

Limbach, Peter; Rau, P. Raghavendra; Schürmann, Henrik

**Working Paper**

## The Death of Trust Across the U.S. Finance Industry

CFR Working Paper, No. 20-05

**Provided in Cooperation with:**

Centre for Financial Research (CFR), University of Cologne

*Suggested Citation:* Limbach, Peter; Rau, P. Raghavendra; Schürmann, Henrik (2020) : The Death of Trust Across the U.S. Finance Industry, CFR Working Paper, No. 20-05, University of Cologne, Centre for Financial Research (CFR), Cologne

This Version is available at:

<https://hdl.handle.net/10419/228629>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

**CFR working paper NO. 20-05**

**The death of trust across the U.S.  
finance industry**

**P. LIMBACH • P.R. RAU •  
H. SCHÜRMAN**

**centre for financial research  
cologne**

# The Death of Trust Across the U.S. Finance Industry

Peter Limbach

*University of Cologne and Centre for Financial Research (CFR)*

P. Raghavendra Rau

*University of Cambridge*

Henrik Schürmann

*BUW - Schumpeter School of Business and Economics*

November 2020

## Abstract

We document a significant decline in the level of generalized trust among finance professionals relative to the decline of trust in the general U.S. population. This decline occurs across all subsectors and at all hierarchy levels and is unique to the finance industry. It is related to a lack of confidence only in institutions that are relevant to the finance industry. The relative decline of trust is associated with a decreasing level of socialization among finance professionals as well as with changes in economic conditions and the professional environment in the finance industry.

**Keywords:** Finance industry, Generalized trust, Implicit incentives, Professional environment, Socialization

**JEL codes:** G20, G21, G22, G24, L14, A14

Limbach: University of Cologne and the Centre for Financial Research (CFR), Albertus-Magnus-Platz, 50923 Cologne, Germany (e-mail: plimbach@wiso.uni-koeln.de); Rau: Cambridge Judge Business School, Trumpington Street, Cambridge CB2 1AG, United Kingdom (email: r.rau@jbs.cam.ac.uk); Schürmann: University of Wuppertal, Schumpeter School of Business and Economics, Gaußstraße 20, 42119 Wuppertal, Germany (e-mail: henrik.schuermann@gmail.com). We thank Sue Denim, Luigi Zingales, and seminar participants at the Cambridge Judge Business School, the Centre for Financial Research, and the Schumpeter School of Business and Economics for helpful comments.

## 1. Introduction

*“The fundamental problem isn’t lack of capital. It’s lack of trust. And without trust, Wall Street might as well fold up its fancy tents.”* - Former U.S. Labor Secretary Robert Reich

The financial sector plays a crucial role in a country’s economic development. Better developed financial systems are associated with faster economic growth (Calderón and Liu, 2003), increased levels of entrepreneurial activities (Guiso, Sapienza, and Zingales, 2004), higher levels of technological innovation (Levine, 1999), and reduced poverty (Beck, Demirgüç-Kunt, and Levine, 2007). A well-functioning financial system depends on the reliability of contracts and contractors. Reliability is typically achievable through explicit mechanisms, such as contracts and legal regulations, or through implicit incentives, including social norms such as trust, that prevail in a society or a class. The level of trust among finance professionals also plays a pivotal role for the price, quantity, and quality of the services they supply. As an example, supply chain finance is expensive because intermediaries cannot depend on implicit trust mechanisms when transferring goods and payments across borders but need to draw up explicit paper contracts addressing credit risk insurance across different legal jurisdictions (Stemmler, 2002). Understanding the evolution of trust among finance professionals is therefore relevant for policymakers as well as for financial institutions and their clients.

Despite the erosion of trust in American society in general (Putnam, 2000), little is known about the evolution of trust across finance professionals. In this paper, we show how implicit incentives in the form of *generalized trust*, i.e., trust in anonymous others, have evolved in the finance industry. Using data from a representative U.S. survey spanning four decades, we study the time trend in generalized trust across finance professionals.

We uncover three novel empirical findings. First, generalized trust of professionals working in the finance industry has declined substantially over the last four decades. Notably, the level of trust of finance professionals has not only declined in absolute terms, but also relative to the general U.S. population. Simply put, while generalized trust has declined in U.S. society as whole, it has declined significantly more across finance professionals. This relative decline is unique to finance. While the decline in trust was particularly steep in the period leading up to the mid-1990s, it is also observable in more recent periods. Second, the relative decline in trust has occurred across both high and low hierarchy levels, i.e., it also affects both those who set the tone and relative newcomers into the industry. Third, we provide evidence for several channels – specifically

changes in socialization habits, general economic conditions, and the professional environment in the finance industry – that are related to and may potentially explain the decline of trust across finance professionals.

Why does the level of generalized trust matter? Arrow (1972) notes that “[v]irtually every commercial transaction has within itself an element of trust” (p. 357). Furthermore, economists argue that generalized trust and other forms of social capital facilitate economic activities as they discourage opportunistic behavior (Guiso, Sapienza, and Zingales, 2011) and increase people's willingness to cooperate with each other (La Porta et al., 1997). More specifically, due to the reciprocal nature of trust, it determines their trustworthiness (e.g., Berg, Dickhaut, and McCabe, 1995; Abdulkadiroğlu and Bagwell, 2013) and trust responsiveness (Bacharach, Guerra, and Zizzo, 2007). In other words, people who trust more also tend to act in a more trustworthy fashion. Generalized trust therefore stimulates economic growth by encouraging more cooperation between individuals and reducing the need for costly monitoring, legal services, and enforcement of government regulations.<sup>1</sup>

In the finance industry, generalized trust is particularly important for at least three reasons. First, it matters for the efficient functioning of financial markets, in which interactions between unfamiliar people are common (Nannestad, 2008; Newton, 2007). Specifically, the level of generalized trust among finance professionals directly determines the cost of financial trades as well as the quantity and quality of financial services. Since insufficient generalized trust results in higher costs for contracting, monitoring, and enforcement, it may also lead to some people being excluded from these services because they cannot afford them. Second, financial products have become increasingly complex (Ghent, Torous, and Valkanov, 2019) and conflicts of interest are common (Bolton, Freixas, and Shapiro, 2007). Zingales (2015) notes that the finance industry provides services that most people need but only few understand, making information asymmetries between finance professionals and clients greater than in most other industries. Consequently,

---

<sup>1</sup> Norm-deviant cheating behavior entails psychological and social costs in high-trust societies. These costs include guilt and shame as well as a lack of reciprocation, ostracism, or more direct forms of punishment by others (Knack and Keefer, 1997; Fehr and Gaechter, 2000; Francois and Zabojsnik, 2005; Anderlini and Terlizzese, 2017). Costs increase with the prevailing level of trust and discourage opportunistic behavior. Hence, in high-trust environments individuals need not spend much time in protecting themselves from being exploited in economic transactions (Zack and Knack, 2001). Consistent with this interpretation, Knack and Keefer (1997) contend that, in high-trust societies, written contracts are less likely to be needed and litigation may be less frequent.

opportunities for rent-seeking and deceptive behavior by finance professionals are almost omnipresent. Egan, Matvos, and Seru (2019) find, for example, that seven percent of financial advisors have misconduct records. This share doubles in some of the largest financial firms, which “specialize” in misconduct and cater to unsophisticated consumers. Finally, the U.S. finance industry has experienced almost half a century of deregulation (Philippon and Reshef, 2012), which makes the role of generalized trust even more important.<sup>2</sup> Both theoretical and empirical studies (see, e.g., Fukuyama, 1995; Zak and Knack, 2001; Carlin, Dorobantu, and Viswanathan, 2009; Aghion et al., 2010) suggest that when formal regulation and governance are less established or efficient, generalized trust is more valuable as an implicit mechanism that substitutes for regulation and discourages opportunistic behavior, thereby limiting fraudulent actions. It is hence plausible that a simultaneous decline of generalized trust and regulation may lead to an increase in adverse outcomes for both consumers and society. Overall, the formation and evolution of generalized trust in the finance industry is fundamental to the smooth functioning of financial markets.

In this study, we investigate the time trend in generalized trust of individuals working in the finance industry relative to the general U.S. population using data from the General Social Survey (GSS). We use responses from 25 cross-sectional waves spanning 39 years (covering about 1,500 respondents each year from 1978 through 1993 and around 2,800 respondents every second year from 1994 through 2016) to the question: “*Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?*” This measure of generalized trust is frequently used in the literature and has been shown to be a valid predictor for individuals’ actual level of trust (e.g., Fehr et al., 2003; Johnson and Mislin, 2012; Sapienza, Toldra-Simats, and Zingales, 2013).<sup>3</sup> We show that the level of generalized trust of professionals working in the finance industry has declined substantially over the last almost four decades, both in absolute and relative terms to the general U.S. population. Across all industries covered by the

---

<sup>2</sup> Examples include the relaxations of the Glass-Steagall Act in 1987, 1989, 1997, and 1999 (when the Gramm-Leach-Bliley Act finally repealed the Glass-Steagall Act) the removal of interest rates ceilings in the 1980s, and the repeal of the Bank Holding Company Act in 1999. An exception is the Dodd-Frank Act, which was enacted in 2010. However, several requirements of the Act have already been repealed or are planned to be repealed.

<sup>3</sup> Sapienza, Toldra-Simats, and Zingales (2013) show that responses to the survey question we use here are driven by what they call the “belief-based component of trust”. In other words, responses strongly correlate with the sender’s expectations about the receiver’s behavior in a standard trust game (Berg, Dickhaut, and McCabe, 1995).

GSS, the relative decline in trust is unparalleled and unique to finance. Other industries that are also heavily dependent on trust, such as healthcare, legal services, or the tech industry, do not experience such a decline in generalized trust. In addition, we document several unexpected patterns in the trust decline across the finance industry. First, the decline is stronger in the first half of our sample period (1978-1996) during which trust falls across all finance subsectors, i.e., banking, insurance, and investment. A significant trust decline in more recent years appears to be driven almost exclusively by the investment sector, while trust in the banking industry has not eroded any further. Second, we find a similar decline in trust across younger and older finance professionals and across all hierarchy levels, implying that professionals who set the tone in the finance industry have also lost trust over time.

We also examine the confidence that people in the finance industry have in various institutions and groups. We find an erosion in confidence across most of these institutions (e.g., the military, press, or science) over the past four decades, although the loss in confidence is, in most cases, similar to the loss of confidence experienced by the average American. This result suggests that finance professionals do not systematically diverge from the U.S. population with respect to general measures of confidence in institutions. However, we find a significantly sharper loss in confidence in counterparties that are likely to be particularly relevant to the finance industry, specifically major companies, the executive branch of the Federal government, and Congress.

We study three potential determinants for the relative trust decline across the finance professionals – changes in socialization habits, general economic conditions, and selection into the finance industry. The socialization hypothesis argues that socialization habits of workers in finance have changed over time, resulting in fewer opportunities for human interactions, which have made the formation of generalized trust more difficult. The economic conditions hypothesis argues that changes in economic conditions in the U.S. have differential effects on finance professionals. The selection hypothesis maintains that the type of individuals entering the finance industry has changed over time and that the resulting change in workforce composition affects individuals' levels of trust. We find evidence consistent with each of the three hypotheses.

Consistent with the first hypothesis, we document that the formation of social capital through social activities has become rarer for finance professionals than the U.S. population. People working in finance are less likely to participate in social groups than they used to. In particular, the propensity of workers in finance to be a member of a Putnam-type group, i.e., a group that is

unlikely to act as a distributional coalition focused on rent-seeking, has declined disproportionately. In addition, we document a relative increase in working hours in finance. These two trends, a decrease in social engagement and a concomitant absolute and relative increase in working hours is again unobserved in any other industry apart from finance.

Furthermore, we find that proxies for economic conditions in the U.S. are disproportionately strongly correlated with trust among finance professionals than the average U.S. American. In particular, income inequality in the U.S. as measured by the Gini index is strongly negatively related to trust, while economic growth reflected by the change in GDP is strongly positively related to trust for people working in finance. The Gini index also exhibits a significant and positive time trend over our sample, suggesting that a widening income gap in American society, to some degree caused by the finance industry itself, is another potential determinant for the trust decline.

Finally, the literature argues that a more heterogenous professional environment is related to less trust by individuals. We show that a larger fraction of highly educated workers and a more ethnically diverse workforce in the finance industry are correlated with lower trust, while a higher share of women is related to higher levels of generalized trust. The share of highly educated finance professionals has also grown disproportionately, while the share of women declined relative to trends in the general U.S. population. Hence, the shift in the selection of individuals in the finance industry over time provides a third potential determinant of the erosion for generalized trust.

Our findings have potential implications for financial firms and policymakers. Financial firms should be aware of the relatively low average level of generalized trust of their employees. Despite the existence of fiduciary obligations, ethical codes, etc., the finance industry is still often criticized for its allegedly low moral standards and often viewed by the public as a rent-seeking activity (Zingales, 2015). Hence, to the extent that these issues are driven by the low average level of generalized trust across financial professionals, firms should consider taking decisive action to address these issues. Firms may also seek to restore generalized trust of their employees through novel workplace practices as proposed by Putnam (2000), such as incentives to participate in community activities. The rapid development of technologies such as blockchain offers a technological solution to the generalized lack of trust among finance professionals and suggests a high potential for disruption of traditional financial intermediaries.



Our study also has some implications for policymakers, particularly for the effectiveness of government bailout programs. A lack of generalized trust across finance professionals can, for instance, complicate efforts to implement effective credit programs. Participants in the financial system, such as banks, need to trust the actions taken by central banks, firms, and governments, for them to react appropriately by extending credit to the rest of the economy. A recent example is the response to the 2020 Paycheck Protection Program. Designed to get needed funds to struggling small businesses, who do not have to pay it back provided they keep employees on the payroll, the program became mired in controversy over perceptions that banks withheld stimulus cash and were favoring their largest customers.<sup>4</sup>

This study contributes to the ongoing debate among both academics and practitioners on ethics and values in the finance industry. The official report by the Financial Crisis Inquiry Commission (2011), which was tasked with investigating the causes of the 2008 financial crisis, concludes that before and during the crisis “[...] we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis” (p. xxii). We provide evidence that with regard to generalized trust, this erosion of standards did not arise in recent years but has been a continuous trend over the past four decades, especially over the period towards the end of the last century.

