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The Link Between Social Trust and Economic Prosperity

Introduction

Fostering trust among citizens is an important goal of all levels of government. A lack of trust can make economic transactions more difficult and negatively affect societal wellbeing. The body of research on the relationship between trust and economic growth, as well as the other variables that play a role in this interaction, can give policymakers valuable insights into how to govern more effectively.

In his 1972 article "Gifts and Exchanges," Kenneth Arrow makes the well-known claim that "virtually every commercial transaction has within itself an element of trust" (Arrow, 1972, p.357). This statement provides the foundation for an important area of research that focuses on the relationship between the amount of trust among members of a society and the effectiveness of that society's economy. In many ways, trust among members of society is what allows a society to function, and nowhere is this more apparent than in political and economic institutions. Because of the importance of trust, researchers across a variety of fields have studied trust and its effects on different aspects of human interaction.

Scholarship on the nature of the relationship between generalized trust and economic prosperity is complex. One of the primary debates is whether the direction of causality flows from trust to economic growth or the other way around. Secondarily, there is a body of research on other antecedent or intervening variables that may play a role in this relationship.

Economists have conducted studies to examine this relationship empirically and to provide evidence of the relationship between trust and economic prosperity. The consensus among researchers is that there is a strong positive relationship between trust and economic growth. Scholars in this field have also done interesting work that inspects potential causal mechanisms to explain this relationship.

This brief describes the multifaceted relationship between trust and economic prosperity, the variables that may influence this relationship, and the important takeaways that policymakers and practitioners should remember.

Generalized Trust

One of the difficulties scholars face in studying an abstract concept such as trust is deciding how to operationalize the concept as a variable that researchers can use in empirical studies. Many scholars have accomplished this operationalization through a measure called "generalized trust," employed by asking survey participants a question such as "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" Survey respondents can answer with a form of either "Most people can be trusted" or "I need to be very careful." These responses help inform what portion of society's members are trustful of others. As one can infer from the survey question above, generalized trust measures the level of trust an individual has in members of society *as a whole*. This concept can be contrasted with another operationalized trust variable, "particularized trust," or the feelings of trust an individual has toward those they are connected with through family ties or other similar associations (Bjørnskov, 2006; Carl and Billari, 2014).

For example, Brückner et al. (2019) use the generalized trust measure to study the relationship between trust and national income, while also examining potential explanations of this connection. They find a strong positive correlation between national income and trust. The authors note that "a one percent increase in national income tends to cause an average increase of one percentage point (or more) in the likelihood that a person becomes trustful" (Brückner et al., 2019, p.1). The study finds that this association is even more prominent among individuals with lower socioeconomic status. Increases in national income tend to have a larger impact on the trust levels of those with lower incomes or lower levels of education compared to their wealthier or more educated peers.

In a 2009 study, Dincer and Uslander point out that many previous studies have found the link between trust and growth to be strong in less developed economies. Their analysis builds on this link by showing that the same relationship holds in a highly developed nation, the United States. Their evidence concerning 10 U.S states suggests that a 10-percentage-point increase in the level of trust is associated with an increase in the GDP growth rate of 0.5 percentage points.

Governance and Education

The relationship between trust and economic growth cannot be viewed independently. Several other essential variables may influence this relationship, some relating to individual citizens and others to societies or governing structures as a whole. In particular, an individual's level of education and the strength of governing institutions are important considerations to help understand the complex trust and growth relationship.

In a sweeping study of 85 countries, Bjørnskov (2009) examines governance and education as potential factors in the relationship between trust and growth. In addition to using years of schooling, the study employs a measure of education that includes data on the average intelligence quotient, percentage enrolled in secondary school and percentage that have completed a secondary education. The author operationalizes governance using a rule of law index, developed by Kaufmann, Kraay and Mastruzzi in a World Bank report (2003), which measures society's confidence that other residents will obey laws and that the judicial branch of government will be effective in enforcing laws and contracts. Bjørnskov concludes that governance and education serve as intervening variables in the relationship between trust and growth: Countries with higher levels of social trust tend to have more educated populations and stronger governing institutions. Education, rule of law, and government expenditures all have positive effects on the investment rate, and education and rule of law have positive effects on the growth rate.

Similarly, Carl and Billari (2014) explore a related explanation for the relationship between economic prosperity and trust. Their study examines the link between intelligence and generalized trust and looks at whether this link could help explain the correlation between productivity and trust. Their study measures intelligence by evaluating the verbal ability (using a vocabulary test) and question comprehension of survey participants. This analysis finds that individuals who have higher levels of intelligence also tend to be more trusting and that intelligence may help explain a significant amount of the relationship between trust and economic development.

Trust and Taxes

Societal trust is also imperative for tax morale, which directly affects the overall economic prosperity of a jurisdiction. In an investigation looking at the relationship between trust in government and tax morale, Koumpias et al. (2020) find that governmental expenditures play a pivotal role. Trust in governmental organizations that deliver goods and services had a larger impact on tax morale than "input-side organizations," such as the legislative or executive branches of government.

When it comes to education and economic growth, a report by Hanushek et al. (2008) examines this relationship using educational data from 50 countries. The authors argue that the best measure of educational attainment is standardized test scores as opposed to the popular measure of years of educational attainment. Using standardized test scores as a proxy for education, the authors find evidence that improving a country's educational system leads to significant increases in GDP growth.

