Trust – The Catalyst of Capitalism

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Trust Collapse Theory - the collapse of trust in times of wholesale information production

Imagine you see a news headline like „CEO announces company bankruptcy," „minister admits to scandal," or „expert in podcast claims tomorrow there will be a market crash." 50 years ago, people treated such news as certain, only some thought about the possibility of manipulation. Today, in the era of mass fake news and deepfakes, we increasingly wonder whether given information can be verified or confirmed and whether it's disinformation.

This publication is a kind of attempt to transfer George Akerlof's thoughts from „Market for Lemons" to the realities of the 21st century. For Akerlof, the problem was product quality hidden from the buyer. Today the problem is the credibility of information or even institutions, and information asymmetry no longer concerns only individual market transactions, but entire societies, which in my opinion can have fatal effects on the pace of economic and social development of states.

Less trust = Less investment/Higher costs = Slower development

From „Market for Lemons" to „Market for Fakes" and Trust Erosion Effect (TEE)

Akerlof described a simple and true mechanism: if the buyer cannot distinguish a „good car" from a „lemon," they stop paying for quality. As a result, good products disappear from the market because it's not profitable to sell them, only „lemons" remain. In the era of fake news and deepfakes, a similar mechanism operates at the information level. If the recipient cannot distinguish reliable content from manipulated content, they begin to treat everything as suspicious. This phenomenon is consistent with Timothy R. Levine's Truth-Default Theory (TDT), which assumes that in everyday communication we have a tendency to default to recognizing information as true. However, when the information environment becomes increasingly unreliable, triggers of suspicion begin to appear that change our attitude from trust to distrust.

This leads to a phenomenon I call **Trust Erosion Effect (TEE)**, systemic erosion of trust in information, institutions, and people, when the scale of manipulation is so large that discovering the truth becomes too difficult, time-consuming, or psychologically burdensome for most people. In this sense, TEE can be understood as the macro-scale effect of mass abandonment of the „truth-default" described in Levine's TDT. This results in a decline in consumer and/or social activity. Among other things, this means that consumers, not trusting market information, make fewer purchasing decisions, and potential investors avoid risks associated with uncertain information. In practice, this can lead to, for example, declining product sales, reduced investment in innovation.

An example might be counterfeits from Turkey or China, which for an ordinary person are almost indistinguishable from the original, leading to decisions like „I won't buy Nike shoes anywhere other than a Nike store." On the other hand, it could be an inventor who refrains from publishing a new invention because they believe no one will believe them anyway.

A similar mechanism is described in the RAND report „Truth Decay: An Initial Exploration of the Diminishing Role of Facts and Analysis in American Public Life" (2018) when facts lose weight, and disputes are increasingly fought „on opinions," the common frame of reference shrinks and trust in previously recognized sources declines. TEE looks at the same phenomenon from the economics side: lack of trust that raises the cost of every decision from „whether to click buy" to „whether to invest and take a risk" or even leads to consumer withdrawal from the market due to lack of ability to verify information, or past experiences. Fukuyama in his book „Trust: The Social Virtues and the Creation of Prosperity" (1995) writes that where trust is lacking, economic life must be „buttoned up" with contracts, control, and procedures, which means transaction costs increase. Putnam in his essay „Bowling Alone: America's Declining Social Capital" shows, in turn, that declining trust and social bonds weakens the propensity to cooperate, and without cooperation it's harder to achieve investments, innovation, and coordination on a large scale. In his text „Trust. The Foundation of Society" Prof. Piotr Sztompka hits the core of the psychological mechanism: trust is an „optimistic bet" made despite uncertainty; when this bet stops paying off, people switch to distrust mode, and distrust has its price in the form of supervision, safeguards, and lost opportunities.

„Trust Erosion Effect (TEE) - the invisible tax we all pay. In time, money, and lost opportunities."

