Configuring the World: A Critical Political Economy

Readings Week Two: Trust

The readings for the course are mainly formed by extracts from the draft chapters of the book by the same name which I was writing before the recordings started for the MOOC. The script of the MOOC was between April/May 2014 and recorded in May/June. A surprising amount of information was released in those months which I have not yet been able to incorporate into the text. In some respects, therefore, the MOOC is more up-to-date than the information in these drafts. Whenever this is the case, I will point to the details in the draft chapters. One final comment, some of the source referencing still needs completion (especially the bits that are familiar to me…of course, not necessarily to you) for which I offer my apologies. Finally, remember that all the statistics exclude countries with populations below 1.5 million.

Contents:

Trust

In 1995 three economist reported the results of an experiment in behavioural economics that they had developed. In the game, the subjects (students from the University of Minnesota) were taken to a room and given an attendance fee of $10. They were then told that they could, if they wished, give-up some of the money, which would then be trebled and given to an unknown subject in another room. This person, in turn, could decide how much to keep and how much, if any, to return to their counterpart. Logically, one should send nothing since it is the same a giving money away to a stranger with no guarantee of return. On the other hand, one might impute a recognition of one's own generosity and the expectation of a reciprocal action that would leave you both better-off than before. In the experiment, with no basis on which to make an assessment, thirty of the thirty-two participants sent money, and an average of $5.16 each, demonstrating that a measurable degree of trust existed in this group. The game was also played in a version that allowed it to be 'repeated' in order to detect the role of 'learning' in influencing behaviour (Berg, Dickhaut and McCabe 1995). In variation on the original design, the game has also been reported in Harvard in which the pairs actually introduced to each other before hand, the intention being to examine the impact of the character of the relationship on the game (Glaeser, Liabson, Scheinkman and Soutter, 2000). Since it was first devised, the 'investment game' has been played among different settings and in different countries, and with different 'social groups'. The results of the proportion of players willing to 'risk' part of their funds' and the share of their 'fee' that they were willing to risk, have been employed as an indicator of trust in a society. A recent survey recorded 162 experiments with 23,000 participants located in 35 countries (Johnson and Meslin 2011).

Another variant of the game incorporated a kind of 'donation' in which part of the 'profit' went into a communal fund to be distributed later among the competitors. What these games discovered was that a willingness to contribute was initially higher than predicted, but that, with repeated rounds, the contributions declined as participants chose to 'free ride" (Chaudhuri, 2011). When the original game was repeated in a different setting, for example, by not using non-students, the levels of participation were lower. This implies that the students in the original experiment supposed that their 'unknown' counterparts were fellow students and that this induced implicit assumptions about their behaviour. Similarly, when the

potential amounts risked in game were raised from $10 to $50 or $100, the levels of 'trust' observed also declined (Johnson and Mislin, 2011).

In another often cited experiment, initiated by the *Readers' Digest*, a wallet containing $50 and the name and address of the owners, was dropped in different cities, and the numbers returned were recorded. These results have also been used as a proxy for 'trust' in society (Knack 2001, 18-19).In this case, however, we should note that this is likely to be more of a reflection of trustworthiness rather than trust, and there is not necessarily a relation between the two.

Personal Trust and Generalised Trust

'Trust' is the word we use, to define a relationship between individuals and between social groups. This immediately brings us to a vital distinction, because the one concept contains two different elements that may or may not be connected: a trust in friends, family and other people individually and a trust in institutions, or informal or formal groups, in society. Although we use the same concept, we use it in two different dimensions, and many of the problems associated with trust as a concept derives from this. What does trust mean? On the level of the individual, it means that you believe that others will not lie to you, that they will not misrepresent things to you or mislead you in any way, and presumably that they will be fair in their dealings with you. At the individual level, this is often referred to as 'interpersonal trust'. A rather different form of trust is the trust one has in institutions and the way that institutions work. This is rather more difficult as a concept. The question is not the same as asking whether one trusts a particular government that is in power at the time, since those who did not vote for the parties in government would probably answer negatively. Instead, what is asked is whether one has trust in that the institution that allows a choice in government in the first place. For example, most Americans are proud of the US system of government even if the country is torn in two over its party politics. This dimension of trust is referred to in the literature as 'generalised trust'.