We also extend a limited body of academic evidence on the values of finance professionals. Cohn, Fehr, and Maréchal (2014) provide experimental evidence indicating that bankers become considerably more dishonest as soon as they are reminded of their professional identity – a finding not replicated across other industries. Huber and Huber (2020), however, find that relative to a control group of students in their experiment, finance professionals act more honestly in a financial context. Using data on the values held by almost 39,000 employees of a multinational bank, Ashraf, Bandiera, and Delfino (2020) suggest that it is the values in which bankers differ from society that determine their performance and potential for promotion. Finally, in a concurrent working paper, Adams (2020) studies people’s trust in finance across countries. She finds that when personal values of finance professionals and the general population are more aligned, confidence in financial institutions is larger. Our study is complementary to Adams (2020) in the

---

<sup>4</sup> See, e.g., “As Banks Stumble in Delivering Aid, Congress Weighs Other Options” by Emily Flitter and Emily Cochrane, in *The New York Times*, May 12, 2020, page B1.

sense that Adams (2020) studies determinants of people’s trust in finance, while we study the evolution of trust *within* the finance industry and its potential determinants.

More broadly, we contribute to research on long-term trends in the U.S. finance industry. Prior studies have, for example, investigated the causes for the enormous growth of the financial sector during the second half of the past century (Greenwood and Scharfstein, 2013), the development of the cost of financial intermediation (Philippon, 2015), and the trends in wages and education in the U.S. finance industry (e.g., Goldin and Katz, 2008; Philippon and Reshef, 2012). Our paper complements this research and is, to the best of our knowledge, the first study to explore the long-term trend in an important social factor in finance, i.e., generalized trust.

## **2. Data and methodology**

### *2.1 Data*

We examine trust of individuals working in the finance industry and the general U.S. population using data from the GSS. The GSS is a nationally representative survey administered by the National Opinion Research Center at the University of Chicago that is designed to track attitudes, preferences, political views, and social behavior in American society. We use data from 25 cross-sectional waves spanning the 39-year period from 1978 to 2016. The survey contains about 1,500 respondents each year from 1978 through 1993 (except 1979, 1981, and 1992), and continues with around 2,800 respondents every second year from 1994 through 2016. Our study generally relies on a subset of the total sample due to the availability of demographic and other information about respondents and questions that were not asked in every survey wave.

Generalized trust is measured in the GSS by the question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” This question was asked in all but two survey waves (1982 and 1985) and is the most common measure used in the literature to assess individuals’ level of generalized trust (e.g., Knack and Keefer, 1997; Guiso, Sapienza, and Zingales, 2004, 2006, 2008; Bloom, Sadun, and Van Reenen, 2012; Lins, Servaes, and Tamayo, 2017). We construct our main dependent variable, *Most people can be trusted*, as an indicator that equals one for a person who responds to the question that “most people

can be trusted” and zero for a person who responds that either it “depends” or that you “can’t be too careful.”<sup>5</sup>

The long duration of the GSS and the use of consistent language to measure attitudes and preferences make it ideally suited for analyzing long-term trends. A few changes to the survey over time, however, require researchers to make some adjustments (see Smith, 1990). Three changes are particularly relevant in our context: (1) an oversample of blacks in the 1982 and 1987 survey; (2) from 2006 onwards, surveys that could not have been completed by respondents in English were administered in Spanish; (3) until 1988, the order of questions preceding the trust question was not the same in all interviews. This last point is pertinent because Smith (1988) shows that responses to the trust question are sensitive to the immediately preceding battery of questions. In particular, respondents report a lower level of generalized trust when the question follows questions on crime compared to questions on life and job values. To create a consistent data set, we adjust the data as suggested by prior studies that use the GSS (e.g., Stevenson and Wolfers, 2008a, 2008b, 2009; Ifcher and Zarghamee, 2014). First, we drop black oversamples in the years 1982 and 1987. Second, we exclude all interviews from 2006 onwards that occurred in Spanish and could not have been completed in English. Third, we adapt the methodology described by Stevenson and Wolfers (2008b) to account for the varying question order in 1978, 1983, 1986, and 1988 using the split-ballot experiments of the GSS. Finally, to ensure representativeness of our data, we weight all estimates using the GSS weight variable WTSSALL. After these adjustments, the GSS is well suited to studying trends in generalized trust.

We use the 2010 Census industry classification to classify respondents as workers in the finance industry. Following Philippon and Reshef (2012) and Greenwood and Scharfstein (2013), we define the finance industry as a combination of the credit intermediation, securities, and insurance subsectors.<sup>6</sup> This classification yields a proportion of around five percent of respondents who work in the finance industry in a year. We verify this figure using data from the March

---

<sup>5</sup> We drop from our analyses all individuals who responded that they “don’t know” or refused to answer the question.

<sup>6</sup> The corresponding industry codes are 6870-6990. The U.S. Census Bureau's Industry Classification System is based on the North American Industry Classification System and is used in several official government data sets in the U.S. The 2010 Census classification system is equivalent to the 2007 NAICS and is the latest available in the GSS.

supplement of the Current Population Survey (CPS) for the same period. The CPS data provide similar yearly proportions, and the average yearly difference between the two data sets is 0.032%.

## *2.2 Graphical representation of the trust trends*

Figure 1 shows how generalized trust has trended over time for people working in finance and the general U.S. population. We adjust the level of trust for the socioeconomic status as well as other subjective characteristics that have been shown to be associated with individuals' trust level (see, for example, Alesina and La Ferrara, 2002; Guiso, Sapienza, and Zingales, 2008). The figure graphs the residuals of generalized trust after accounting for a wide range of personal characteristics. Specifically, the left panel plots the residuals from an OLS regression of *Most people can be trusted* on demographic and socioeconomic controls as well as region fixed effects (described below and shown in Table A2 of the appendix). The right panel shows the differences in these residuals as bars and additionally plots its linear time trend as a dashed line.

As has been documented by both scholars and the press (e.g., Putnam, 2000; Twenge et al., 2014; and Lins, Servaes, and Tamayo, 2017), generalized trust among all U.S. Americans has eroded over the past several decades. Importantly for our study, the graphs show that individuals who work in the finance industry were historically more likely to report higher levels of trust, consistent with the pivotal role that trust should play in finance. This gap reverses over time as the trust level of finance professionals declines more than that of the general U.S. population over our sample period. Since the beginning of the 1990s, residual generalized trust of individuals in finance has been below that of the general population in most survey years. The figure also suggests that the relative trust decline among finance professionals was particularly strong in the first half of the sample, i.e., in the period from 1978 to the mid-1990s, and weakened slightly in the second half. In our empirical analyses, we therefore also examine the development of generalized trust separately for these two sub-periods.

## *2.3 Empirical methodology*

To analyze the time trends in generalized trust for workers in the finance industry and the U.S. population in a more formal fashion, we follow the methodology in Stevenson and Wolfers (2009). Formally, we estimate a regression of the form:

$$(1) \quad Trust_{i,t} = \alpha + \beta_1 InFinance_i \times (Year_t - 1978)/100 \\ + \beta_2 NotInFinance_i \times (Year_t - 1978)/100 + \beta_3 InFinance_i + \Gamma Controls_i + \varepsilon_{i,t}$$

where  $i$  denotes an individual and  $t$  denotes the year in which that individual was surveyed by the GSS. The coefficients on the time trend variables report the change in trust per 100 years. Our dependent variables are measures of generalized trust based on the GSS trust question.

We account for two types of controls in our regressions, exogenous demographic characteristics and socioeconomic characteristics. Demographic characteristics include decadal age categories, indicators for gender and race (black, white, and other), and an indicator for whether a respondent was born in the U.S. These controls are exogenous in the sense that they are not affected by choices that people make and by individuals' trust itself. Socioeconomic characteristics include controls for education, employment status, income, marital status, a respondent's number of children, religious denomination, and whether the respondent lives in a rural area. Education is measured using indicators for a respondent's highest degree (less than high school, high school, associates/junior college, bachelor's, or graduate degree) and employment status by indicators for full- and part-time employment, temporary illness/vacation/strike, unemployed, retirement, in school, keeping house, and other in our regressions. Because the GSS does not provide a consistent measure of income across survey years (Hout, 2004), we manually construct a consistent income measure for our sample as described in Stevenson and Wolfers (2008b). First, we convert a respondent's categorical family income in the previous year to a continuous measure by fitting interval regressions to the data on the assumption that income follows a log-normal distribution. We then translate income to 2005 dollars using the Consumer Price Index provided by the U.S. Bureau of Labor Statistics. Lastly, we use the OECD-modified equivalence scale to make family incomes of different household types comparable by taking into account shared consumption benefits (Hagenaars et al., 1994).<sup>7</sup> We take the quartic of the logarithmic equivalized measure as our income controls to also allow for a non-linear association between income and trust. We control for marital status using indicators for whether the respondent

---

<sup>7</sup> Household needs, e.g., housing space and electricity, do typically not grow proportionally with the number of household members due to economies of scale. The OECD-modified scale assigns a value of 1 to the household head, of 0.5 to each additional adult member and of 0.3 to each child. For details see <http://www.oecd.org/els/soc/OECD-Note-EquivalenceScales.pdf>.

is married, widowed, divorced, separated, or has never been married and for a respondent's religious denomination with indicators for Protestant, Catholic, Jewish, none, and other denominations. Finally, we construct an indicator for whether a respondent lives in a rural area, which equals one if she lives in a place with less than 2,500 inhabitants. Table A1 of the appendix contains descriptive statistics on these variables. We include region fixed effects in our regressions using information about the U.S. Census Bureau divisions in which interviews were conducted. All regressions are estimated with standard errors clustered at year level.

### 3. The trust trend of individuals in finance

#### 3.1. Baseline results

Table 1 presents our baseline results from regressions estimating equation (1). In Panel A, the first three columns report results with *Most people can be trusted* as dependent variable. Consistent with the observations from Figure 1, the coefficient on the *In Finance* dummy is positive and significant in both columns indicating that, historically, individuals who have been working in the finance industry report higher levels of trust. In addition, the coefficients on the trend variables show that generalized trust has declined significantly during our almost four-decade sample for both individuals in finance and the general population. We compare the decline in trust between the two groups in the fourth row of the table by estimating the difference between the *In Finance* and *Not In Finance* trends. This difference is significant at the 10% level when we control for demographics in column (1) and at the 1% level when we additionally include socioeconomic controls in column (2). The results hence suggest that generalized trust of individuals working in the finance industry has not only declined in absolute terms, but also relative to the U.S. population over our sample. We note that the control variables we use in our regressions are in line with the literature, supporting the reliability of our data.<sup>8</sup>

---

<sup>8</sup> Table A2 of the appendix reports the coefficients on the control variables. We find that older (e.g., Mewes, 2014), male (e.g., Norris and Inglehart, 2006), white (e.g., Alesina and La Ferrara, 2002), native-born (e.g., Putnam, 2007), and more educated (e.g., Uslaner, 2008) people, as well as Protestants compared to Catholics (e.g., Traunmüller, 2011) are more trusting. Furthermore, our estimates suggest that divorced and separated individuals are less trusting than married people (e.g., Alesina and La Ferrara, 2002), whereas people who work part-time are more trusting than full-time workers (e.g., Lee, 2013).

When evaluating the estimates reported in column (2), we find that individuals in finance begin the sample around seven percent more likely than others to report that most people can be trusted. Relative to the mean likelihood with which a person trusts others, this is a substantial variation of 18 percentage points and is hence likely to be economically important. From 1978 to 2016, the propensity of individuals who work in the finance industry to report that most people can be trusted fell relative to the U.S. population by  $(\beta_1 - \beta_2)\Delta t = (-0.864 - (-0.559)) \times (2016 - 1978)/100 \approx 12\%$ . This shift amounts to about one-fourth of the cross-sectional standard deviation of the *Most people can be trusted* indicator. Because the level of trust that is prevalent in a society is relatively persistent over short time periods (e.g., Knack and Keefer, 1997; Mackie, 2001), the cross-sectional standard deviation is typically much larger than the intertemporal variation, and so the same shift is 2.3 times the standard deviation of the annual population proportion that responded that most people can be trusted. By the year 2000, individuals in finance and the average person in the U.S. population were roughly equally likely to report that, conditional on their demographic and socioeconomic characteristics, they believed that most other people can be trusted. Respondents working in finance, however, end the sample in 2016 with a five percent lower likelihood of responding that most people can be trusted, relative to the average U.S. American.

The remainder of Panel A explores whether the above results are robust to alternative specifications. In column (3), we run a probit rather than OLS regressions which does not alter our findings. In column (4), we change the dependent variable to *Can't be too careful*, which equals one for a person who responded that “you can't be too careful” when dealing with people and zero if he responded that either it “depends” or that “most people can be trusted.” This specification also allows us to analyze whether the decline in generalized trust reflects both changes in the propensity of people to report that most people can be trusted as well as changes in the propensity of people to report that you can't be too careful. We indeed also find a relative incline in the proportion of individuals in finance who are less trusting, although this shift is slightly lower. Finally, column (5) reports results from estimating an ordered probit model with *Trust* as the dependent variable. This variable is coded as a count variable taking the values 1 (“*Can't be too careful*”), 2 (“*Depends*”), and 3 (“*Most people can be trusted*”). All alternative specifications provide results that are qualitatively similar to the results in the first two columns (the results in column (4) are inversely signed as this specification estimates the propensity to trust less). This

leads us to conclude that our results provide consistent evidence that generalized trust of individuals working in the finance industry has significantly declined over the past four decades, and even more so than in the general U.S. population.<sup>9</sup>

To illustrate the economic magnitude of the relative decline in generalized trust of people in the finance industry, we compare it with other determinants of trust in a society. One of these determinants is the level of income inequality (e.g., Knack and Keefer, 1997; Zak and Knack, 2001; Uslaner, 2002). Analyzing U.S. data, Alesina and La Ferrara (2002) find that an increase in the Gini coefficient by one percent in people’s local environment decreases their likelihood of reporting that most people can be trusted by 0.96 percent. The ratio between this estimate and the relative decline in trust for individuals in finance that we find suggests that their relative trust decline over the past 39 years is roughly comparable to a 13 percent increase in the Gini coefficient, for example, from its nation-wide value of 48 percent in 2016 to 61 percent (almost the level of South Africa). An alternative metric is the racial fragmentation in a person’s area of living. Prior studies suggest that – at least in the short term – a higher racial diversity in neighborhoods generally leads residents to trust others less (e.g., Putnam, 2007). Drawing again on results from Alesina and La Ferrara (2002), the relative decline in generalized trust of individuals in the finance industry is quantitatively equivalent to moving from the least to the most racially fragmented metropolitan area in the U.S. in the 1990s.

Next, we explore whether the relative decline in generalized trust among individuals working in finance has been equally strong throughout our sample. For this purpose, we divide our sample into two sub-periods, the 19-year period from 1978 to 1996 and the 20-year period from 1997 to 2016, and study the trend in generalized trust separately for both sub-periods.<sup>10</sup> The estimates, shown in Panel B of Table 1, indicate that generalized trust of finance professionals has

---

<sup>9</sup> Supportive evidence for our finding comes from an additional untabulated test, in which we explore how people's belief about the benevolence of others has trended over our sample. Respondents' beliefs about the benevolence of others is assessed in the GSS using the question: "Would you say that most of the time people try to be helpful, or that they are mostly just looking out for themselves?" Like the question on generalized trust, this question was asked in all survey waves between 1978 and 2016, except for 1982 and 1985. We find that respondents working in the finance industry demonstrate a significantly sharper drop in their perceived benevolence of others than the U.S. population. This result makes sense as individuals who believe that you "can't be too careful" when dealing with people are also most likely to believe that people are "mostly looking out for themselves."

