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Interpersonal trust and welfare state support

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ABSTRACT

The economic importance of the welfare state has increased strongly over time, which has generated a vast academic literature studying the determinants of (preferences towards) redistribution. This article argues that citizens' trust in their fellow citizens can play a central role for welfare state support, because it buttresses the belief that others will not use the welfare system inappropriately. Using the fourth wave of the European Social Survey, we confirm a strong positive association between interpersonal trust and welfare state support (controlling for institutional trust). We also show that: i) this link is driven at least in part by the mechanism discussed above; ii) causality runs from interpersonal trust to welfare state support (using a sub-sample of second generation immigrants); and iii) the effect of interpersonal trust appears conditional on the perceived quality of a country's institutions.

1. Introduction

The economic importance of social welfare programmes has increased strongly over time. For instance, total social spending in OECD countries rose from an average level of 6% of GDP in 1960, to an average just under 22% in 2012 (see http://stats.oecd.org). As redistributive public policies require "*individual* support for taxing higher incomes more heavily and targeting expenditures to social need" (Costa Font and Cowell, 2013, 3, italics added), numerous scholars have analysed public support for income redistribution. Most thereby rely on hypotheses derived from either self-interest or political ideology (Esping-Andersen and Myles, 2011; Costa Font and Cowell, 2013). The former holds that individuals directly benefiting from a given public service — such as the socially vulnerable in the case of welfare policies — support it relatively more (Alesina and La Ferrara, 2005; Hays et al., 2005; Mayda and Rodrik, 2005). This view is also reflected in formal models of redistribution based on the median voter theorem (Meltzer and Richard, 1981; Moene and Wallerstein, 2001, 2003). The second perspective concentrates on individuals' ideological convictions. Left-leaning individuals are thereby typically seen as more in favour of redistribution, although their ability to achieve these higher preferred levels of redistribution is likely to be mediated by the effective legislative power of left-wing parties (Freier and Odendahl, 2012; Fiva et al., 2014; Folke, 2014).

In two interesting recent contributions, Rothstein et al. (2012) and Svallfors (2013) argue that public support for social welfare policies is affected by citizens' trust in the institutional fairness and effectiveness of the procedures that regulate the production

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and distribution of public goods. The underlying argument goes back to the importance of *procedural justice*, whereby citizens must believe that public goods are produced and distributed in an impartial and efficient way (Rothstein, 1998).[1]

Our main contribution lies in focusing on the potential relevance for welfare state support of *interpersonal trust* among the members of a given community (over and above *institutional* trust). While interpersonal trust has previously been linked to, for instance, economic growth (Knack and Keefer, 1997), financial development (Guiso et al., 2004) and international trade (Guiso et al., 2009), its potential significance for welfare state support has thus far been mostly disregarded. This, we argue, is unjustified. The reason is that public policy programmes are generally implemented through continuous and repeated interactions between institutions and citizens, as well as among citizens. Consequently, public good provision is likely to be deficient when citizens do not cooperate and "co-produce" public goods (Parks et al., 1981, 1002; see also De Witte and Geys, 2013). Support for social welfare policies thus will at least in part reflect one's belief in the trustworthy and cooperative nature of one's fellow citizens — as this determines one's expectations concerning a *just distribution of the burden* of public policies (Rothstein, 1998). Since individuals engaging in disruptive activities (such as cheating, free riding or tax evasion) can undermine public good provision independent of institutions' quality, support for social welfare policies requires the trust that one's fellow citizens abstain from such disruptive behaviours. As 'interpersonal trust' refers to the expectation of "honest and cooperative behaviour (…) on the part of other members of [one's] community" (Fukuyama, 1995, 26), the above line of argument leads to the hypothesis that, all else equal, trusting individuals will be more likely to believe that others do not misbehave in dealing with public goods (i.e. in the sense of exploiting the system to achieve benefits they are not entitled to, or avoiding payments they should normally endure). Relative to less trusting individuals, this bolsters their support for social welfare policies.[2]