The idea of trust has been present in the political science literature since the 1950s, but it did not gain prominence until it became caught up with a new concept called 'social capital'. Growth economists had conceived the idea of 'human capital' in the 1950s as part of an effort to explain productivity. 'Human capital' meant that workers no longer seen as an amorphous

undifferentiated group putting their 'hours' into the production process, but rather that they were endowed with acquired skills that enhanced their contribution to the economy. In measuring this, economists did not get much further than counting years of secondary and post-secondary education, but the concept became an essential part of the 'growth accounting' literature (Becker, 2009).

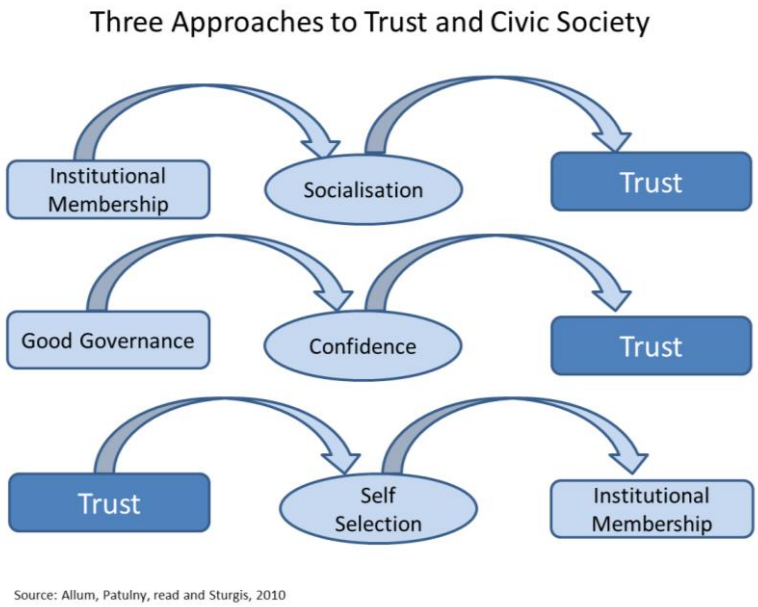
Social capital is a curious concept. Until the 1990s the concept was scarcely used at all but then it literally exploded onto the scene (Woolcock 2010, 470-471). The concept of social capital embraces many dimensions, such as shared norms and values, but it also operates at an interpersonal level, whereby it embraces the network of relationships, personal and professional. And embedded in all of that is key concept of trust. The explosion of the concept of social capital coincides almost exactly with the end of the Cold War. Political scientists, having spent nearly four decades looking at the world in terms of superpowers, armed to the teeth and with the capacity to destroy each other several times over, found within the space of a year, that their whole analytical framework had become redundant. Into this vacuum, comes the concept of social capital (Woolcock 2001). The late 1980s also coincided with some of the more fanciful flowering of the globalisation rhetoric, describing an interdependent world in which market forces and rational 'economic agents' held sway. Many academics, economists included, felt uncomfortable with this reductionist analysis. Markets were not abstract places where economic laws prevailed, but were social constructs governed by formal and informal rules that depended upon trust in order to function (Williamson, 2000) Thus, the end of the 1980s we were at a juncture in history several old paradigms were becoming seemingly less relevant. Almost immediately then the concept of social capital became a hot topic and it was assimilated by many international organizations, including the World Bank, which was the looking at concepts of governance, which in turn depended on trust and social capital (Bebbington, Guggenheim, Olson, and Woolcock, 2004).

The leading exponent of the social capital movement became a political scientist called Robert Putnam who had written a comparative history of North and South Italy. What he described was a divided country, whose roots lay in different cultural backgrounds and the range and effectiveness of civic organisations in each part of the country. Over the centuries, the North had developed a citizenry that bound its identity to a wide range of formal and informal civic

institutions, a horizontal and diverse ordering of social capital. By contrast, the social capital of the South remained constrained by a narrow and closed network based around a strictly hierarchical church and on strong family ties. The huge divide in levels of development which Italy exhibited by the end of the twentieth century, Putnam attributed to these cultural differences (Putnam, Leonardi and Nanetti, 1994 for criticism see Harris, 2000, 23-28). Now, even in America, Italian history is not material for a bestseller, but Putnam distilled his ideas in an article entitled *Bowling Alone* which he later expanded into a book highlighting the decline in civic engagement in America. He described how although ten-pin bowling was becoming more and more popular, the number of bowling clubs and associations was in decline. What he did, then, was to measure the density of civic clubs, associations and networks, in a region, and people's identity and involvement with them. By counting membership of church organizations, support groups, sewing clubs and whatever else one could find, it was possible to map civic trust in a society, and then to predict the social consequences. *Bowling Alone* was a metaphor for the decline of civic engagement in American, which he blamed on the television and the internet. The consequences, he suggested, would not be confined to American governance, but would also impact American growth and ultimately America's entire future (Putnam, 1995, 2000).