Charron and Rothstein (2016) also examine potential factors that could be a part of the causal pathway between social trust and economic prosperity. They test four factors that are prevalent in the literature on trust: the quality of government institutions, civic participation, ethnic diversity and economic inequality. High-quality institutions are defined as those that fairly distribute public goods and exhibit low levels of corruption. By examining variations across different regions of 24 European countries, their study finds that the quality of institutions has a significant impact on trust levels.

Inequality

Another important aspect related to trust and prosperity is the relationship between trust and economic inequality. Hu (2017) takes an innovative approach to this question by looking at subjective inequality, or people's perceptions of how equally (or unequally) governments distribute resources. In one particularly interesting finding, the author notes that only a weak correlation exists between objective and subjective inequality, meaning that citizen's views of how unequal society is does not necessarily line up with quantitative measures of inequality. Regarding generalized trust, Hu concludes that trust is lowest among individuals who think that there is significantly too much inequality and individuals who think that there is not enough inequality to motivate workers. Those who think that the current amount of inequality is closer to the ideal balance are more likely to be trusting.

Likewise, Bjørnskov (2007) also finds that income inequality has an impact on trust. In an study that includes a wide range of variables, Bjørnskov notes that objective income inequality is one of the few significant predictors of trust levels—higher levels of income inequality lead to lower levels of generalized trust in society.

Crime and Corruption

Corruption is a sign of an unhealthy, ineffective and untrustworthy government. Brückner et al. (2019) show that crime and corruption play a critical role in the link between economic growth and societal trust. They find evidence that increases in economic prosperity tend to lead to decreases in the crime rate and that these decreases in crime may then lead to higher levels of trust. Their analysis shows that this relationship exists for all three measures of crime they test: robbery, car theft and assault.

The study by Brückner et al. also examines the effects of GDP per-capita growth on corruption levels and finds that as GDP increases, corruption tends to go down. The findings linking decreases in crime and corruption to increases in economic prosperity, and therefore increases in generalized trust, can help us untangle the complex causal pathways of the relationship between these variables.

Research on corruption shows that an effective judicial system can also help reduce government corruption, and in turn increase economic growth. In an international study of developing and transitioning economies, Chong and Cozzubo note that "not only does a well-functioning judicial system support the protection of human rights, facilitate the resolution of disputes, and help hold governments accountable, it also protects property rights, encourages investment, and promotes economic growth" (Chong and Cozzubo, 2019, p.1). They find evidence that countries that implemented judicial reforms tend to have lower levels of corruption following the reform.

Overall, the research on trust and economic prosperity can inform the decisions of policymakers looking to improve economic growth and citizens' trust—as well as improve inequality and the overall wellbeing of their constituents. Improving social trust has the potential to play a significant role in achieving these goals, and government entities have tangible steps they can take to create a more trusting society. While the literature on the links between economic growth, trust and related variables—such as education and inequality—reveal an intricate web of influencing factors, certain themes emerge that suggest several pathways for improving trust across local, state and national jurisdictions.

Considerations for Policymakers

The literature on the link between social trust and economic prosperity has not formed a clear consensus on the exact nature of this relationship. This ambiguity may leave policymakers unsure about how research on trust and growth can help them make decisions that are best for their constituents and the long-term health of the jurisdictions they govern. However, several consistent themes can provide lessons for policymakers involved with governments of all types.

1. RESEARCHERS GENERALLY AGREE THAT SOCIAL TRUST AND ECONOMIC PROSPERITY MARCH IN LOCKSTEP.

When trust goes up, economic indicators tend to go up as well, and the opposite is also true. Without clear evidence of the causal direction of this relationship, it may be most helpful to think of these two variables as mutually reinforcing and feeding back into each other.

2. AS THE RESEARCH ON INEQUALITY SHOWS, THERE ARE WAYS THAT ECONOMIC DEVELOPMENT COULD HURT SOCIAL TRUST.

If development leaves certain segments of the population behind while disproportionally benefitting a small group at the top (or if a significant group of citizens perceives this to be the case), this unequal growth can damage societal trust. Keeping these findings in mind may help policymakers make decisions that can increase trust while promoting responsible and sustainable economic development.

3. FIGHTING CORRUPTION AND CREATING STRONG AND FAIR GOVERNING INSTITUTIONS FEATURE PROMINENTLY IN MUCH OF THE RESEARCH ON TRUST AND GROWTH.

Policymakers may be able to improve trust and overall welfare by looking for ways to increase government transparency and limiting the potential for corruption. While there are myriad ways that governments can accomplish these goals, making government documents and other information readily available to the public in easy-to-digest formats is a good starting point.

Conclusions

Building a prosperous society in which residents have high levels of trust toward one another is a goal for any elected official or government decisionmaker. Research on trust and economic prosperity highlights the complex nature of society and the economy, but the two measures appear to be related and positively coordinated. The good news for policymakers looking to increase economic growth and create a trusting society is that they may not need to choose one or the other. In many circumstances, they have the opportunity to pursue these goals in tandem with the same policy mechanisms.

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- “Trust in Government Institutions and Tax Morale” by Antonios M. Koumpias, Gabriel Leonardo and Jorge Martinez-Vazquez (2020)

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