Adversary Selection - designed asymmetry, not „natural"

The main cause of TEE is a phenomenon which for the purposes of this publication I will call **„Adversary Selection"** - the intentional creation and use of information asymmetry to achieve one's own benefits. The key difference from classical „Adverse Selection" is that today's information asymmetry is sometimes intentionally produced. It's not only about someone "having more information." It's about the entire information environment being organized to produce appearances of credibility: „independent sources," „experts," „grassroots opinions," which in practice reinforce one narrative. Such manipulations and structural asymmetries in information directly contribute to trust erosion, which is the central point of the Trust Erosion Framework (2025), authored by LaShonda Eaddy and Santosh Vijaykumar. TEF emphasizes that this kind of deliberate use of information to mislead leads to increased distrust and weakened social trust, because recipients begin to question

the truthfulness of even verified sources. In this context, TEF is a framework that explains how information manipulations lead to trust erosion, while TEE is the effect of this erosion - the decline in trust that affects social and economic activity. A similar mechanism to „Adversary Selection" was described by Vladimir Lefebvre in his „Reflexive Control," which George Soros later translated to market realities in his „General Theory of Reflexivity," although Lefebvre does not focus on information asymmetry, but on changing the opponent's choice.

This doesn't have to take the form of a spectacular operation. Sometimes a farm of accounts, a network of sites impersonating media, or a deepfake „proof" that circulates the network faster than a correction is enough. And sometimes it's unreliable or fabricated research on the basis of which products or standards are created.
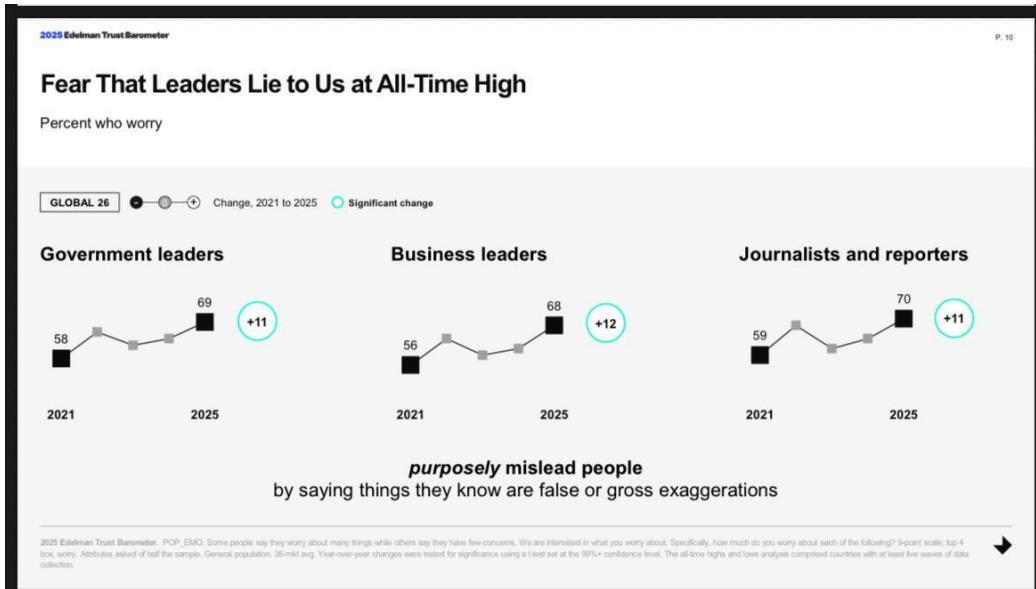
The case of Elizabeth Holmes, who misled investors by presenting false technology under the banner of Theranos, for which she is serving a prison sentence. This type of manipulation leads to the above-described TEE; one journalist even used the term Elizabeth Holmes Syndrome/Theranos Effect (Footnote1) regarding the decline in trust in women and innovation in the Bio-Tech industry. Investors who invested in her idea approximately $700 million USD will likely be averse to investing in new biotechnologies for the rest of their lives or will spend additional money on verification.

As another example of Adversary Selection-type manipulation, I chose the „Dieselgate" scandal associated with Volkswagen. It involved the company installing software in its cars that manipulated emissions test results, allowing them to meet standards in laboratories, but in reality emissions were much higher. The scandal shook the environment, and the company faced billion-dollar penalties. These frauds caused a decline in trust in car manufacturers, which could have affected a more cautious approach to investing in this industry.