<sup>10</sup> We refrain from using interaction terms in our regressions because we are often interested in absolute effects and not in the on-top effects. However, the use of interaction terms leads to similar results.



declined relative to the general U.S. population in both sub-periods. However, in line with Figure 1, the results show that the decline in trust among finance professionals was steeper until the mid-1990s. While from 1978 to 1996, the propensity of finance professionals to report that most people can be trusted fell relative to the U.S. population by about 30 percent, the relative trust decline amounts to 13 percent from 1997 to 2016.

In a further set of untabulated robustness checks, we explore the trust trend separately in smaller sub-periods. We split the sample into three 13-year periods, i.e., 1978-1990, 1991-2003, and 2004-2016, and alternatively into four periods with the first three being ten years and the fourth nine years long, i.e., 1978-1987, 1988-1997, 1998-2007, and 2008-2016. Examining the sub-period-to-sub-period change in trust, we find that the mean difference in residual trust between individuals in finance and the general U.S. population consistently decreases from one sub-period to the next. Consistent with the findings in Panel B, the sharpest decline occurred between the 1980s and 1990s, followed by a decline in the middle of the 2000s.

Taken together, the results in this section suggest that individuals who work in the finance industry have become significantly less trusting over the past decades. Most notably, this decline is quantitatively substantial and significantly larger than the decline in trust in the general U.S. population, which has been frequently discussed by scholars and in the press. Furthermore, the results indicate that the disproportional erosion of trust among workers in finance is a gradual process over our sample. It is not systematically driven by one particular sub-period, though it is stronger in the first half of the sample until the mid-1990s compared to later years. This result appears particularly noteworthy since the allegedly low moral standards in the finance industry, which, for example, was cited by the 2008 Financial Crisis Inquiry Commission (2011), did not arise only in recent years but has actually been a trend over the past four decades.

### *3.2 Trust trend in other industries*

Is the trend in generalized trust in the finance industry different from the trend in other industries? To answer this question, we investigate the trend in generalized trust of individuals working in three other industries for which scholars have argued that trust is fundamental: the healthcare industry and the legal service industry. Zingales notes that “the healthcare sector is a particularly good comparison for the financial [industry]” because both sectors provide services that most people need but only a few understand. Accordingly, he concludes that “both sectors depend

heavily on trust” (see Zingales, 2015, p. 1342). Gennaioli, Shleifer, and Vishny (2015) make a similar argument to illustrate the relationship between an investor and her financial adviser. The healthcare sector has also grown steeply relative to the overall economy in a similar manner as the finance industry and both sectors have experienced numerous abuse and fraud cases. Consequently, the imposition of new regulatory rules to both sectors is constantly on the agenda of policy-makers while companies attempt to influence or prevent government interventions through massive levels of lobbying. Trust is also frequently cited as an essential element for the provision of legal services and as a prerequisite for effective legal representation (see, e.g., Goldstein, 2005, and the literature therein). Courts, for instance, often describe the importance of trust in a lawyer-client relationship and stress its reciprocal nature, which leads to implicit contracts between a legal advisor and his client. Hence, both industries can be viewed as valid comparisons for the finance industry with regards to the value of trust. Additionally, we study the trend in generalized trust in technology firms using the definition of Loughran and Ritter (2004). Technology firms typically produce products and offer services that are difficult for the average consumer to understand but account for crucial parts of the lives of U.S. consumers.

Table 2 presents the results from OLS regressions estimating equation (1) for the three above industries. For each industry, we first report results for the entire sample period and then separately study the first and second half of the sample, i.e., paralleling Panel B of Table 1. Results for the healthcare sector are reported in columns (1) to (3), results for the legal service industry in columns (4) and (6), and results for tech firms in the last three columns. Across all three industries, generalized trust of workers has declined significantly over the past decades, albeit only marginally so for the tech industry. However, in none of the reported regressions is the time trend significantly larger than among the general U.S. population – neither for the full sample in columns (1), (4) and (7), nor in one of the sub-periods. In untabulated robustness tests, we obtain qualitatively similar results when we estimate probit regressions and use alternative trust measures as dependent variables (as in Panel A of Table 1). Overall, there appears to be no evidence that the decline in generalized trust that we observe for the finance industry is shared by other industries that also depend heavily on trust.

In further untabulated tests, we investigate the time trend in generalized trust across *all* other industries in the sample. Regardless of the industry, there is no significant relative decline in trust for workers in any of these, except finance. This result holds irrespective of whether we include

individuals working in the finance industry in the control group or not. Taken together, our results suggest that the relative decline in generalized trust among workers in finance that we find is unparalleled in any other industry and hence unique to the finance industry. This finding raises the question of why trust has decreased so substantially, specifically in the finance industry.

### *3.3 Heterogeneity in the trust trend*

To explore why trust has declined so much among finance professionals, we divide the generalized trust trend by industry subsector as well as hierarchy level and seniority.

We begin our analysis by comparing major subsectors of the finance industry, namely banking, insurance, and investment. Not only is the latter often criticized in public for its allegedly low ethical standards, such as the trustworthiness of its employees, but the complexity of products offered by investment companies results in particularly high information asymmetries between customers and financial service providers which renders trust even more important (see, for example, Carlin, 2009, and Ghent, Torous, and Valkanov, 2019).

Table 3 reports the results from OLS regressions estimating equation (1) separately for individuals working in banking, insurance, and investment. The estimates in Panel A suggest an absolute and relative decline in generalized trust compared to the U.S. population in all three subsectors. The difference in time trends between finance and the general population in the fourth column appears to be slightly larger in the investment sector than in banking and insurance, though this difference is not significant. We thus conclude that the erosion of generalized trust is not driven by one particular finance industry subsector but rather is a prevalent trend across finance professionals working in all subsectors.

Panel B of Table 3, however, documents the presence of heterogeneity across subsectors with regards to the timing of the trust decline. Specifically, the estimates suggest that generalized trust in banking and insurance only declines significantly in the early sample years (1978-1996), which does not support the standard claims that trust and ethics declined in the years preceding the financial crises of the late 2000s. Contrary to these claims, generalized trust appears to have already declined much earlier and has remained at a low level. In contrast, the trust trend in the investment subsector is significantly negative for both the first and second half of our sample period, indicating that trust across investment professionals has declined across all sample periods.

The investment sector hence appears to be the key driver for the relative decline in generalized trust in more recent years, shown in Panel B of Table 1.<sup>11</sup>

We next turn to studying the trend in generalized trust for individuals in higher hierarchy levels of the finance industry, which we refer to as *upper echelons*. Additionally, we examine heterogeneity in the trust trend for junior vs. senior cohorts. One motivation for this analysis is that the implications of our study would be very different if we were to find a decline in trust only among lower echelons, which would raise the concern that workers must have a certain level of social capital in order to be promoted. Our findings would therefore be less worrying, since, for example, the corporate culture of an industry is primarily determined by the decision-makers at the top, i.e., those who set the tone. In contrast, a decline in trust only among senior finance professionals is perhaps likely to self-correct as these individuals retire and hence drop out of the industry.

To classify respondents as belonging to the upper echelons, we use the latest International Standard Classification of Occupations (ISCO-08) provided in the GSS. The ISCO-08 divides jobs into ten major groups depending on the skill level required to perform the duties of these jobs. We classify a worker in the finance industry as member of the upper echelons if he belongs to one of the top three major groups, i.e., managers, professionals, or associate professionals. These jobs typically require workers to perform tasks that need an extensive body of knowledge, complex problem-solving, and decision-making (International Labour Office, 2012). About 60 percent of individuals in the finance industry and 40 percent of the general population belong to these groups.

To formally test whether generalized trust trended differently for individuals in the upper echelons, we re-estimate our baseline OLS regression shown in column (2) of Table 1, Panel A. Columns (1) and (2) of Table 4 presents the results from these regressions. In the first column, we divide our *In Finance* trend variable into two variables: one for finance professionals who belong to the upper echelons of the industry and one for finance professionals who belong to the lower

---

<sup>11</sup> The above results are generally consistent with historical events that may have shaped the three financial subsectors in different ways. For example, in the first half of our sample, the banking and insurance sectors were particularly affected by the savings and loans crisis of the 1980s or the lifting of interstate branching restrictions. The dot-com bubble in the early 2000s, the 2003 mutual fund scandal, and the Global Research Analyst Settlement have arguably had an impact on the investment industry where trust has declined also in the second half of our sample period. Moreover, our findings also reflect the fierce debate about the moral values of investment bankers and the poor public reputation of the investment industry in recent years (see, e.g., Zingales, 2015).

echelons. The results show a positive and highly significant coefficient on both time trend variables, suggesting that individuals in either hierarchy level experienced a substantial decline in generalized trust. Comparing the two coefficients, we also find that trust erosion is equally strong for both groups in finance, and they are both highly significant when compared to the time trend of the general U.S. population.

Column (2) presents estimates from a regression in which we restrict the respondents to cover only individuals in upper echelons across all industries. Though our study's focus is on the discrepancy in the generalized trust trend between individuals in finance and the average American, it is still interesting to understand whether the relative decline in generalized trust is a phenomenon that is generally shared among individuals in higher hierarchies irrespective of their profession. The results in column (2) do not support this conjecture. The relative trust decline is significant at the 1% level and amounts to nearly 14 percent. Thus, the propensity of individuals working in the upper echelons of the finance industry to report that most other people can be trusted has also declined substantially relative to people working in the upper echelons in other industries.

Since our demographic controls include decadal age categories, the relative loss of generalized trust by the upper echelons in finance is not simply an age effect. Notwithstanding this control, it is still interesting to examine how generalized trust trended for individuals of different age groups. Hence, we examine the generalized trust trend using a cohort analysis. Specifically, we divide the *In Finance* trend variable into one time trend variable for seniors and one for juniors in the finance industry. We define seniors as those respondents who are above the median age of all people who work in the finance industry in a year. Column (3) of Table 4 reports the regression results, which indicate that, in line with the results in the first two columns, generalized trust declined equally strong for both junior and senior cohorts in finance. Column (4) shows that the trust decline among senior finance professionals is significantly larger than the decline among seniors in the rest of the U.S. population.

Overall, the analyses on the hierarchy level and seniority of individuals in finance consistently suggest that the relative erosion of generalized trust has not taken place only in the lower or higher ranks. We document the trend both among current decision-makers who set the tone in the industry as well as among future generations of decision-makers. It is therefore unlikely to self-correct when senior finance professionals retire.

#### 4. Confidence in institutions and groups

The fact that generalized trust of individuals working in the finance industry has deteriorated not only in absolute terms but also relative to the average American, raises the question of whether workers in finance also experienced a disproportionately larger trust erosion in other domains. In this section, we examine responses to a number of survey questions that assess individuals' confidence in several institutions and groups. The question is available in all survey waves except in 1985: "As far as the people running [*institution or group*] are concerned, would you say you have a great deal of confidence, only some confidence, or hardly any confidence at all in them?". We create an indicator that equals one if a respondent reports to have "a great deal" of confidence in a party, and zero otherwise. Our analysis covers the following institutions and groups: banks and financial institutions; major companies; the executive branch of the federal government; Congress; the U.S. Supreme Court; the military; the press; and the scientific community.

Table 5 reports how confidence in these institutions and groups trended over time for people in finance and the U.S. population. Each row shows the estimates of one regression of the form described in equation (1) using as the dependent variable the confidence indicator for the respective institution or group. All regressions include demographic and socioeconomic controls as well as region fixed effects.

We first report relative time trends in confidence in banks and financial institutions in Panel A. The negative and significant coefficient on the time trend variable for the general U.S. population indicates that the confidence that Americans have in banks and financial institutions has eroded steadily over our sample. The time trend for respondents in finance is also significantly negative. The difference between the two trends is, however, not significant. In other words, both groups experienced a similar growth in their distrust towards financial institutions over the past decades. Examining confidence levels, we find strong evidence for a difference in the level of confidence respondents have in banks and financial institutions. As one would expect, people working in the finance industry are significantly more likely to report that they have a great deal of confidence in their industry than the average American.

Our findings regarding confidence in banks and financial institutions may seem puzzling at first sight, because it appears that the relative erosion of generalized trust among financial professionals that we document in Section 3 did not lead to a relative decline in the U.S. population's confidence vis-à-vis the finance industry over the past decades. However, the apparent

inconsistency is likely to arise because the question on trust and confidence may be perceived differently by GSS respondents. While the generalized trust question specifically asks about *other people*, the confidence question asks about *institutions or groups*. Since, for example, financial misbehavior and fraud is typically committed by individuals, not by entire organizations, responses to the questions may be different.<sup>12</sup>

For the remainder of Table 5, we separate parties that are particularly relevant to the finance industry from others. Companies, the executive branch of the federal government, and Congress are plausibly relevant to finance for several reasons. First, companies make up a large proportion of customers of financial corporations and use various kinds of financial services. Second, the executive branch of the federal government includes regulatory authorities that are responsible for monitoring financial players, enforcing regulatory standards, and protecting consumers. Third, the U.S. Congress shapes financial intermediaries' regulatory environment. We report the confidence time trends by group for these three parties in Panel B. Workers in finance begin the sample with significantly more confidence in companies, the executive branch of the government, and Congress. The trend estimates suggest that confidence in major companies and Congress declined throughout our sample for the general U.S. population as well as individuals who work in finance. However, people in finance additionally show a significantly greater loss in confidence than the general U.S. populace. The estimates in the last column show that the loss in confidence in all three parties has been significantly more pronounced for people in finance compared to the average American. It thus seems likely that the relative decline in generalized trust that we observe is linked to the relative decline in confidence vis-à-vis parties with whom finance professionals regularly interact.

Finally, Panel C shows that respondents' confidence in parties that are not particularly relevant to the finance industry trended equally for respondents who work in the finance industry and other Americans. Furthermore, the confidence levels do not show any evidence for a difference between workers in finance compared to the general population towards the U.S. Supreme Court, the military, and the press, and the scientific community. This evidence suggests that finance professionals do not differ systematically in terms of their confidence in fundamental institutions

---

<sup>12</sup> For a recent study that takes a closer look at the question on confidence vis-à-vis financial institutions, see Adams (2020). It also provides evidence on cross-country differences in the confidence towards financial institutions.

(such as the military or the press), which supports the reliability of our data and the notion that finance professionals are not generally different from the U.S. population.

