



Social capital and political institutions: Evidence that democracy fosters trust



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HIGHLIGHTS

- This paper presents evidence that democracy fosters trust.
- Second generation immigrants in Europe with ancestries from 115 countries are studied.
- The results are robust to individual, parental, and ancestral country controls.
- The results suggest that less hierarchical political institutions promote trust.
- The mechanism is that institutions shape beliefs that are diffused across generations.

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ABSTRACT

This paper finds evidence that more democratic political institutions increase trust. Second generation immigrants with ancestries from 115 countries are studied within 30 European countries. Comparing individuals born and residing in the same country, those whose father was born in a more democratic country express higher trust than those whose father was born in a less democratic country. The results are robust to individual, parental, and ancestral country controls.

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1. Introduction

This paper estimates how political institutions shape trust, a culturally transmitted belief. I estimate how beliefs imparted by more democratic institutions are transmitted across generations and shape trust. Second generation immigrants across Europe are studied. The trust of immigrant groups, within country of birth, is related to the democratic institutions in their ancestral country.

The 115 ancestral countries offer a wide range of political institutions.

The method combines the approaches of [Algan and Cahuc \(2010\)](#), who relate trust of immigrants in the US to trust in their home countries and [Tabellini \(2010\)](#) who studies how political institutions shape trust at the regional level. This paper studies how individual trust attitudes are shaped by political institutions.

The analysis adds evidence to [Putnam's \(1993\)](#) hypothesis of a positive relationship between political institutions and social capital. In this vein [Guiso et al. \(2008\)](#) study how ancient city-states affect social capital across Italy. Yet, neither [Guiso et al.'s \(2008\)](#) nor [Tabellini's \(2010\)](#) analysis can distinguish if the location or population matters for their findings. The evidence presented below indicates that the population is important as the individuals studied are not exposed to the political institutions directly, as they live in

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different locations. The exposure is only indirect through cultural transmission in the family.¹ Moreover, the analysis below focuses on how trust is shaped based on the father's ancestry, which complements the analysis of how the mother's ancestry shapes trust in Ljunge (2012a) where ancestral trust is the important factor.

This paper contributes to a small but growing literature on how more horizontal interactions between individuals and less hierarchical institutions promote trust. The literature has found higher trust when there is less religious hierarchy (Guiso et al., 2006), less hierarchical language structure (Tabellini, 2008), more horizontal teaching practice (Algan et al., 2013), more community involvement (Algesheimer et al., 2012), less surveillance (Jacob and Tyrell, 2010), and more economic freedom (Knack and Zak, 2003; Aghion et al., 2010; Berggren and Jordahl, 2006). This paper finds a positive relationship between trust and more political freedom.

2. Empirical specification

The analysis is based on ordinary least squares regressions of the following form²:

$$\text{Trust}_{icat} = \beta_0 + \beta_1 \text{Democracy_Index}_a + \beta_2 X_{icat} + \gamma_{ct} + \varepsilon_{icat} \quad (1)$$

Trust_{icat} captures the trust of individual i , born and residing in country c with a parent born in country a , and $a \neq c$, in period t . This regression is run on a sample of second generation immigrants. The degree to which political institutions are democratic in the ancestral country, Democracy_Index_a , is common to all individuals with a father born in country a . X_{icat} captures individual demographic and economic controls that may affect trust. The country of birth-by-year fixed effect is denoted by γ_{ct} , and ε_{icat} is the error term. All standard errors are clustered by the father's birth country to allow for arbitrary correlations of the error terms among individuals with the same ancestral country.

Model (1) addresses reverse causality since the trust of a person born and residing in country c cannot plausibly affect how democratic political institutions are in the father's birth country a . Confounding factors are of course a concern so it is important to include an extensive list of individual controls in X_{icat} . The inclusion of the country-by-year fixed effect γ_{ct} means that the institutional structure and all other unobserved influences which apply to all residents in country c in period t are accounted for. It also means that the variation used to identify the estimate on ancestral trust is to compare the outcomes of second generation immigrants within each country of residence and year relative to the democracy index in their countries of ancestry. Since the country fixed effects are included for each year they account for non-linear trends that may differ across countries. Fernandez (2010) discusses the method in more detail.³

3. Data

The main data set is the European Social Survey (ESS), where the second to fifth rounds are pooled.⁴ The survey includes information on the country of birth of the respondent as well as the country of birth of the father.⁵ It is possible to identify second generation immigrants and which countries their fathers originate from. Looking at 30 countries of birth (and residence) for second generation immigrants reduces the concern that the results are driven by conditions in one particular country. Individuals with ancestry from

115 countries are observed.⁶ This reduces the concern that the results are particular to a small number of ancestral backgrounds. The summary statistics are presented in Table 1. The second generation immigrants are similar to the native population on observables.

3.1. Individual trust

Generalized trust for the individual is measured with the standard trust question, "Using this card, generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?" The respondent is asked to respond on a scale, "Please tell me on a score of 0–10, where 0 means you can't be too careful and 10 means that most people can be trusted".⁷

3.2. Political institutions in the father's country of birth

Political institutions in the father's country of birth are measured by the polity2 variable from the Polity IV project.⁸ The variable takes on values from –10 for strongly autocratic to +10 for the most democratic political institutions (–9 is the lowest value observed in the sample). The democracy measure can be matched with second generation immigrants from 115 nations in the ESS.

3.3. Individual variables

The ESS includes a rich set of individual controls. Age, gender, marital status, education, employment status, and religious affiliation are observed. Marital status is captured by two dummies for married and never married, with widowed and divorced being the excluded category. Education is captured by one dummy for tertiary (university) degree and above, and one dummy for upper secondary as the highest attained degree. Lower education is the excluded category. One dummy captures individuals who are out of the labor force (students, not employed and not looking for work, and retired) and another dummy for unemployed who look for work. Those employed are the omitted category. I create one dummy for the bottom three income deciles (within country), Low Income, and one dummy for the middle four deciles, Middle Income. Religion dummies for being a Catholic, a Protestant, or an Orthodox are included while other religious denominations are in the excluded category.

3.4. Additional ancestral country characteristics

Ancestral country political institutions, the variable of main interest in the analysis below, are related to other ancestral country characteristics. Ancestral country trust is computed as averages by country across the waves in the integrated European/World Values Survey.⁹ The log of the ancestral country's gross domestic product (GDP) per capita is used to measure the effect of ancestry from a more developed nation. The data is from the World Development Indicators.¹⁰ To account for ancestral institutional influences I use rule of law measure in the Worldwide Governance Indicators (WGI) from the World Bank.¹¹ The measure of how important politics is in life is country averages across the waves in the integrated European/World Values Survey.

¹ This result aligns with Putterman and Weil (2010) who find that populations and not locations matter for economic development.

² The results are robust to using the ordered Logit or the ordered Probit estimator.

³ For an application of the method, see for example Ljunge (2012b).

⁴ See Table A.1 for the participating countries in each round. The first round does not include information on parental birth country.

⁵ Extensive documentation of the data is available at <http://ess.nsd.uib.no/>.

⁶ Political institutions can be linked to immigrants from 115 countries but other ancestral country variables are available for fewer countries.

⁷ Johnson and Mislin (2012) provide experimental validation that trust elicited by the trust question correlate with trusting behavior.

⁸ For details on the measure see <http://www.systemicpeace.org/polity/polity4.htm>.

⁹ Extensive documentation is available at www.worldvaluessurvey.org.

¹⁰ I use data compiled by Samanni et al. (2010) as the source for these ancestral country characteristics.

¹¹ Data and documentation are available at <http://www.govindicators.org>.

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