on behalf of the mercantilists (Evensky 2011: 259).

However, for the government to fulfil its duty, it must derive income. This is mostly done through the taxation of citizens. This system is also based on trust in the fairness of the amount of tax that citizens must pay, the just administration of the system and responsible distribution of taxes to sustain the optimal functioning of society (Smith 2007: 660). Failure of the system could result in the loss of trust. In the agricultural sector, Smith (2007: 660) notes that assessors often overtaxed famers. The loss of trust in the administration of the tax assessment system led to defiant behaviour by farmers. In some cases, farmers pretended to be impoverished and worked with equipment and animals that were not of the best quality. This situation was bad for agriculture and the economy because production was affected and tax revenue reduced. The direct impact of the failure of the tax system was that manufacturers suffered because farmers did not improve their equipment and become less productive. This jeopardised the business of equipment and other suppliers to the agricultural sector, and in turn led to relational distrust between farmers and suppliers. It also accentuated multidimensional trust. The failure of structural trust due to corrupt governance and unreasonably high taxes influenced the relational trust between farmers and their suppliers (for example through the purchase of lower quality equipment), among others.

Structural trust plays a major role in the relationship between the government and citizens. The trust placed in government to function with the benefit of society in mind is critical to gain the support of citizens. Although governments are democratically elected in many countries, the problem is that politics and corrupt practices surface and that these erode the trust placed in a particular governing party. These corrupt practice are evident in Smith's assessment of the relationship between government and mercantilism. This goes hand in hand with corrupt practices of government office bearers and other officials who may serve their own interests rather than that of the public. In other words, positions of authority are not also constrained by civic ethics that are based on structural trust. Evensky (2011: 254) cautions that those in "power of government can be captured for the very purpose it is ideally established to police: unconstrained greed". This breakdown of trust is extremely detrimental to democracy, economics and social stability.

Multidimensional trust and economic inequality

The discussion of relational and structural trust in the economy (WN) highlights the importance of multidimensional trust. This means that relational and structural trust must complement each other for society to function effectively. The implication of this perspective is that structural trust and relational trust are mutually dependent; the one strengthens the other in situations where trust functions at a premium (such as effective governance), but the one depletes the other in a low-trust environment (such as corruption). In the discussion of multidimensional trust in work, markets and the government, it became clear that the interaction between these dimensions is of a complementary nature. The question is therefore whether this interaction has relevance for economic inequality.

It was mentioned earlier that economic inequality is an aspect of society that increases distrust due to a perceived or real lack of sympathy of the wealthy for the poor (Rathbone 2019). This perceived lack of sympathy has direct relevance for relational trust which is rooted in institutional structures. In other words, there is a relationship between economics and socio-anthropology. Multidimensional trust in economies highlights that economic inequality cannot be reduced to economics alone. Rather, economic inequality also has an anthropological and sociological dimension. It involves people and social structures. This can be seen on various levels, in personal relationships between the wealthy and poor, the perception of consumers, employer-employee relations, and so forth. An example of employer-employee relations that may demonstrate the loss of relations trust is a wealthy employer's harsh treatment of a domestic worker who is late for work because of a taxi strike. This will create the impression that the wealthy employer, who lives in luxury, has no sympathy for the plight of her employee. This results in a breakdown of trust because the employee may feel that the employer only thinks of her own self-interest and is therefore unsympathetic.

On the other hand, the relationship between relational trust and economic inequality also has a structural dimension because there is opportunity inequality between the wealthy employer and domestic worker. Due to the difference in educational opportunities, the wealthy employer has a high paying occupation while the domestic worker might have had to leave school early to take care of her siblings. This situation of the domestic worker is the result of outcome inequality because her parents passed away due to ill-health. The devastating impact of outcome and opportunity inequality therefore increases economic inequality, and distrust that is rooted in the failure of structural trust.

