

Barak Richman

**Duke University
Law**

The Mechanics of Statelessness: Peering Into the Diamond Industry and the Institutions of Trust-Based Exchange

This chapter, to appear in a book entitled STATELESS COMMERCE: DIAMOND DEALERS, ETHNIC TRADING NETWORKS, AND THE PERSISTENCE OF RELATIONAL EXCHANGE, describes the distinctive set of industry, family, and community institutions that enables "trust-based" exchange in the diamond industry. Success in the diamond industry requires the ability to enforce executory agreements that are beyond the reach of public courts, and most commentators say that mutual trust is responsible for enabling diamond dealers to extend credit to each other. This chapter scrutinizes that claim and examines what underlies continued reciprocal trust among merchants, especially when cheating (i.e. stealing diamonds) is both quite easy and enormously lucrative. The chapter describes (1) an industry arbitration system that publicizes promises that are not kept, (2) Intergenerational legacies that induce merchants to deal honestly for long time horizons, including through their very last transaction so their children may inherit valuable livelihoods, and (3) Communities of ultra-Orthodox Jews, for whom participation in their communities is paramount, provide important value-added services to the industry without posing the threat of theft and flight. These three features enable merchants to make credible promises to be trustworthy and have enabled the industry to sustain itself for generations.