To summarize, parties for which we find a stronger loss in confidence across finance professionals are all deemed particularly relevant to the finance industry. Thus, the decline in generalized trust that we find may be related to a growing skepticism and vigilance towards people from institutions and groups with whom individuals who work in the finance industry regularly interact or whom they depend on.

## **5. Potential determinants of the relative trust decline**

What has led to the relative trust decline of people working in finance? In this section, we attempt to shed light on this question by examining different types of transitions in people's lives over our sample that may be associated with a steeper trust decline for workers in finance relative to the U.S. population. Specifically, we investigate three potential determinants of generalized trust – a change in socialization habits, general economic conditions, and the selection of people into the finance industry.

The *socialization hypothesis* argues that changes in socialization habits of workers in finance over time have led to a decrease in generalized trust. The hypothesis is motivated by an established literature (e.g., Putnam, 1993, 1995, 2000), which suggests that social interactions are particularly conducive for generating social capital and generalized trust. Thus, if workers in the finance industry engage less in social activities in more recent years than they used to, for example, due to increasingly higher workloads, their level of generalized trust may consequently have eroded. Equilibrium contracts modeled by Axelson and Bond (2015) feature long working hours in the finance industry, consistent with the public perception of notoriously long hours in investment banking. Following prior research on the association between social activities and generalized trust (e.g., Alesina and La Ferrara, 2000), we are interested in the likelihood of individuals who work in the finance industry to engage in associational activities by participating in social groups, such as recreational, religious, civic, and educational groups. Putnam maintains that participating in such a group enhances the transmission of knowledge and facilitates the development of generalized trust in a society.

The *economic conditions hypothesis* argues that trends in economic conditions in the U.S. affect the level of generalized trust of workers in the finance industry significantly more than the



rest of the U.S. population. The hypothesis is motivated by prior research suggesting that social capital wanes when more citizens are struggling economically and the gap between rich and poor widens (e.g., Uslander; 2002; Picket and Wilkinson, 2010). In a broader sense, previous studies suggest that anything that increases the socioeconomic distance between members of a society leads to lower generalized trust. In light of this literature, one might expect that the rise in income inequality in the U.S. over the past decades has particularly affected workers in finance, as they have experienced steep relative wage increases that alone have accounted for up to a quarter of the total increase in wage inequality in the U.S. since 1980 (Philippon and Reshef, 2012). In addition, general economic conditions may affect finance professionals differently because they work in a particular position in the economy that benefits greatly from economic growth. We hence examine the relation between the economic conditions in the U.S. and the level of generalized trust.

Lastly, the *selection hypothesis* maintains that the type of individuals that enter the finance industry has changed over time and that this changing workforce composition, in turn, has affected the level of generalized trust of workers in the industry. Importantly, as we control for a wide-range of individual-level characteristics in our regressions in Section 3, e.g., gender, ethnicity, education, and income, the selection hypothesis does not argue that changes in workers' own characteristics have led to the erosion of their generalized trust. Instead, the hypothesis argues that an individual's level of generalized trust declined, conditional on his or her characteristics, due to changes in the type of colleagues he or she works with. The hypothesis is motivated by several studies showing lower levels of trust and social capital in more heterogenous environments (e.g., Alesina and La Ferrara, 2000; Putnam, 2007). Prior research also provides evidence for a shift in the professional environment in the finance industry along several dimensions. The proportion of individuals with professional graduate degrees in finance, for example, strikingly increased over the last decades of the 20<sup>th</sup> century (Goldin and Katz, 2008). Simultaneously, Philippon and Reshef (2012) document a tight link between deregulation and the flow of human capital in and out of the finance industry. High-skilled employees began to enter the finance industry in the 1980s and 1990s when more and more regulations were removed. Finally, income levels have increased dramatically over time within the finance industry leading to a large growth in the finance wage premium (Philippon and Reshef, 2012; Bell and Van Reenen, 2013; Célérier and Vallée, 2019).

### 5.1 Socialization of individuals in finance

We begin by analyzing shifts in people's opportunities to generate social capital and generalized trust by participating in social groups. Table 6 reports findings from regressions estimating equation (1) with two dependent variables, *Group membership* and *P-Group membership*, in columns (1) and (2), respectively. Following Alesina and La Ferrara (2000), we construct *Group membership* as an indicator that takes the value one for a respondent who belongs to at least one social group, and zero otherwise.<sup>13</sup> Because questions on memberships were only asked in 1978 through 1994 (except 1982 and 1985) and in 2004, regressions with *Group membership* as the dependent variable rely on a smaller sample.<sup>14</sup> The population proportion that is part of a social group varies between 72.7 percent in 1983 and 62.1 percent in 2004 and steadily decreases over time. Additionally, we explore the trends in social activeness by differentiating between types of groups following Knack and Keefer (1997). In particular, we classify groups as "Putnam-type" groups (denoted P-groups) if they are least likely to act as distributional coalitions focused on rent-seeking, but rather focus on social interactions that allow individuals to build trust and cooperative habits. We define *P-Group membership* as an indicator that equals one for respondents belonging to either a sports or hobby club, a (school) service club, youth groups, literary, art, discussion or study groups, or a church-affiliated group.

The significant coefficients on both *Group membership* variables in column (1) indicate that the propensity to participate in a social group has decreased over time for both workers in finance and the general U.S. population. The difference between the time trends is significant at the 10% level suggesting that the decrease in group membership was slightly larger in finance. Importantly, in column (2), the time trends in P-group memberships, i.e., those groups that are most likely to focus on the association with one another, deviate most strongly from each other. The likelihood of workers in finance to be a member of a P-group declined six percent more over a ten-year period than the likelihood of the average American. Taken together, the results provide evidence that the

---

<sup>13</sup> Social groups include, among others, fraternities and sororities, service groups, veteran groups, political clubs, labor unions, sports clubs, youth groups, school service groups, hobby clubs, nationality groups, farm organizations, literary or art groups, professional societies, and church groups.

<sup>14</sup> This is also the reason why we cannot divide the sample into an early and a later sub-period.

formation of social capital and consequently the development of generalized trust through social activities has become rarer for workers in finance than the general U.S. population.

In column (3) of Table 6, we analyze one possible reason for the relative decline in group membership among finance professionals: increasing busyness of finance professionals. The variable *Working Hours* measures the number of hours individuals worked in the past week and is constructed by clustering responses into bins of 20 hours. Both *Working hours* trend variables in column (3) indicate that working hours have increased over time for both workers in finance and the general U.S. population. The difference between the time trends is significant at the 10% level suggesting that the increase in working hours was slightly larger in the finance industry. Hence, an increased workload is one potential mechanism that leaves finance industry employees with less chances to engage in social activities compared to the rest of the population.

Another mechanism by which the propensity to belong to a social group could be influenced is an increase in self-perceived intellectual phoniness (Clance and Imes, 1978) among finance professionals. This could be due to the increase in education among financial professionals. However, the available data do not allow us to test for this and other potential mechanisms. Nonetheless, in untabulated analyses, we test whether workers in any other industries also experienced a significantly negative trend in their likelihood of participating in social groups and simultaneously a positive trend in working hours (in absolute terms as well as relative to the average American). Our results do not provide evidence for this pattern in *any* other industry except the finance industry. The low propensity to engage socially paired with the increasing number of hours worked by individuals in the finance industry is unique to the finance industry and one potential reason for the disproportionate decline in generalized trust.

## 5.2 *Changing economic conditions*

Next, to investigate the association of generalized trust with changing economic conditions, we obtain two different macroeconomic measures: the Gini coefficient of income inequality and the annual change in gross domestic product. Table 7 reports results from OLS regressions that investigate whether trust of finance professionals is associated with these macroeconomic measures in a different manner than for the U.S. population. We interact both measures with the *In Finance* and *Not in Finance* dummies to study the correlation with generalized trust. Consistent with Twenge et al. (2014), we find a negative relationship between income inequality and

generalized trust in column (1). More important in our context, the difference between the coefficients for people working in finance and the general U.S. population is significant at the 1% level, indicating that generalized trust of finance professionals correlates even more with income inequality. Similarly, while economic growth promotes trust among both groups, which is consistent with Zak and Knack (2001), finance professionals appear to be more sensitive to GDP changes than the average U.S. American. Thus, the results in Table 7 suggest that rising income inequality and higher economic growth are indeed correlated with disproportionately larger shifts in generalized trust of finance professionals.

However, only the Gini index of income inequality exhibits a significant linear and positive trend over our 39-year sample. It increases on average by 0.27 percent per year from its starting point of 36.3 percent in 1978, so it is possible that the rising income inequality in the U.S., which was to a substantial part driven by the finance industry itself (Philippon and Reshef, 2012), has led to the disproportionate loss of trust among finance professionals. This is also in line with results of separate analyses of the two sub-periods of the sample in Table A3 in the appendix (i.e., 1978-1996 vs. 1997-2016). These results suggest that the correlation between income inequality and trust is significantly stronger for people in finance only in the first half of the sample, i.e., those years when the relative trust trend in finance was steeper.

### *5.3 Selection into the finance industry*

Finally, we explore whether changes in the workforce composition in the finance industry could potentially explain the observed trends in generalized trust. We report our regression results in Table 8. The first three specifications present coefficients from OLS regressions estimating the association between trust and three measures that describe the professional environment in the finance industry: (i) the fraction of highly educated individuals, (ii) the fraction of non-white individuals, (iii) and the fraction of women in the industry. Since a larger social distance between citizens in a country also decreases the overall level of generalized trust, we also define the same variables for the general U.S. population and examine their influence on trust among the U.S. population in the same regressions. The first variable, *Highly educated fraction*, is defined as the fraction of individuals with greater than high school educations in a year in the finance industry and the rest of the population, respectively. Similarly, *Non-white fraction* is the fraction of non-white people and *Female fraction* is the fraction of women. The estimates in the first row of

columns (1) and (2) suggest that a higher fraction of well-educated and non-white people in finance are associated negatively with generalized trust of finance professionals.<sup>15</sup> In contrast, a higher fraction of women correlates with more generalized trust, as indicated by column (3). The association between these measures and generalized trust is not significantly different between people in finance and the U.S. population, which implies that both groups, in terms of their levels of generalized trust, do not react differently to growing social heterogeneity.

Columns (4) to (6) of Table 8 present evidence on whether these measures trended differently in the finance industry compared to the rest of the population. Although we find linear time trends for each one of them, the results suggest that only two variables exhibit a significantly different time trend in the finance industry. First, consistent with the literature (e.g., Philippon and Reshef, 2012), the results in column (4) suggest that finance has become a high-skill industry over the past decades, which means that over our sample period, the growth in the fraction of highly educated workers was significantly steeper in finance than among the rest of the population. In line with results in Table A4 in the appendix, this relative skill increase in finance was substantially larger in the earlier part of the sample when the relative trust decline was stronger. Second, as shown in column (6), the fraction of females in the finance industry declined over our sample period, while it slightly increased in the general population. We therefore conclude that the flow of highly educated human capital into the finance industry and the decline in the share of women over the past almost four decades provide two potential explanations for the absolute as well as relative erosion of generalized trust among finance professionals. The former is also likely to be a driver for the comparably stronger relative trust decline in the first part of the sample period. In contrast, a growing ethnic heterogeneity is unlikely to serve as explanation for the observed trust trend in the finance industry.

## **6. Potential implications**

The evidence presented in this paper provides a new and possibly worrisome perspective on the social norms prevailing in the finance industry. This perspective has direct consequences for the

---

<sup>15</sup> The result in column (1) is in line with the well-established general association between education and generalized trust, since we control for individuals' education in the regression. The coefficient hence captures the correlation between trust and an increase in the overall education level in finance, conditional on respondents' own education.

efficiency of financial activities and our behavior as consumers. As Putnam (2000) argues, and consistent with Knack and Keefer (1997), if we cannot sufficiently trust other economic agents, resources are wasted on monitoring, compliance structures, legal services, and enforcement of government regulations. Our results therefore have important implications for financial firms, policymakers, and consumers.

First, despite the existence of fiduciary obligations, ethical codes etc., the finance industry is still often criticized for its allegedly low moral standards, and survey evidence suggests that investment banking in particular has an alarming attitude towards moral values (Tenbrunsel and Thomas, 2015). Financial firms should therefore take decisive action to address these issues. For example, financial firms should consider implementing corporate cultures that foster the creation of social capital. As proposed by Putnam (2000), firms may seek to restore the level of generalized trust of their employees through novel workplace practices, such as flexible working hours or incentives to participate in community activities that increase social connectedness.

Second, policymakers should examine financial regulation closely with regard to its efficiency in preventing undesirable behavior of finance professionals. As discussed at the outset of this study, regulation can act as a substitute for generalized trust. However, Zingales (2015), among others, argues that observed inefficiencies in the finance industry are often not the result of market imperfections but of government intervention itself.<sup>16</sup> Moreover, regulation is weakened due to strong lobbying activities by the finance industry, which greatly influence policy outcomes (e.g., Adams and Mosk, 2019). In addition, because finance professionals are, on average, more skilled than regulators (Bond and Glode, 2014), finance professionals can take actions to weaken the effect of regulations in fashions unperceived by regulators. Nevertheless, another promising endeavor for policy-makers may be to promote financial literacy, especially among those people that are most vulnerable to financial malpractice, to level the playing field between finance professionals and laypersons (e.g., Lusardi and Mitchell, 2014).

Third, it is revealing to observe that in recent years consumers themselves have begun to react to unethical practices and a deteriorating reputation of finance. Evidence suggests that, as

---

<sup>16</sup> An example is the controversial process of “expungement” allowing brokers to remove allegations of financial misconduct from the public records of the Financial Industry Regulatory Authority (FINRA) (see Honigsberg and Jacob, 2020).

consumers become more distrustful of banks, they increasingly look for alternative financing options such as peer-to-peer loans (Saiedi et al., 2020). Another example is the rapid growth of disruptive technologies such as blockchain, which allow any two parties to forge an agreement and conduct transactions without the need of intermediaries, i.e., without banks, money transfer services, or exchange operators. Although blockchains cannot track events in the physical “off-chain” world, they offer potential solutions to common problems in financial interactions (Cong and He, 2019). Moreover, the technology is able to prevent certain types of fraud by imposing sufficiently high resource costs (Abadi and Brunnermeier, 2019). Yet, these technologies also bring new challenges for customers and may not completely solve the problem of insufficient trust.

## **7. Conclusion**

We provide novel empirical evidence on the evolution of generalized trust prevailing in the U.S. finance industry. Across all industries in the U.S., we document that the level of generalized trust among finance professionals has uniquely declined, significantly more so than the decline of trust in the general U.S. population. This relative trust decline in finance was stronger in the first half of our sample until the mid-1990s but is still significant in more recent years, especially in the investment subsector of the finance industry. The decline in trust is prevalent in different age cohorts and among different levels of seniority and is related to a lack of trust only in institutions that are related to the finance industry. The relative decline of trust appears at least partly related to the level of socialization among finance industry professionals, changes in general economic conditions, and the professional environment in the U.S. finance industry.