As mentioned earlier, the continuation of inequality in South Africa still has a strong racial bias because of the legacy of colonialism and apartheid. These ideologies were enforced by governments with various government structures, such as the judiciary (e.g. racially defined laws), education, and so forth. These racial aspects also had a direct impact on economics. The economy was also segregated, with limited business opportunities and access to markets for black citizens (Rathbone 2016). The problem is that with the transition to democracy, structural trust is still in a process of development. Although the government has removed legislation and structures that enforce racist policies, things such as corruption and state capture, service delivery failures, and so forth have eroded structural trust. This exacerbates negative perceptions and distrust between the wealthy and poor. The poor view the wealthy as unsympathetic and even corrupt; while the wealthy do not trust the poor because they are viewed as jealous of their wealth.

However, the relationship between relational and structural trust may not be totally deterministic and the failure of the one may not necessarily lead to the failure of the other. As mentioned earlier (see the example of the military and friendship in the section Towards multidimensional trust), the two dimensions also complement each other as a corrective. For distrust due to economic inequality to be addressed, the complementary nature of multidimensional trust must be accentuated. Institutions must regain their effective functioning and not only privilege the wealthy. Institutions must address economic inequality in terms of income measures (for example skills and salaries, basic income grants) and wealth (for example land redistribution).

Moreover, the negative impact of corruption is an important aspect that erodes trust in the government and its ability to derive income through taxes. The multidimensional nature of trust underscores the problem associated with corrupt institutions and officials, and it is not only structural but relational as well. Corrupt officials do not function to advance the interests of their office and the purpose of the institution, but rather their own interest. This is a relational matter where trust is negotiated between the officer and the public (through bribes, for instance). This situation becomes catastrophic if institutions become corrupt and structural corruption develops. Dealing with corruption at a structural level can therefore have a direct benefit for relational trust between citizens.

In the global context, trust is the basis for market economies that are currently being undermined across the globe by geopolitical tensions, trade wars, populism, corruption, greed and nationalism that are effectively destroying free market economies. Income inequality is being increased because the executives of multinational companies are being paid excessive salaries and bonuses while the companies are not performing accordingly: this depletes the pension funds and the wealth of investors. Smith (2007) notes that income has a direct bearing on the trust placed in a person, among others. Trust and income are linked because the trust that we place in a person to perform a task must be rewarded. Thus, it is clear that trust was misplaced due to the lack of performance of the company. The continued disparity only raises distrust, specifically when retrenchments of staff follow, as it increases the income gap. A possible solution to this disparity that is aligned with Smith's perspective on trust, is for accountable governance structures (Rathbone and Van Rooyen 2021).

Smith (2007) mentioned that relational trust goes hand in hand with characteristics that enhance trust, for example integrity (e.g. steadfastness) and transparency (e.g. frankness and openness). From the perspective of multidimensional trust, these relational characteristics also have a structural equivalent. This can be seen in contemporary corporate governance in South Africa, as confirmed by the King Reports (Institute of Directors in Southern Africa 1994, 2002, 2009, 2016). These reports stress that governance processes should be transparent, accountable and responsible, among others (Rathbone and Van Rooyen 2021). These characteristics enhance trust in market structures, specifically when it comes to action by corporates to address economic inequality related to apartheid and colonialism (for instance BEE programmes).

Conclusion

In this article trust in the TMS and WN of Adam Smith was explored. It was argued that Smith follows a multidimensional notion of trust as a function of the interaction between relational and structural trust. This was discussed in terms of economic aspects, for example work, trade and the government in WN. The purpose of this analysis was to provide an alternative perspective from classic economics on economic inequality and its impact on trust in society. In the discussion of trust in WN it was clear that there is a complementary relationship between relational and structural trust. The failure of one dimension of trust leads to the collapse of the other and vice versa. Alternatively, the argument developed in the article is that the reinstatement of one dimension can also lead to the revival of the other.

The relationship between economic inequality and trust is of increasing importance for social stability and democracy. The perspective of multidimensional trust reveals some alternative ways to understand the relationship between trust and economic inequality and possible new avenues to follow. Firstly, multidimensional trust provides a framework to understand the phenomenon of economic inequality from the perspective of human engagement and the institutions of society. Hence, it is not only an economic problem. It has an anthropological and sociological dimension that cannot be reduced to the differences between income and assets of people. Secondly, multidimensional trust shows that trust can be rejuvenated from either a relational or structural perspective because these dimensions are complementary.

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