Our central line of argument is reminiscent of moral hazard problems that can arise when good and adverse outcomes in life depend on personal decisions about self-reliance (Hillman, 2009, 541–543). If the decision to invest high or low effort in self-reliance in such a setting is private information, the level of public welfare provision can become inappropriate when people choose low effort at self-reliance even though they could, in principle, be self-reliant. A similar problem in terms of an inappropriate level of public welfare provision can arise even without asymmetric information, as originally pointed out in Buchanan's (1975) article on the Samaritan's dilemma. In a high-trust environment, however, such Samaritan's dilemma would not arise *if* the high level of trust were justified (i.e. a fixed-point type equilibrium with a high level of public welfare provision would be sustainable). Basically, the central role of interpersonal trust in this framework becomes buttressing the belief that, if you support the welfare state, you can trust people *not* to put you in a situation where you make the error of giving money to people taking advantage of your goodwill.

Interestingly, a similar prediction — i.e. a positive relation between trust and support for social welfare policies — can also be inferred from the experimental economics literature employing public good games (PGG) to measure trust and cooperative behaviour (Karlan, 2005; Carpenter and Seki, 2011; Fehr and Leibbrandt, 2011; Thöni et al., 2012). Since each player in a PGG benefits from the donations of others, there exists an individual-level free-riding incentive *even though* a higher total level of contributions benefits the group as a whole (for more details on PGG, see Ledyard, 1995). In equilibrium, larger contributions to the public good thus reflect higher expectations of reciprocal cooperation, because only players believing that others will do the same should contribute (Karlan, 2005; Carpenter and Seki, 2011; Fehr and Leibbrandt, 2011; Thöni et al., 2012). Within the confines of a PGG, contributions to the public good can therefore be interpreted as support for social welfare policies (i.e. paying a little into the system such as to make everyone better off). This implies a positive association between trust and support for the welfare state.

Although such proposed link between trust and welfare state *support* has thus far been neglected, two recent studies explore the link between trust and welfare state *size* (Bergh and Bjørnskov, 2011, 2014). Bergh and Bjørnskov (2011) establish that historical levels of trust are causally related to the current size of the welfare state. This finding is further substantiated in Bergh and Bjørnskov (2014), which points out the lack of evidence for a reverse relation running from welfare state policies to trust. Our argument can be seen as complementary to Bergh and Bjørnskov (2011, 2014). Indeed, by evaluating the effect of trust on welfare state *support*, we look into one plausible mechanism explaining the link between trust and welfare state *size*.

Aggregate-level data appear in line with our central hypothesis. In Fig. 1, we plot expenditure on social benefits and services as % of GDP in 2012 for 34 OECD countries on the x-axis. The y-axis shows the share of individuals in those same countries agreeing that "most people can be trusted" (data taken from the World Value Survey). In line with our key proposition, the raw correlation between both variables is positive and statistically significant at conventional levels ($r = 0.36$; $p < 0.05$).

Yet, as outlined above, public good provision results from a close cooperation between citizens and institutions. Therefore, even if citizens do not abuse the welfare system, the final outcome — in terms of welfare provisions — might not satisfy their expectations when institutions do not reciprocate citizens' behaviour. Under such a scenario, the positive effect of interpersonal trust on social welfare support would only arise *conditionally* on the (perceived) quality of public institutions. This supplementary hypothesis is closely linked to Svallfors' (2013) argument that individuals' egalitarian attitudes and beliefs only foster support for the welfare state conditionally upon institutions' impartiality and efficiency.

In the remainder of this article, we verify the main implications of the above discussion using the fourth wave of the European Social Survey. The analysis generates four key insights. First, we find that trust is significantly *positively* correlated with support for

[1] This same line of argument has also been brought forward in studies maintaining that individuals' trust in EU institutions is a critical determinant for EU support in general (Sanchez-Cuenca, 2000) as well as for specific EU policies (Daniele and Geys, forthcoming).

[2] Unless otherwise specified, our use of 'trust' throughout the remainder of the manuscript refers to *interpersonal* rather than *institutional* trust. Note also that such hypothesised positive connection between trust and public policy preferences is not entirely without precedent. Yamamura (2012), for instance, relates community participation to preferences for inequality, arguing that rich people are more likely to favour redistributive policies when they can perceive a direct gain in terms of "an improvement in the evaluation from the neighbouring people" (Yamamura, 2012, 500).