We note that there are other potential determinants of the relative decline of generalized trust in the U.S. finance industry that we cannot test here for lack of data. For example, organizational forms in finance have changed considerably over the past few decades with partnerships being replaced by large publicly traded institutions. In a partnership, individual trust and reputation are relatively closely bound to the success of the partnership. In large publicly traded institutions, in contrast, individual reputation is likely to be less closely linked to firm reputation. Trust declines because reputation may no longer serve as a signal of quality. Similarly, as financial complexity increases, finance professionals may experience a form of imposter syndrome (Clance and Imes, 1978). Clance and Imes define the impostor syndrome as an individual experience of self-

perceived intellectual phoniness. The imposter syndrome has been shown to be related to generalized anxiety and it is plausible that it also leads to declines in generalized trust levels.

In summary, this is one of the first papers that seeks to develop our understanding of the social mechanisms that determine the behavior of professionals who work in the finance industry. It provides insights into the long-term evolution of generalized trust among finance professionals and has important implications for financial firms, policymakers and consumers.



## References

- Abadi, J., and Brunnermeier, M.K., 2019. Blockchain economics. Working paper. Princeton University.
- Abdulkadiroğlu, A., and Bagwell, K., 2013. Trust, reciprocity, and favors in cooperative relationships. *American Economic Journal: Microeconomics* 5, 213-259.
- Adams, R.B., 2020. Trust in finance: Values matter. Working paper. University of Oxford.
- Adams, R.B., and Mosk, T. 2019. Financial regulation: What the finance industry wants and how it gets it. Working paper. University of Oxford.
- Aghion, P., Algan, Y., Cahuc, P., and Shleifer, A., 2010. Regulation and distrust. *Quarterly Journal of Economics* 125, 1015–1049.
- Alesina, A., and La Ferrara, E., 2000. Participation in heterogenous communities. *Quarterly Journal of Economics* 115, 847-904.
- Alesina, A., and La Ferrara, E., 2002. Who trusts others? *Journal of Public Economics* 85, 207-234.
- Ashraf, N., Bandiera, O., and Delfino, A., 2020. The distinctive values of bankers. *American Economic Review Papers and Proceedings* 110, 167-171.
- Anderlini, L., and Terlizzese, D. 2017. Equilibrium trust. *Games and Economic Behavior* 102, 624-644.
- Arrow, K., 1972. Gift and exchanges. *Philosophy and Public Affairs* 1, 343-362.
- Axelson, U. and Bond, P., 2015. Wall Street occupations. *Journal of Finance* 70, 1949-1996.
- Bacharach, M., Guerra, G., and Zizzo, D. 2007. The self-fulfilling property of trust: An experimental study. *Theory and Decision* 63, 349-388.
- Beck, T., Demirgüç-Kunt, A., and Levine, R., 2007. Finance, inequality and the poor. *Journal of Economic Growth* 12, 27-49.
- Bell, B., and Van Reenen, J., 2013. Extreme wage inequality: Pay at the very top. *American Economic Review Papers and Proceedings* 103, 153-157.
- Berg, J., Dickhaut, J., and McCabe, K., 1995. Trust, reciprocity and social history. *Games and Economic Behaviour* 10, 122–42.
- Bloom, N., Sadun, R., and van Reenen, J., 2012. The organization of firms across countries. *Quarterly Journal of Economics* 127, 1663-1705.
- Bolton, P., Freixas, X., and Shapiro, J., 2007. Conflicts of interest, information provision, and competition in the financial services industry. *Journal of Financial Economics* 85, 297-330.
- Bond, P. and Glode, V., 2014. The labor market for bankers and regulators. *Review of Financial Studies* 27, 2539-2579.
- Calderón, C., and Liu, L., 2003. The direction of causality between financial development and economic growth. *Journal of Development Economics* 72, 321-334.
- Carlin, B.I., 2009. Strategic price complexity in retail financial markets. *Journal of Financial Economics* 91, 278-287.
- Carlin, B.I., Dorobantu, F., and Vishwanathan, S., 2009. Public trust, the law, and financial investment. *Journal of Financial Economics* 70, 321-341.
- Célérier, C., and Vallée, B., 2019. Returns to talent and the finance wage premium. *Review of Financial Studies* 32, 4005-4040.
- Clance, P.R., and Imes, S.A., 1978. The impostor phenomenon in high achieving women: Dynamics

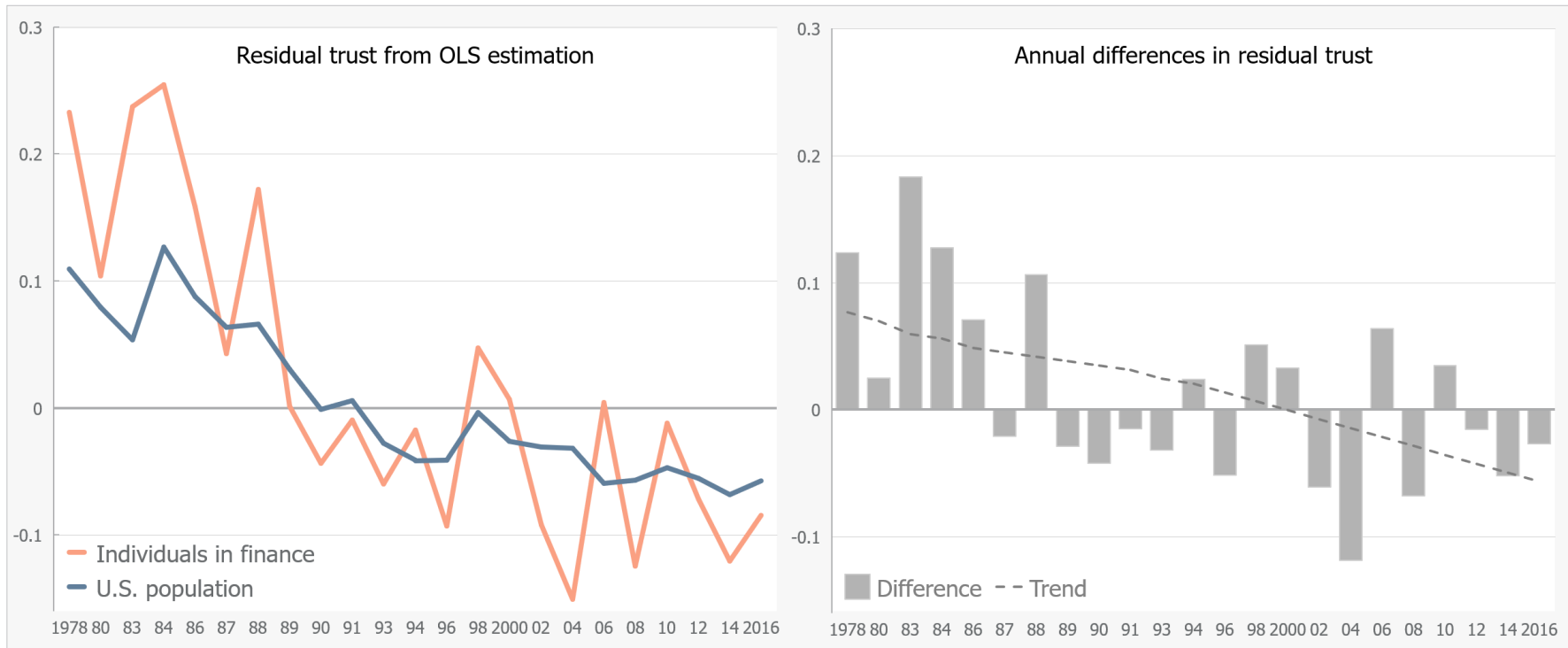
- and therapeutic intervention. *Psychotherapy: Theory, Research & Practice* 15, 241-247.
- Cohn, A., Fehr, E., and Maréchal, M.A., 2014. Business culture and dishonesty in the banking industry. *Nature* 516, 86-89.
- Cong, L.W., and He, Z., 2019. Blockchain disruption and smart contracts. *Review of Financial Studies* 32, 1754-1797.
- Fehr, E., and Gaechter, S., 2000. Fairness and retaliation: The economics of reciprocity. *Journal of Economic Perspectives* 14, 159-181.
- Fehr, E., Fischbacher, U., Schupp, J., Von Rosenblatt, B., and Wagner, G.G., 2003. A nationwide laboratory examining trust and trustworthiness by integrating behavioral experiments into representative surveys. CEPR Discussion Paper 3858.
- Financial Crisis Inquiry Commission, 2011. The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States. Washington, D.C.: Government Printing Office.
- Francois, P., and Zabojnik, J., 2005. Trust, social capital, and economic development. *Journal of the European Economic Association* 3, 51-94.
- Fukuyama, F., 1995. Trust: The social virtues and the creation of prosperity. New York, NY: The Free Press.
- Gennaioli, N., Shleifer, A., and Vishny, R.W., 2015. Money doctors. *Journal of Finance* 70, 91-114.
- Ghent, A.C., Torous, W.N., and Valkanov, R.I., 2019. Complexity in structured finance. *Review of Economic Studies* 86, 694-722.
- Goldin, C., and Katz, L.F., 2008. Transitions: Career and family life cycles of the educational elite. *American Economic Review* 98, 363-369.
- Goldstein, L.R., 2005. A view from the bench: Why judges fail to protect trust and confidence in the lawyer-client relationship - An analysis and proposal for reform. *Fordham Law Review* 73, 2665-2709.
- Greenwood, R., and Scharfstein, D., 2013. The growth of finance. *Journal of Economic Perspectives* 27, 3-28.
- Guiso, L., Sapienza, P., and Zingales, L., 2004. The role of social capital in financial development. *American Economic Review* 94, 526-556.
- Guiso, L., Sapienza, P., and Zingales, L., 2006. Does culture affect economic outcomes? *Journal of Economic Perspectives* 20, 23-48.
- Guiso, L., Sapienza, P., and Zingales, L., 2008. Trusting the stock market. *Journal of Finance* 63, 2557-2600.
- Guiso, L., Sapienza, P., and Zingales, L., 2011. Civic capital as the missing link. In Benhabib, J., Bisin, A., and Jackson, M.O. (Eds.): *Handbook of Social Economics*, 417-480. Amsterdam, Netherlands: North Holland.
- Hagenaars, A., de Vos, K., and Zaidi, M.A., 1994. Poverty statistics in the Late 1980s: Research based on micro-data. Luxembourg: Office for Official Publications of the European Communities.
- Honigsberg, C. and Jacob, M., 2020. Deleting misconduct: The expungement of BrokerCheck records. *Journal of Financial Economics*, forthcoming.
- Hout, M., 2004. Getting the most out of the GSS income measures. Methodological Report No. 101, Chicago, Il: University of Chicago, NORC.
- Huber, C., and Huber, J., 2020. Bad bankers no more? Truth-telling and (dis)honesty in the finance industry. *Journal of Economic Behavior & Organization* 180, 472-493.

- Ifcher, J. and Zarghamee, H., 2014. The happiness of single mothers: Evidence from the General Social Survey. *Journal of Happiness Studies* 15, 1219-1238.
- International Labour Office, 2012. International Standard Classification of Occupations: Structure, group definitions and correspondence tables. Geneva, Switzerland.
- Johnson, N.D., and Mislin, A., 2012. How much should we trust the World Values Survey trust question? *Economics Letters* 116, 210-212.
- Knack, S., and Keefer, P., 1997. Does social capital have an economic payoff? A cross-country investigation. *Quarterly Journal of Economics* 112, 1251-1288.
- La Porta, R., López-de-Silanes, F., Shleifer, A., and Vishny, R.W., 1997. Trust in large organizations. *American Economic Review Papers and Proceedings* 87, 333-338.
- Lee, C.-S., 2013. Welfare states and social trust. *Comparative Political Studies* 46, 603-630.
- Levine, R., 1999. Financial development and economic growth: Views and agenda. *Journal of Economic Literature* 35, 688-726.
- Lins, K.V., Servaes, H., and Tamayo, A., 2017. Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *Journal of Finance* 72, 1785-1824.
- Loughran, T., and Ritter, J.R., 2004. Why has IPO underpricing changed over time? *Financial Management* 33, 5-37.
- Lusardi, A., and Mitchell, O.S., 2014. The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature* 52, 5-44.
- Mackie, G., 2001. Patterns of social trust in Western Europe and their genesis. In Cook, K. (Ed.): *Trust in Society*, 245-282. New York, NY: Russell Sage Foundation.
- Matvos, G., Egan, M., and Seru, A., 2019. The market for financial adviser misconduct. *Journal of Political Economy* 127, 233-295.
- Mewes, J., 2014. Gen(d)eralized trust: Women, work, and trust in strangers. *European Sociological Review* 30, 373-386.
- Nannestad, P., 2008. What have we learned about generalized trust, if anything? *Annual Review of Political Science* 11, 413-436.
- Newton, K., 2007. Social and political trust. In Dalton, R.J., and Klingemann, H.-D. (Eds.): *The Oxford Handbook of Political Behavior*, 342-361. Oxford, UK: Oxford University Press.
- Norris, P. and Inglehart, R., 2006. Gendering social capital: bowling in women's leagues? In O'Neill, B., and Gidengil, E. (Eds.): *Gender and Social Capital*, 73-98. New York, NY: Routledge.
- Philippon, T., and Reshef, A., 2012. Wages and human capital in the U.S. finance industry: 1909-2006. *Quarterly Journal of Economics* 127, 1551-1609.
- Philippon, T., 2015. Has the US finance industry become less efficient? On the theory and measurement of financial intermediation, *American Economic Review* 105, 1408-38.
- Pickett, K., and Wilkinson, R., 2010. *The spirit level: Why greater equality makes societies stronger*. New York, NY: Bloomsbury Press.
- Putnam, R.D., 1993. *Making democracy work*. Princeton, NJ: Princeton University Press.
- Putnam, R.D., 1995. Bowling alone: America's declining social capital. *Journal of Democracy* 6, 65-78.
- Putnam, R.D., 2000. *Bowling alone: The collapse and revival of American community*. New York, NY: Simon & Schuster.
- Putnam, R.D., 2007. E pluribus unum: Diversity and community in the twenty-first century: The 2006 Johan Skytte Prize Lecture. *Scandinavian Political Studies* 30, 137-174.

