Trust in the shadows: When loyalty enables morally questionable actions

When you think about economic activities society frowns on — like paying bribes, engaging in prostitution, or even selling human organs — “trust” and “loyalty” might not be the first things that come to mind. But these seemingly positive characteristics play a key role in letting people disguise illicit transactions as something more socially acceptable, my colleague Gabriel Rossman and I recently found in a series of experiments reported in a recent article.

As a professor of management who leads the University of Arizona’s Center for Trust Studies, I’ve long been interested in how people conceal illicit economic activity. One important way is through obfuscation – hiding the true nature of an exchange to avoid social judgment or legal scrutiny. For example, a person who wants to hire a sex worker may disguise their payment as a more socially acceptable “gift,” while someone who wants to bribe a politician may instead make a campaign contribution.

Through our experiments, we investigated the strategies individuals use to mask these morally questionable transactions — what researchers call “obfuscated disreputable exchanges.” We found that people decide to engage in these shady activities based on how much they trust the counterparty they’re working with.

In our experiments, we put a total of 1,276 participants in the shoes of a hypothetical real estate developer whose building permit application needs an exception to the zoning ordinance. Participants were then told that the city building inspector’s pickup truck had broken down and that if they bought him a new one he might be more inclined to grease the wheels for their application.

We found that participants were more likely to choose this option – an obfuscated exchange – instead of inaction or outright bribery when they could trust their loyal counterpart (which we manipulated either through information conveyed by the protagonist’s mentor or through general reputation in the field). But we also found that the type of trust matters: When trust is based on the belief in the other’s loyalty, individuals are more willing to proceed with the gift. However, when trust stems from the belief in the other’s ethical standards, they hesitate, fearing the moral implications of their actions.

Why it matters

In the shadows of the legitimate market, a different kind of economy thrives – one dominated by the transfer of goods and services that society considers morally reprehensible. Our study probes this hidden economy, examining how individuals navigate transactions that, while effective, are cloaked in moral ambiguity. In addition to helping us understand the mechanisms of these illicit exchanges, our work offers fundamental insights into human behavior and social norms.

Our findings underscore humans' drive to reconcile the pursuit of personal gain with the desire for social acceptance, revealing the lengths to which people will go to maintain the appearance of respectability. Our research uncovers the crucial role of trust in enabling these exchanges.

One of the implications of our research is that trust has a dark side. This runs contrary to the positive view of trust that prevails in much of the literature, due to its role in encouraging cooperation and reducing transaction costs, along with its broader value as a "social lubricant." Our investigation shows that trust can also produce outcomes that might be less socially desirable.

The conflicting roles trust can play are due to two its fundamental dimensions: loyalty and ethics. Loyalty refers to someone's goodwill and their desire to help, while ethics pertain to the set of principles, most notably rectitude and truthfulness, that a counterpart subscribes to. Both are fundamental ingredients in the formation of trustworthiness perception. A common assumption is that the two come hand in hand. This is intuitive: if someone acts ethically towards the entire community, it is reasonable to assume they would honor their commitments to an individual. However, the unity of these two dimensions of trust – the loyal and the ethical – breaks down in disreputable exchanges. Our research shows that individuals are more willing to engage in these exchanges with others who demonstrate loyalty-based trustworthiness, but less likely with those whose trustworthiness is grounded in a sense of ethics.

Another intriguing facet of our findings is that loyalty-based trustworthiness – as opposed to trustworthiness rooted in ethics – reduces the moral discomfort of the partners. Each party adjusts their sense of what it means to be good if they trust that the other will not judge them for a bit of wickedness.

What still isn't kown

Our investigation into the world of obfuscated exchanges opens up new avenues of inquiry about the dynamics of trust in morally gray markets. Our work raises questions about the fragility of trust in these contexts, the impact of changing social norms on what people consider morally acceptable, and the broader implications for our understanding of trust and morality in society.

As researchers continue to uncover the layers of trust that underpin the shadow economy, these questions invite us to reflect on how people negotiate the tension between personal gain and community moral standards – a dynamic that shapes not just hidden economies, but the very fabric of society.