Both scandals showed how manipulation of technical data can make verification of actual test results difficult; enormous resources are required to confirm or verify such research. If manufacturers can hide such frauds, how can we be sure that test results in other cases are real? Verification of each manufacturer becomes time-consuming and costly, leading to general lack of trust. In the face of such scandals, investors and consumers begin to wonder how many other manipulations may be taking place in the industry, resulting in reluctance to engage in it. Trust becomes crucial, and the lack of transparency and credibility results in discouragement from further investment and product purchases.

In reports like the Edelman Trust Barometer, one can see declines in trust in information sources and growing fear of deliberate misleading by leaders. The trend

is clear: the cost of trust is rising, and its supply is declining.

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Fear That Leaders Lie to Us at All-Time High

Percent who worry

GLOBAL 26 · ● ─ ■ ─ ⊕ Change, 2021 to 2025 · ○ Significant change

Government leaders	Business leaders	Journalists and reporters
69 +11	68 +12	70 +11
58	56	59
2021 2025	2021 2025	2021 2025

purposely mislead people
by saying things they know are false or gross exaggerations

2025 Edelman Trust Barometer. POP_EMO. Some people say they worry about many things while others say they have few concerns. We are interested in what you worry about. Specifically, how much do you worry about each of the following? 9-point scale, top 4 box, worry. Attributes asked of half the sample. General population, 26-mkt avg. Year-over-year changes were tested for significance using a t-test set at the 90%+ confidence level. The all-time highs and lows analysis comprised countries with at least five waves of data collection.

Fear that government leaders are lying to us increased by 11 percentage points compared to 2021, similarly the decline in trust in journalists and reporters also +11, and the graph concerning business leaders showed an even greater increase, which rose by as much as 12 percentage points compared to 2021. One can draw a simple conclusion: people trust leaders less than 4 years ago. This may be the result of large-scale manipulations related to conflicts in the world and the COVID-19 pandemic, which generated a lot of disinformation noise and polarized societies.

More data can be found in the report „The Trust Barometer 2025 edelman.com"

Economic cost of trust erosion - invisible, but real

When and why does lack of trust in information begin to cost real money to the point that people and companies prefer to give up a purchase, investment, or cooperation in a world of deepfakes and fabricated narratives?

The more effort, time, and tools needed to check „whether it's not fake," the more often people choose the simplest strategy: „I don't make a transaction, I don't invest, I don't enter into cooperation even if on paper it should be profitable." When a person sees enough manipulation (deepfakes, account farms, „experts from nowhere"), they begin to suspect everyone similar. Reliable sources get hit by ricochet because the recipient no longer has the strength to distinguish, and then good information ends up in the same basket as „lemons."

TEE is not just a problem of media or politics. It's an economic problem because trust is the fuel of the economy.

1. **Fewer transactions, less risk, less investment, lower earnings.** When the default attitude becomes „I don't believe," the propensity to make decisions under uncertainty decreases. And the economy is not a flawlessness contest, it's a system in which you need to be able to act despite risk.

2. **Higher transaction costs.** If buying gold through an ad requires an escalating list of safeguards (escrow, additional certificates, video verification, source validation), some people simply give up. The market works, but below potential.

3. **Inflation of procedures.** Organizations add more layers of reputation control, security, due diligence. This increases fixed costs. Large companies can still „bear" this, smaller ones get an entry barrier.

4. **Disappearance of common ground of facts.** When society has no basic agreement on what is fact, polarization grows and the ability to coordinate decreases. Also in economic matters, from energy transformation to education.

What can we do? – Counteracting TEE

If we look at TEE as if it were a tax, we can at least limit its amount as follows:

1. **Rigorous penalties for lies and manipulations.** Imposing high penalties, not only financial, on entities that deliberately publish false information.

2. **„Proof of Origin" of information** Video/audio materials/communications should have a clear source, consistent publication channels, and the possibility of quick verification.

3. **Instructions for recognizing deepfakes** That is, how to act in case of suspected deepfake? Who confirms authenticity? In what time? Through what channels? What does a „real communication" look like in 60 seconds? Ensuring media literacy education.

4. **Caring for mutual trust** Efforts to maintain norms of honesty and cooperation in society. Promoting transparency and reliability.