- Saiedi, E., Mohammadi, A., Broström, A., and Shafi, K., 2020. Distrust in banks and fintech participation: The case of peer-to-peer lending. *Entrepreneurship Theory and Practice* 63, 1-28.
- Sapienza, P., Toldra-Simats, A., and Zingales, L., 2013. Understanding trust. *The Economic Journal* 123, 1313-1332.
- Smith, T.W., 1988. Context effects in the General Social Survey. Methodological Report No. 55, Chicago, IL: University of Chicago, NORC.
- Smith, T.W., 1990. Timely artifacts: A review of measurement - Variation in the 1972-1989 GSS. Methodological Report No. 56, Chicago, IL: University of Chicago, NORC.
- Stevenson, B. and Wolfers, J., 2008a. Economic growth and subjective well-being: Reassessing the Easterlin Paradox. *Brookings Papers on Economic Activity*, 1-87.
- Stevenson, B. and Wolfers, J., 2008b. Happiness inequality in the United States. *Journal of Legal Studies* 37, 33-79.
- Stevenson, B. and Wolfers, J., 2009. The paradox of declining female happiness. *American Economic Journal: Economic Policy* 1, 1990-225.
- Tenbrunsel, A., and Thomas, J., 2015. *The Street, The Bull and The Crisis: A Survey of the US & UK Financial Services Industry*. University of Notre Dame and Labaton Sucharow, LLP.
- Traunmüller, R., 2011. Moral communities? Religion as a source of social trust in a multilevel analysis of 97 German regions. *European Sociological Review* 27, 346-363.
- Twenge, J.M., Campbell, W.K., and Carter, N.T., 2014. Declines in trust in others and confidence in institutions among American adults and late adolescents, 1972-2012. *Psychological Science* 25, 1914-1923.
- Uslaner, E.M., 2002. *The moral foundations of trust*. Cambridge, UK: Cambridge University Press.
- Uslaner, E.M., 2008. *Corruption, inequality, and the rule of law: The bulging pocket makes the easy life*. Cambridge, UK: Cambridge University Press.
- Zak, P.J., and Knack, S., 2001. Trust and growth. *The Economic Journal* 111, 295-321.
- Zingales, L., 2015. Presidential address: Does finance benefit society? *Journal of Finance* 70, 1327-1363.

**Figure 1: Residual trust in the United States, 1978-2016**

This figure illustrates how residuals of trust have trended over time for individuals in finance and the general U.S. population after accounting for a wide range of personal characteristics. The left panel plots the residuals from an OLS regression of *Most people can be trusted* on demographic and socioeconomic controls as well as region fixed effects for both groups (all variables are described in the text). The right panel shows the differences in the residuals as bars and plots its linear time trend as a dashed line.



**Table 1: Generalized trust trends for individuals in finance and the U.S. population, 1978-2016**

This table reports coefficients from regressions of the form described in equation (1) with different measures of generalized trust based on the GSS question “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” The coefficients on the time trend variables report the change in trust per 100 years. In Panel A, *Most people can be trusted* (specifications 1 to 3) is an indicator that equals one for a person who responds that “most people can be trusted” and zero for a person who responds that either it “depends” or that you “can’t be too careful”. *Can’t be too careful* (specification 4) equals one for a person who responds that “you can’t be too careful” when dealing with people and zero if he responds that either it “depends” or that “most people can be trusted”. *Trust* (specification 5) is coded as a count variable taking the values 1 (“Can’t be too careful”), 2 (“Depends”), and 3 (“Most people can be trusted”). Panel B reports OLS regression results with *Most people can be trusted* as dependent variable separately for the first and second half of the sample, i.e., 1978-1996 vs. 1997-2016. Exogenous demographic controls include indicators for decadal age categories, gender and race (black, white, and other), and an indicator for whether a respondent was born in the U.S. Socioeconomic characteristics include controls for education, employment status, income, marital status, a respondent’s number of children, his religious denomination, and whether he lives in a rural area. Income is a quartic in log real family income per equivalent = 1 + 0.5 (other adults) + 0.3 kids. All specifications include region fixed effects using the U.S. region in which an interview was conducted. Robust t and z-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Panel A: Generalized trust trends, 1978-2016**

<i>Generally speaking, would you say that most people can be trusted or that you can't be too careful with people?</i>					
[3] Most people can be trusted; [2] Depends; [1] Can't be too careful					
<i>Dependent variables</i>	<i>Most people can be trusted</i>			<i>Can't be too careful</i>	<i>Trust</i>
	OLS (1)	OLS (2)	Probit (3)	OLS (4)	Ordered Probit (5)
<b>In Finance time trend</b>	<b>-0.575***</b> (-5.48)	<b>-0.864***</b> (-7.08)	<b>-2.417***</b> (-7.09)	<b>0.822***</b> (5.68)	<b>-2.349***</b> (-6.22)
Not in Finance time trend	-0.411*** (-9.20)	-0.559*** (-12.14)	-1.624*** (-12.64)	0.540*** (12.68)	-1.560*** (-13.36)
In Finance dummy	0.096*** (4.74)	0.074*** (3.16)	0.195*** (2.95)	-0.076*** (-3.22)	0.200*** (2.96)
<b>Difference in time trends</b>	<b>-0.164*</b>	<b>-0.306***</b>	<b>-0.793***</b>	<b>0.283**</b>	<b>-0.789**</b>
<b>p-value of difference</b>	<b>0.0877</b>	<b>0.00289</b>	<b>0.00617</b>	<b>0.0197</b>	<b>0.0133</b>
Exogenous demographic controls	Yes	Yes	Yes	Yes	Yes
Socioeconomic controls	No	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes	Yes
Observations	30,959	27,892	27,892	27,892	27,892
Pseudo / Adj. R-squared	0.0671	0.127	0.104	0.132	0.0887

**Panel B: Generalized trust trends sub-periods**

<i>Dependent variable</i>	<i>Most people can be trusted</i>	
	<b>1978-1996</b>	<b>1997-2016</b>
	(1)	(2)
<b>In Finance time trend</b>	<b>-1.842***</b> <b>(-6.65)</b>	<b>-0.732***</b> <b>(-3.59)</b>
Not in Finance time trend	-1.041*** (-7.75)	-0.396*** (-5.34)
In Finance dummy	0.104*** (3.59)	0.101* (1.98)
<b>Difference in time trends</b>	<b>-0.801***</b>	<b>-0.336**</b>
<b>p-value of difference</b>	<b>0.000116</b>	<b>0.0440</b>
<b>z-score of difference between sub-periods in finance</b>		<b>-3.2229***</b>
Exogenous demographic controls	Yes	Yes
Socioeconomic controls	Yes	Yes
Region FE	Yes	Yes
Observations	14,522	13,370
Adj. R-squared	0.124	0.127

**Table 2: Generalized trust trends in comparable industries**

This table reports coefficients from OLS regressions estimating equation (1) with *Most people can be trusted* as dependent variable. Specifications 1 to 3 report results for the healthcare industry, specifications 4 to 6 for the legal service industry, and specifications 7 to 9 for all tech firms following the definition in Loughran and Ritter (2004). For each industry, the first specification shows results for the whole sample period, while the other two specifications present estimates separately for the first and the second half of the sample, i.e., 1978-1996 and 1997-2016. All specifications include demographic and socioeconomic controls as well as region fixed effects. Control variables are described in Section 2.3. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variable</i>	<i>Most people can be trusted</i>								
	Healthcare			Legal			Tech firms		
	Full	1978-1996	1997-2016	Full	1978-1996	1997-2016	Full	1978-1996	1997-2016
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
<b>In Industry time trend</b>	<b>-0.613***</b> (-5.88)	<b>-1.211***</b> (-3.49)	<b>-0.456*</b> (-2.25)	<b>-0.802**</b> (-2.72)	<b>-1.441**</b> (-2.24)	<b>-0.451</b> (-0.61)	<b>-0.345*</b> (-1.87)	<b>-0.934**</b> (-2.55)	<b>0.608</b> (1.77)
<b>Not in Industry time trend</b>	<b>-0.569</b> (-12.47)	<b>-1.073***</b> (-8.38)	<b>-0.402***</b> (-6.25)	<b>-0.572***</b> (-11.89)	<b>-1.082***</b> (-7.94)	<b>-0.411***</b> (-5.17)	<b>-0.580***</b> (-12.63)	<b>-1.088***</b> (-8.29)	<b>-0.442***</b> (-5.22)
Industry dummy	-0.005 (-0.21)	0.001 (0.03)	-0.002 (-0.05)	0.062 (1.09)	0.087 (1.06)	0.005 (0.02)	0.019 (0.53)	0.037 (0.86)	-0.225* (-2.24)
<b>Difference in time trends</b>	<b>-0.0442</b>	<b>-0.139</b>	<b>-0.0539</b>	<b>-0.229</b>	<b>-0.359</b>	<b>-0.0403</b>	<b>0.234</b>	<b>0.154</b>	<b>1.050***</b>
<b>p-value of difference</b>	<b>0.592</b>	<b>0.623</b>	<b>0.719</b>	<b>0.437</b>	<b>0.549</b>	<b>0.958</b>	<b>0.143</b>	<b>0.593</b>	<b>0.004</b>
Exogenous demographic controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	27,892	14,522	13,370	27,892	14,522	13,370	27,892	14,522	13,370
Adj. R-squared	0.127	0.124	0.127	0.127	0.124	0.127	0.128	0.124	0.129



**Table 3: Heterogeneity in the trust trend across finance subsectors**

This table reports results exploiting variation in the generalized trust trend by breaking it apart by finance industry subsector, i.e., banking, investment, and insurance. In Panel A, each specification shows the coefficients from an OLS regression of *Most people can be trusted* on time trend variables of generalized trust along with demographic and socioeconomic controls. Panel B reports results of the same regressions separately for the first and second half of the sample, i.e., 1978-1996 and 1997-2016. Control variables are described in Section 2.3. All specifications include region fixed effects. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Panel A: Trust trend per finance subsector**

<i>Dependent variable</i>	<i>Most people can be trusted</i>		
	<b>Banking</b>	<b>Investment</b>	<b>Insurance</b>
	(1)	(2)	(3)
<b>In Finance time trend</b>	<b>-0.847***</b> (-4.47)	<b>-1.180***</b> (-3.84)	<b>-0.873***</b> (-4.84)
Not in Finance time trend	-0.558*** (-12.24)	-0.556*** (-12.22)	-0.557*** (-12.27)
In Finance dummy	0.065* (1.75)	0.096 (1.18)	0.089* (2.62)
<b>Difference in time trends</b>	<b>-0.290*</b>	<b>-0.624**</b>	<b>-0.317*</b>
<b>p-value of difference</b>	<b>0.0950</b>	<b>0.0320</b>	<b>0.0741</b>
Exogenous demographic controls	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes
Region FE	Yes	Yes	Yes
Observations	27,074	26,756	27,089
Adj. R-squared	0.127	0.127	0.127

**Panel B: Trust trend per finance subsector in sub-periods**

<i>Dependent variable</i>	<i>Most people can be trusted</i>					
	<b>Banking</b>		<b>Investment</b>		<b>Insurance</b>	
	<b>1978-1996</b>	<b>1997-2016</b>	<b>1978-1996</b>	<b>1997-2016</b>	<b>1978-1996</b>	<b>1997-2016</b>
	(1)	(2)	(3)	(4)	(5)	(6)
<b>In Finance time trend</b>	<b>-2.249***</b> (-8.82)	<b>-0.423</b> (-1.05)	<b>-3.330***</b> (-3.28)	<b>-1.473**</b> (-2.96)	<b>-1.083**</b> (-2.52)	<b>-0.955</b> (-1.69)
Not in Finance time trend	-1.043*** (-7.88)	-0.396*** (-5.27)	-1.039*** (-7.79)	-0.397*** (-5.31)	-1.040*** (-7.78)	-0.395*** (-5.41)
In Finance dummy	0.133*** (3.64)	0.023 (0.24)	0.227* (1.92)	0.260 (1.75)	0.052 (1.21)	0.166 (0.94)
<b>Difference in time trends</b>	<b>-1.205***</b>	<b>-0.0270</b>	<b>-2.291**</b>	<b>-1.076**</b>	<b>-0.0435</b>	<b>-0.561</b>
<b>p-value of difference</b>	<b>2.96e-09</b>	<b>0.938</b>	<b>0.0187</b>	<b>0.0315</b>	<b>0.905</b>	<b>0.288</b>
<b>z-score for difference between sub-periods</b>	<b>-3.830***</b>		<b>-1.644</b>		<b>-0.179</b>	
Exogenous demographic controls	Yes	Yes	Yes	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	14,114	12,960	13,915	12,841	14,107	12,982
Adj. R-squared	0.123	0.128	0.124	0.127	0.123	0.127

**Table 4: Heterogeneity in the trust trend by hierarchy level and seniority**

This table reports results exploiting variations in the generalized trust trend by breaking it apart by hierarchy level and seniority. All specifications report coefficients from OLS regressions of *Most people can be trusted* on time trend variables of trust along with demographic and socioeconomic controls. In odd-numbered specifications, we compare people in finance with the entire U.S. population, while in even-numbered specifications, we compare a specific group of finance professionals to its corresponding group in the U.S. population. Specifically, specification 1 shows how trust trended in the upper and lower echelons in finance compared to the population, while specification 2 compares the upper echelons in finance with the upper echelons in the rest of the population. Analogously, specification 3 shows how trust trended for juniors and seniors (based on age) in finance compared to the population, while specification 4 compares seniors in finance with seniors in the rest of the population. Control variables are described in Section 2.3. All specifications include region fixed effects. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variable</i>	<i>Most people can be trusted</i>			
	<b>Hierarchy</b>		<b>Seniority</b>	
	(1)	(2)	(3)	(4)
<b>(1) Upper echelons in Finance time trend</b>	<b>-0.807***</b> (-7.27)	<b>-0.917***</b> (-9.88)		
<b>(2) Lower echelons in Finance time trend</b>	<b>-1.059***</b> (-5.35)			
<b>(1) Seniors in Finance time trend</b>			<b>-0.799***</b> (-6.44)	<b>-0.808***</b> (-4.70)
<b>(2) Juniors in Finance time trend</b>			<b>-0.918***</b> (-6.55)	
(3) Not in Finance time trend	-0.558*** (-12.17)		-0.558*** (-12.11)	
(3) Upper echelons Not in Finance time trend		-0.552*** (-8.11)		
(3) Seniors Not in Finance time trend				-0.486*** (-9.63)
In Finance dummy	0.079*** (3.44)	0.081*** (4.11)	0.074*** (3.15)	0.080* (1.87)
<b>Difference in time trends (1)-(2)</b>	<b>0.252</b>		<b>0.119</b>	
<b>p-value of difference (1)-(2)</b>	<b>0.121</b>		<b>0.230</b>	
<b>Difference in time trends (1)-(3)</b>	<b>-0.249***</b>	<b>-0.365***</b>	<b>-0.241**</b>	<b>-0.322**</b>
<b>p-value of difference (1)-(3)</b>	<b>0.008</b>	<b>0.000</b>	<b>0.021</b>	<b>0.044</b>
<b>Difference in time trends (2)-(3)</b>	<b>-0.500***</b>		<b>-0.360***</b>	
<b>p-value of difference (2)-(3)</b>	<b>0.005</b>		<b>0.004</b>	
Exogenous demographic controls	Yes	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
Observations	27,852	11,973	27,892	15,080
Adj. R-squared	0.127	0.101	0.127	0.126