In response to the growing scale of disinformation and declining trust in media, institutions, and individuals, initiatives such as the Trust Erosion Framework (TEF) have emerged. TEF was created to manage and minimize the consequences of trust erosion in society, especially in the face of mass manipulation and spread of false information. According to this framework, the key goal is not only to identify sources of disinformation, but also to develop strategies that will allow for systematic rebuilding of public trust. TEF includes actions such as media literacy education, transparency of information sources, and introduction of content verification mechanisms to limit the impact of manipulation. In the context of TEE, TEF becomes a tool that allows fighting the growing problem of disinformation and false narratives, offering concrete solutions and procedures for rebuilding public trust, both at the individual and institutional level.

TEF authors LaShonda Eaddy and Santosh Vijaykumar indicate that factors leading to this erosion can be both „moderate," such as waves of disinformation, manipulation, communication errors, and extreme: global crises. As an illustration, they cite the World Health Organization's (WHO) response during the COVID-19 pandemic, showing how a health crisis combined with chaotic communication and disinformation accelerated the process of social trust erosion.

Thanks to TEF, we can therefore look at TEE not only as a passive effect of mistakes or deliberate information chaos, but as a dynamic and modelable process. Requiring active, multidimensional actions: transparent communication, verification systems, accountability for content, and engaging recipients.

A good complement to fighting Trust Erosion Effect would be a „World Credibility Organization," an independent institution that uses the latest technologies and verifies disputed content and impersonation of experts. Such actions could be translated into a simple, publicly available Credibility Index. Entities (companies, institutions, media, politicians) would start with a neutral score, gaining points for confirmed reliability and transparent corrections, and losing them for documented disinformation or misleading. Such a ranking does not replace debate but lowers the cost of verification for the recipient, creates a real reputational price for manipulation, and a premium for honest communication standards.

Summary

Akerlof showed that with large information asymmetry, „lemons" spoil the market. In the 21st century, the „lemon" is sometimes not the product, but information itself. If we don't build cheaper ways of verification and higher costs of manipulation, trust will become a luxury good, and the economy will pay for it with slower development.

Referring to Levine's TDT about default trust, it's worth noting that previously societies relied on the assumption that most information is true. Today this attitude is no longer so certain; people increasingly believe less in everything that reaches them. As Levine indicates, growth in social trust and the number of both social and economic interactions is only possible when „truth-default" prevails in society, i.e., the default assumption that information is true. My publication focuses not on media, but on the economic costs of a world in which trust in information ceases to be the default setting, for which we all pay an „invisible price." In the future, we should collectively fight the TEE phenomenon by maintaining „norms of honesty" and, for example, creating organizations to fight disinformation or systems like the Trust Erosion Framework and using the latest technologies to quickly detect manipulation on the internet. Information has long since become a commodity, nowadays produced on a mass scale. The challenge of 21st-century societies will not be its lack, but reducing the cost of reaching it and selecting the true one.

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Very interesting publication on this topic „Can Fighting Misinformation Have a Negative Spillover Effect?" "Toni G. L. A. van der Meer, Michael Hameleers, Jakob Ohme https://refubium.fu-berlin.de/bitstream/handle/fub188/39409/Can Fighting Misinformation Have a Negative Spillover Effect How Warnings for the Threat of Misinformation Can Decrease General News Credibility.pdf;jsessionid=7D3D200BA1528C319B66089AF6AC5EFF?sequence=2

„Trust, the catalyst of capitalism - Trust Collapse Theory" - describes the consequences of contemporary information asymmetry and the phenomenon of Adversary Selection, i.e., the deliberate selection of seemingly independent individuals, entities, or „experts" to manipulate the perception of credibility. According to the theory, these actions, combined with the growing scale of disinformation, fake news, and deepfakes, lead to the emergence of the Trust Erosion Effect (TEE) - a systemic decline in social trust.

Adversary Selection - is a phenomenon consisting of the intentional creation and use of information asymmetry to achieve one's own benefits.

Trust Erosion Effect - is a phenomenon resulting from large-scale and repeated information manipulations in the 21st century, such as Adversary Selection. This effect manifests when individuals' trust in information, institutions, and other people drops to a level where they begin to question the information reaching them, which leads to disruption in market functioning and intensification of social problems.