**Table 5: Confidence in institutions and groups**

This table reports how confidence in various institutions and groups trended over time for people in finance and the U.S. population. Each row shows the result of one OLS regression of the form described in equation (1) and examines the trend in a different party. Individuals' confidence is measured by the question "As far as the people running these institutions are concerned, would you say you have a great deal of confidence, only some confidence, or hardly any confidence at all in them?" An indicator is used in each regression that equals one for individuals who respond that they have "a great deal" of confidence and zero if they respond that they have "only some" or "hardly any" confidence. Panel A reports estimates for banks and financial institutions, Panel B for parties that are especially relevant to the finance industry, and Panel C for various other parties. The first two columns show the coefficients on the trend variables *In Finance* × Time and *Not in Finance* × Time and the third column reports the difference in these estimates and its p-value. All regressions include demographic and socioeconomic controls as well as region fixed effects. Control variables are described in Section 2.3. Sample sizes vary by data availability. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

	Estimated time trends in confidence per party		
	In Finance	Not in Finance	Difference
<b>Panel A: Financial institutions</b>			
Banks and financial institutions	-0.337* (-2.04)	-0.331*** (-3.87)	<b>-0.00631</b> <b>0.962</b>
<b>Panel B: Parties especially relevant to the finance industry</b>			
Major companies	-0.596*** (-6.47)	-0.356*** (-6.46)	<b>-0.240***</b> <b>0.00378</b>
Executive branch of the federal government	-0.293** (-2.35)	-0.101 (-1.49)	<b>-0.193***</b> <b>0.00755</b>
Congress	-0.277*** (-3.88)	-0.169*** (-3.26)	<b>-0.108**</b> <b>0.0222</b>
<b>Panel C: Parties not especially relevant to the finance industry</b>			
U.S. Supreme Court	-0.260 (-1.39)	-0.159* (-1.93)	<b>-0.101</b> <b>0.445</b>
Military	0.963*** (8.05)	0.853*** (13.21)	<b>0.110</b> <b>0.420</b>
Press	-0.343*** (-6.10)	-0.370*** (-8.46)	<b>0.0275</b> <b>0.633</b>
Scientific Community	-0.391** (-2.59)	-0.173*** (-4.41)	<b>-0.217</b> <b>0.148</b>

**Table 6: Changes in socialization habits in finance and the relative trust decline**

This table explores time trends in people's opportunities to associate with one another and build up generalized trust. Specifications (1) and (2) show results from OLS regressions which analyze how the propensity of individuals to participate in social groups has shifted over time. *Group membership* (specification 1) is a dummy that indicates whether a respondent belongs to any social group, while *P-Group membership* (specification 1) only considers groups least likely to act as distributional coalitions. Specification (3) presents estimates from an ordered probit regression investigating how working hours have changed over time for workers in the finance industry and the average U.S. American. The dependent variable, *Working hours*, measures the number of hours individuals worked in the past week in bins of 20 hours. All specifications include demographic and socioeconomic controls as well as region fixed effects. Control variables are described in Section 2.3. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variables</i>	<i>Group membership</i>	<i>P-Group membership</i>	<i>Working hours</i>
	(1)	(2)	(3)
<b>In Finance time trend</b>	<b>-0.696***</b> <b>(-4.70)</b>	<b>-0.934***</b> <b>(-5.73)</b>	<b>0.854***</b> <b>(3.09)</b>
Not in Finance time trend	-0.514*** (-4.23)	-0.300** (-2.50)	0.318*** (3.55)
In Finance dummy	-0.050** (-2.69)	0.055* (1.80)	-0.195** (-2.45)
<b>Difference in time trends</b>	<b>-0.183*</b>	<b>-0.634***</b>	<b>0.536*</b>
<b>p-value of difference</b>	<b>0.0782</b>	<b>0.00116</b>	<b>0.0564</b>
Exogenous demographic controls	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes
Region FE	Yes	Yes	Yes
Observations	13,589	13,589	27,928
Adj. / Pseudo R-squared	0.112	0.0927	0.228

**Table 7: Changes in economic conditions and the relative trust decline**

This table reports results of analyses that explore whether changes in economic conditions in the U.S. over our sample are associated with the relative decline in generalized trust experienced by individuals working in the finance industry. The table present coefficients from OLS regressions that investigate correlations of two measures of the economic condition in the U.S. with generalized trust for people working in finance and the general population. These measures are the Gini coefficient of income inequality (specification 1) and the annual change in gross domestic product (specification 2). All specifications include demographic and socioeconomic controls as well as region and year fixed effects. Control variables are described in Section 2.3. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variable</i>	<i>Most people can be trusted</i>	
	Gini index	GDP change
	(1)	(2)
<b>Economic condition measure × In Finance</b>	<b>-0.031***</b> <b>(-8.57)</b>	<b>0.073***</b> <b>(12.19)</b>
Economic condition measure × Not in Finance	-0.020*** (-33.68)	0.051*** (35.72)
In Finance dummy	0.489*** (3.01)	-0.052** (-2.33)
<b>Difference</b>	<b>-0.0111***</b>	<b>0.0218***</b>
<b>p-value of difference</b>	<b>0.00358</b>	<b>0.000470</b>
Exogenous demographic controls	Yes	Yes
Socioeconomic controls	Yes	Yes
Region & Year FE	Yes	Yes
Observations	27,892	27,892
Adj. R-squared	0.131	0.131

**Table 8: Changes in the professional environment in finance and the relative trust decline**

This table reports results of analyses that investigate whether changes in the composition of the workforce in the finance industry over our sample are associated with the relative decline in generalized trust experienced by individuals working in the finance industry. Specifications (1) to (3) present coefficients from OLS regressions that explore the correlation of generalized trust with different indicators of the professional environment in the finance industry as well as the U.S. population. The independent variable of interest in specification (1) is *Highly educated fraction*, which is the fraction of individuals with more than high school education in a year in the finance industry and the rest of the U.S. population, respectively. Similarly, *Non-white fraction* in specification (2) is the fraction of non-white people and *Female fraction* in specification (3) is the fraction of female individuals. Specifications (4) to (6) shows results from OLS regressions that explore the unconditional time trends on individual level of four measures that are defined in accordance with the variables used in the first three specifications. *Highly educated* is an indicator that equals one for a respondent who has more than high school education, *Female* equals one for a female person, and *Non-white* equals one for a non-white person. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variables</i>	<i>Most people can be trusted</i>			<i>Highly educated</i>	<i>Non-white</i>	<i>Female</i>
	Highly educated fraction	Non-white fraction	Female fraction			
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Professional environment in Finance × In Finance</b>	<b>-0.899***</b> <b>(-8.11)</b>	<b>-1.245***</b> <b>(-6.40)</b>	<b>0.802**</b> <b>(2.21)</b>			
Environment outside Finance × Not in Finance	-0.990*** (-16.99)	-1.274*** (-11.02)	-0.597 (-0.35)			
<b>In Finance time trend</b>				<b>0.823***</b> <b>(6.53)</b>	<b>0.534***</b> <b>(5.88)</b>	<b>-0.218**</b> <b>(-2.35)</b>
Not in Finance time trend				0.582*** (15.14)	0.398*** (20.02)	0.035** (2.22)
In Finance dummy	0.087* (1.91)	-0.008 (-0.24)	-0.839 (-0.93)	0.061** (2.45)	-0.044** (-2.57)	0.202*** (10.46)
<b>Difference</b>	<b>0.0914</b>	<b>0.0287</b>	<b>1.400</b>	<b>0.241*</b>	<b>0.135</b>	<b>-0.253**</b>
<b>p-value of difference</b>	<b>0.401</b>	<b>0.888</b>	<b>0.414</b>	<b>0.0542</b>	<b>0.150</b>	<b>0.0115</b>
Ex. demographic controls	Yes	Yes	Yes	No	No	No
Socioeconomic controls	Yes	Yes	Yes	No	No	No
Region FE	Yes	Yes	Yes	No	No	No
Observations	27,892	27,892	27,892	49,162	49,251	49,251
Adj. R-squared	0.129	0.125	0.113	0.0219	0.0128	0.00429

## Appendices

**Appendix Table A1: Descriptive statistics**

This table reports summary statistics for the variables used in our baseline regression models in Section 3.1. The sample period is 1978-2016. The full estimation results including the coefficients of all control variables are reported in Table A2. Summary statistics are shown for the total sample as well as separately for the subsamples of people working in finance and the rest of the U.S. population. As described in the data section, a few changes to the sample are required to make it comparable across years: (i) we drop black oversamples in the years 1982 and 1987; (ii) we exclude all interviews from 2006 onwards that occurred in Spanish and could not have been completed in English; (iii) we adapt the methodology described by Stevenson and Wolfers (2008b) to account for the varying question order in 1978, 1983, 1986, and 1988 using the split-ballot experiments of the GSS. All variables are weighted using the weight variable provided in the GSS. The last column of the table shows the difference in the mean values between finance professionals and the U.S. population. \*\*\*, \*\*, \* denote statistical significance of a difference at the 1%, 5% and 10% level, respectively.

Variable	Total		In Finance	Not in Finance	Difference in means
	N	Mean	Mean	Mean	In Finance - Not in Finance
In Finance	31,117	0.048			
Most people can be trusted	31,117	0.386	0.450	0.382	0.068***
Age	31,039	45.095	43.238	45.188	-1.950***
Female	31,117	0.530	0.669	0.523	0.147***
Race = White	31,117	0.817	0.833	0.816	0.017
Race = Black	31,117	0.122	0.097	0.124	-0.027***
Race = Other	31,117	0.061	0.071	0.061	0.010
Born outside the U.S.	31,034	0.087	0.087	0.087	0.000
Highest degree = Less than high school	31,061	0.164	0.035	0.171	-0.136***
Highest degree = High school	31,061	0.535	0.543	0.535	0.008
Highest degree = Junior college	31,061	0.064	0.067	0.064	0.002
Highest degree = Bachelor's degree	31,061	0.160	0.278	0.154	0.124***
Highest degree = Graduate degree	31,061	0.076	0.077	0.076	0.001
Labor force status = Working full time	31,116	0.541	0.626	0.536	0.090***
Labor force status = Other, e.g., part-time and	31116	0.459	0.374	0.464	-0.090***



temporary not employed

Ln(Income)	28,156	10.129	10.499	10.110	0.389***
Marital status = Married	31,112	0.596	0.652	0.593	0.059***
Marital status = Widowed	31,112	0.063	0.049	0.064	-0.015***
Marital status = Divorced	31,112	0.108	0.087	0.109	-0.022***
Marital status = Separated	31,112	0.025	0.017	0.026	-0.008**
Marital status = Never married	31,112	0.208	0.194	0.209	-0.014
Number of children	31,042	1.892	1.618	1.906	-0.288***
Religion = Protestant	30,997	0.561	0.539	0.562	-0.024
Religion = Catholic	30,997	0.250	0.306	0.247	0.059***
Religion = Jewish	30,997	0.019	0.028	0.019	0.009*
Religion = None	30,997	0.123	0.092	0.125	-0.032***
Religion = Other	30,997	0.047	0.035	0.047	-0.012**
Lives in rural area	31,117	0.125	0.071	0.127	-0.056***

---

**Appendix Table A2: Generalized trust trends for individuals in finance and the U.S. population, 1978-2016**

This table reports the same results as Table 1 and additionally show the coefficients for all control variables used in the regressions. The variables are defined in Section 2.3. If we use indicators for each level of a categorical variable, the first category of that variable is omitted. The omitted categories are *Aged between 18 and 19* for age, *White* for race, *Less than high school degree* for education, *Working full time* for labor force status, *Married* for marital status, *No children* for number of children, and *Protestant* for religious denomination. Robust t and z-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Generally speaking, would you say that most people can be trusted or that you can't be too careful with people?</i>					
[3] Most people can be trusted; [2] Depends; [1] Can't be too careful					
<i>Dependent variables</i>	<i>Most people can be trusted</i>			<i>Can't be too careful</i>	<i>Trust</i>
	OLS (1)	OLS (2)	Probit (3)	OLS (4)	Ordered Probit (5)
<b>In Finance time trend</b>	<b>-0.575***</b> (-5.48)	<b>-0.864***</b> (-7.08)	<b>-2.417***</b> (-7.09)	<b>0.822***</b> (5.68)	<b>-2.349***</b> (-6.22)
Not in Finance time trend	-0.411*** (-9.20)	-0.559*** (-12.14)	-1.624*** (-12.64)	0.540*** (12.68)	-1.560*** (-13.36)
In Finance dummy	0.096*** (4.74)	0.074*** (3.16)	0.195*** (2.95)	-0.076*** (-3.22)	0.200*** (2.96)
<b>Difference in time trends</b>	<b>-0.164*</b>	<b>-0.306***</b>	<b>-0.793***</b>	<b>0.283**</b>	<b>-0.789**</b>
<b>p-value of difference</b>	<b>0.0877</b>	<b>0.00289</b>	<b>0.00617</b>	<b>0.0197</b>	<b>0.0133</b>
Age between 20 and 29	-0.028 (-0.99)	-0.090*** (-2.92)	-0.291*** (-3.15)	0.058 (1.53)	-0.216** (-2.07)
Age between 30 and 39	0.046 (1.59)	-0.041 (-1.37)	-0.140 (-1.56)	0.004 (0.12)	-0.063 (-0.62)
Age between 40 and 49	0.113*** (3.59)	0.022 (0.69)	0.038 (0.40)	-0.059 (-1.51)	0.112 (1.06)
Age between 50 and 59	0.123*** (3.71)	0.045 (1.35)	0.108 (1.08)	-0.074* (-1.77)	0.168 (1.50)
Age between 60 and 69	0.130*** (3.85)	0.081** (2.23)	0.208* (1.95)	-0.117** (-2.65)	0.276** (2.34)
Age between 70 and 79	0.091*** (3.03)	0.078** (2.32)	0.203** (2.05)	-0.122*** (-2.98)	0.283*** (2.59)
Age between 80 and 89	0.098*** (3.34)	0.100*** (2.91)	0.267*** (2.67)	-0.145*** (-3.37)	0.347*** (3.13)
Female	-0.037***	-0.027***	-0.082***	0.032***	-0.088***

Race = Black	(-4.74) -0.217***	(-3.27) -0.163***	(-3.28) -0.535***	(3.92) 0.171***	(-3.71) -0.526***
Race = Other	(-21.39) -0.131***	(-13.14) -0.095***	(-13.90) -0.300***	(12.81) 0.092***	(-13.38) -0.276***
Born outside the U.S.	(-11.82) -0.032**	(-8.92) -0.032***	(-8.30) -0.087**	(9.03) 0.008	(-9.03) -0.048
Highest degree = High school	(-2.79)	(-2.83)	(-2.52)	(0.55)	(-1.36)
Highest degree = Junior college		0.117***	0.362***	-0.119***	0.348***
Highest degree = Bachelor's degree		(12.69)	(13.96)	(-11.95)	(12.88)
Highest degree = Graduate degree		0.153***	0.468***	-0.166***	0.468***
Labor force status = Working part-time		(15.85)	(16.31)	(-12.72)	(15.15)
Labor force status = Temp. not working		0.279***	0.800***	-0.293***	0.800***
Labor force status = Unemployed		(26.27)	(29.08)	(-27.44)	(26.99)
Labor force status = Retired		0.352***	0.995***	-0.376***	1.009***
Labor force status = In school		(29.38)	(28.77)	(-37.80)	(29.34)
Labor force status = Keeping house		0.045***	0.127***	-0.049***	0.134***
Labor force status = Other		(4.56)	(4.45)	(-4.80)	(4.80)
Ln(Income)		0.020	0.052	-0.011	0.042
Ln(Income)^2		(0.93)	(0.85)	(-0.55)	(0.74)
Ln(Income)^3		-0.015	-0.058	0.015	-0.057
Ln(Income)^4		(-0.80)	(-0.92)	(0.76)	(-0.91)
Marital status = Widowed		-0.008	-0.022	0.001	-0.011
		(-0.83)	(-0.79)	(0.11)	(-0.37)
		0.063***	0.194***	-0.088***	0.225***
		(3.35)	(3.52)	(-6.24)	(4.95)
		-0.012	-0.037	0.005	-0.025
		(-1.08)	(-1.10)	(0.55)	(-0.83)
		-0.043*	-0.131*	0.041	-0.123*
		(-1.97)	(-1.90)	(1.70)	(-1.72)
		1.503	4.726	-1.130	4.952
		(0.65)	(0.54)	(-0.57)	(0.65)
		-0.278	-0.852	0.209	-0.874
		(-0.71)	(-0.59)	(0.63)	(-0.69)
		0.022	0.067	-0.017	0.067
		(0.78)	(0.64)	(-0.69)	(0.74)
		-0.001	-0.002	0.000	-0.002
		(-0.82)	(-0.68)	(0.73)	(-0.78)
		-0.021	-0.053	0.022	-0.056

Marital status = Divorced		(-1.46) -0.046***	(-1.30) -0.128***	(1.44) 0.038**	(-1.38) -0.112***
Marital status = Separated		(-3.79) -0.067***	(-3.54) -0.221***	(2.74) 0.060***	(-3.01) -0.191***
Marital status = Never married		(-4.56) -0.015	(-4.12) -0.061*	(3.91) 0.010	(-3.80) -0.048
Number of children = 1		(-1.44) -0.034***	(-1.94) -0.115***	(0.95) 0.040***	(-1.54) -0.121***
Number of children = 2		(-3.60) -0.001	(-4.10) -0.023	(3.84) 0.006	(-4.27) -0.024
Number of children = 3		(-0.14) -0.004	(-0.76) -0.033	(0.53) 0.011	(-0.81) -0.039
Number of children = 4		(-0.31) 0.009	(-0.95) -0.000	(0.87) 0.001	(-1.09) -0.014
Number of children = 5		(0.60) 0.010	(-0.00) 0.005	(0.06) 0.003	(-0.33) -0.009
Number of children = 6		(0.59) 0.009	(0.10) 0.003	(0.14) -0.023	(-0.17) 0.033
Number of children = 7		(0.31) 0.030	(0.04) 0.076	(-0.75) -0.024	(0.37) 0.071
Number of children ≥ 8		(0.77) -0.079**	(0.65) -0.291***	(-0.55) 0.089***	(0.59) -0.287***
Religion = Catholic		(-2.56) -0.025***	(-2.60) -0.073***	(3.26) 0.029***	(-2.89) -0.078***
Religion = Jewish		(-3.79) -0.042	(-3.91) -0.128*	(4.70) -0.010	(-4.38) -0.061
Religion = None		(-1.67) -0.010	(-1.85) -0.028	(-0.44) -0.008	(-0.94) -0.004
Religion = Other		(-0.68) -0.010	(-0.68) -0.020	(-0.68) -0.001	(-0.11) -0.004
Lives in rural area		(-0.58) 0.001	(-0.39) 0.000	(-0.08) -0.003	(-0.07) 0.003
Region FE	Yes	(0.06) Yes	(0.01) Yes	(-0.31) Yes	(0.11) Yes
Observations	30,959	27,892	27,892	27,892	27,892
Pseudo / Adj. R-squared	0.0671	0.127	0.104	0.132	0.0887

**Appendix Table A3: Changes in economic conditions and trust in sub-periods**

This table reports results of analyses shown in Table 7 separately for the first and second half of the sample, i.e., 1978-1996 and 1997-2016. The table present coefficients from OLS regressions that investigate correlations of two measures of the economic condition in the U.S. with generalized trust for people working in finance and the general population. These measures are the Gini coefficient of income inequality (specifications 1 and 2) and the annual change in gross domestic product (specifications 3 and 4). All specifications include demographic and socioeconomic controls as well as region and year fixed effects. Control variables are described in Section 2.3. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variable</i>	<i>Most people can be trusted</i>			
	Gini index		GDP change	
	1978-1996	1997-2016	1978-1996	1997-2016
	(1)	(2)	(3)	(4)
<b>Economic condition measure × In Finance</b>	<b>-0.039***</b> (-8.35)	<b>-0.045***</b> (-3.63)	<b>0.121***</b> (17.85)	<b>0.047***</b> (7.98)
Economic condition measure × Not in Finance	<b>-0.023***</b> (-33.79)	<b>-0.028***</b> (-16.65)	<b>0.101***</b> (43.63)	<b>0.024***</b> (15.86)
In Finance dummy	0.700*** (3.28)	0.736 (1.30)	-0.041 (-1.39)	-0.056** (-2.90)
<b>Difference p-value of difference</b>	<b>-0.0167***</b> <b>0.00124</b>	<b>-0.0162</b> <b>0.197</b>	<b>0.0196***</b> <b>0.00608</b>	<b>0.0224***</b> <b>0.000298</b>
<b>z-score of difference between sub-periods in finance</b>	<b>0.4061</b>		<b>8.2785***</b>	
Exogenous demographic controls	Yes	Yes	Yes	Yes
Socioeconomic controls	Yes	Yes	Yes	Yes
Region & Year FE	Yes	Yes	Yes	Yes
Observations	14,522	13,370	14,522	13,370
Adj. R-squared	0.126	0.127	0.126	0.127

**Appendix Table A4: Changes in the professional environment in sub-periods**

This table reports results of analyses shown in Table 8 separately for the first and second half of the sample, i.e., 1978-1996 and 1997-2016. Specifications (1) to (6) present coefficients from OLS regressions that explore the correlation of generalized trust with different indicators of the professional environment in the finance industry as well as the U.S. population, while specifications (7) to (12) shows results from OLS regressions that explore the unconditional time trends on individual level of four measures that are defined in accordance with the variables used in the first three specifications. Robust t-statistics (in parentheses) are based on standard errors clustered by year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

<i>Dependent variables</i>	<i>Most people can be trusted</i>						<i>Highly educated</i>		<i>Non-white</i>		<i>Female</i>	
	Highly educated fraction		Non-white fraction		Female fraction		1978-1996	1997-2016	1978-1996	1997-2016	1978-1996	1997-2016
	1978-1996	1997-2016	1978-1996	1997-2016	1978-1996	1997-2016						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<b>Professional environment in Finance × In Finance</b>	<b>-0.872***</b> (-5.29)	<b>-0.759***</b> (-4.29)	<b>-1.158**</b> (-2.33)	<b>-0.914***</b> (-3.46)	<b>0.568</b> (0.95)	<b>0.392</b> (0.89)						
Environment outside Finance × Not in Finance	-1.369*** (-10.21)	-0.865*** (-3.62)	-1.792*** (-4.32)	-1.073*** (-4.00)	0.957 (0.54)	0.036 (0.03)						
<b>In Finance time trend</b>							<b>1.503***</b> (5.13)	<b>0.588*</b> (1.86)	<b>0.724***</b> (5.57)	<b>0.301</b> (1.18)	<b>-0.080</b> (-0.37)	<b>-0.207</b> (-0.69)
Not in Finance time trend							0.798*** (26.54)	0.355*** (5.02)	0.397*** (10.55)	0.313*** (7.77)	0.019 (0.30)	0.036 (1.02)
In Finance dummy	-0.008 (-0.15)	0.060 (0.57)	-0.089 (-1.24)	-0.041 (-0.76)	0.137 (0.13)	-0.232 (-0.24)	0.024 (0.78)	0.056 (0.67)	0.063*** (-3.80)	-0.003 (-0.04)	0.190*** (8.46)	0.197* (2.06)
<b>Difference p-value of difference z-score for difference between sub-periods in finance</b>	<b>0.497**</b> <b>0.0105</b>	<b>0.106</b> <b>0.681</b>	<b>0.634</b> <b>0.254</b>	<b>0.160</b> <b>0.514</b>	<b>-0.389</b> <b>0.840</b>	<b>0.356</b> <b>0.834</b>	<b>0.705**</b> <b>0.0115</b>	<b>0.233</b> <b>0.490</b>	<b>0.328**</b> <b>0.0159</b>	<b>-0.0114</b> <b>0.968</b>	<b>-0.0986</b> <b>0.705</b>	<b>-0.244</b> <b>0.462</b>
	<b>-0.4691</b>		<b>-0.4332</b>		<b>0.2370</b>		<b>2.1201**</b>		<b>1.4739</b>		<b>0.3472</b>	
Ex. demographic controls	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Socioeconomic controls	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Region FE	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Observations	14,522	13,370	14,522	13,370	14,522	13,370	23,841	25,321	23,894	25,357	23,894	25,357
Adj. R-squared	0.124	0.127	0.118	0.127	0.110	0.125	0.0131	0.00470	0.00431	0.00174	0.00578	0.00274

CFR working papers are available for download from [www.cfr-cologne.de](http://www.cfr-cologne.de).

2021

No.	Author(s)	Title
21-01	T. Bali, F. Weigert	Hedge Funds and the Positive Idiosyncratic Volatility Effect

2020

No.	Author(s)	Title
20-14	V. Agarwal, Y. Lu, S. Ray	Are hedge funds' charitable donations strategic?
20-13	M. Jagannathan, W. Jiao, R. Wermers	International Characteristic-Based Asset Pricing
20-12	E. Theissen, L. Zimmermann	Do Contented Customers Make Shareholders Wealthy? - Implications of Intangibles for Security Pricing
20-11	M. Hendriock	Implied Cost of Capital and Mutual Fund Performance
20-10	J. Fink, Stefan Palan, E. Theissen	Earnings Autocorrelation and the Post-Earnings-Announcement Drift – Experimental Evidence
20-09	E. Theissen, C. Yilanci	Momentum? What Momentum?
20-08	V. Agarwal, L. Jiang, Q. Wen	Why Do Mutual Funds Hold Lottery Stocks?
20-07	V. Agarwal, S. Ruenzi, F. Weigert	Unobserved Performance of Hedge Funds
20-06	M. Ammann, S. Fischer, F. Weigert	Factor Exposure Variation and Mutual Fund Performance
20-05	P. Limbach, P. R. Rau, H. Schürmann	The Death of Trust Across the U.S. Finance Industry
20-04	A. Y. Chen, T. Zimmermann	Open Source Cross-Sectional Asset Pricing
20-03	L. Ahnert, P. Vogt, V. Vonhoff, F. Weigert	Regulatory Stress Testing and Bank Performance
20-02	P. Schuster, E. Theissen, M. Uhrig-Homburg	Finanzwirtschaftliche Anwendungen der Blockchain-Technologie
20-01	S. Ruenzi, M. Ungeheuer, F. Weigert	Joint Extreme Events in Equity Returns and Liquidity and their Cross-Sectional Pricing Implications

2019

No.	Author(s)	Title
19-06	S. Greppmair, E. Theissen	Small Is Beautiful? How the Introduction of Mini Futures Contracts Affects the Regular Contract
19-05	G. Cici, M. Hendriock, A. Kempf	Finding your calling: Skill matching in the mutual fund industry
19-04	O. Korn, P. M. Möller, Ch. Schwehm	Drawdown Measures: Are They All the Same?
19-03	G. Cici, M. Hendriock, S. Jaspersen, A. Kempf	#MeToo Meets the Mutual Fund Industry: Productivity Effects of Sexual Harassment
19-02	T. Johann, S. Scharnowski, E. Theissen, C. Westheide, L. Zimmermann	Liquidity in the German Stock Market
19-01	A. Betzer, P. Limbach, P. Raghavendra Rau, Henrik Schürmann	Till death (or divorce) do us part: Early-life family disruption and investment behavior

2018

No.	Author(s)	Title
18-06	M. Goergen, P. Limbach, M. Scholz-Daneshgari	On the Choice of CEO Duality: Evidence from a Mandatory Disclosure Rule
18-05	F. Brochet, P. Limbach, D. Bazhutov, A. Betzer, M. Doumet	Where Does Investor Relations Matter the Most?
18-04	G. Cici, A. Kempf, C. Peitzmeier	Knowledge Spillovers in the Mutual Fund Industry through Labor Mobility
18-03	T. Rischen, E. Theissen	Underpricing in the Euro Area Corporate Bond Market: New Evidence from Post-Crisis Regulation and Quantitative Easing
18-02	S. Lesmeister, P. Limbach, M. Goergen	Trust and Shareholder Voting
18-01	G. Cici, M. Hendriock, A. Kempf	The Impact of Labor Mobility Restrictions on Managerial Actions: Evidence from the Mutual Fund Industry

2017

No.	Author(s)	Title
17-04	G. Cici, P.B. Shane, Y. S. Yang	Do Connections with Buy-Side Analysts Inform Sell-Side Analyst Research?
17-03	G. Cici, S. Gibson, R. Moussawi	Explaining and Benchmarking Corporate Bond Returns
17-02	S. Jaspersen, P. Limbach	Screening Discrimination in Financial Markets: Evidence from CEO-Fund Manager Dyads
17-01	J. Grammig, E.-M. Küchlin	A two-step indirect inference approach to estimate the long-run risk asset pricing model

this document only covers the most recent cfr working papers. a full list can be found at [www.cfr-cologne.de](http://www.cfr-cologne.de).





centre for financial research  
cfr/university of cologne  
albertus-magnus-platz  
D-50923 cologne  
fon +49(0)221-470-6995  
fax +49(0)221-470-3992  
kempf@cfr-cologne.de  
www.cfr-cologne.de