Putnam's concept of social capital has been at the receiving end of some trenchant criticism. The concept has been accused of lacking definitional rigour or any grounding in any theory. This has served to make it was malleable, pliable and therefore unusable. Meanwhile, it has been accused of neglecting almost all of the contextual variables that could explain the differences in its developments and the inferences that could be drawn from these. Thus, it tends to neglect the effect of economic power, the existence of conflict, the nature of the state, role of gender, race, class and ethnicity (Fine, 2010). As for Bowling Alone, its claims have been dismissed by some a product of assertion and exaggeration. The point from which decline was measured represented a high-point in participation, rooted in American post-war history. The existence of these institutions did not create trust, but rather they are reflections of the trust already in the society and Putnam was confusing cause and effect. He was also criticised for failing to differentiate among the societies he counted. Not all associations are the same. One's commitment to a knitting club might be very different from one's commitment to a church Sunday school; one's commitment to a political party might be quite

different from one's membership of a book club. In other words, he was failing to distinguish between a dense network (having many civic institutions) and deep network (civic institutions that really attract the commitment of their members). Finally he misrepresented and misconstrued the impact of television and the internet on social bonding (Boggs 2001; Durlauf 2002)



Let us leave the issue of social capital and return our focus to the central element of trust. A central issue here is the direction of causation. As one author, surveying the literature on the topic, commented "in dealing with the determinants of generalized trust, one inevitably confronts the task of disentangling several 'bowls of well-tossed spaghetti' since many of the variables claimed to be determinants of generalized trust levels may as well be their effects" (Nannestad, 2008, 422).

Putnam's central idea was that participation in civic institutions served as a socialisation mechanism which, through repeated reciprocal actions, would lead to the construction of trust and, from there, the creation of good and effective institutions of government. He recognised that these interactions might lead to introvert behaviour within the group, and so he distinguished between 'bonding social capital' which centred on those similar to oneself and 'bridging social capital' which was outward and beneficial, though he saw a mutually reinforcing link between the two. He was obviously aware of the parallel existence of voluntary organisations and governmental institutions, but he was insistent that the line of causation ran from the first to the second (Putnam, 2000). A second approach reverses the

causation and argues that it is institutional performance, in the form of good governance, that engenders feelings of confidence among citizens and creates the trust that underlies participation in civic organisations and the willingness to join voluntary organisations (Dixit, 2004; Newton and Norris, 2000). Finally social psychologists argued that trust was socialised early in life within the family, and that variations in trust were rooted within long-held cultural traditions that were immune to short-term change. It was trusting people who chose to join voluntary organisations and who comprised their membership (Tabellini, 2008; Uslaner 2008).

Measuring Trust

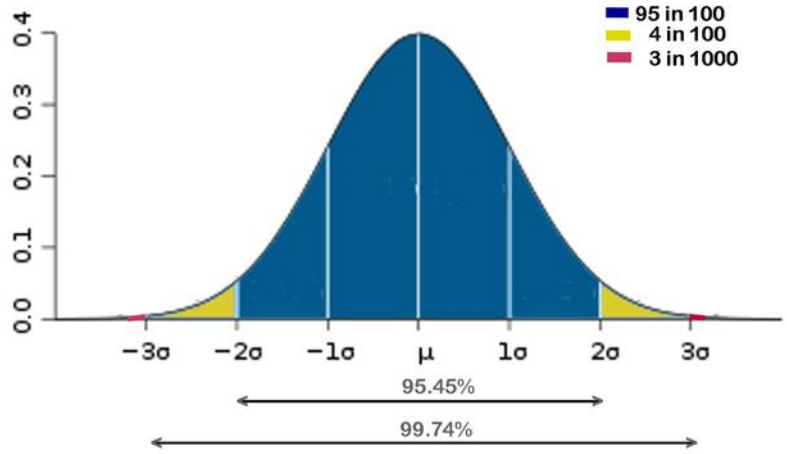
Despite the criticism of the role trust plays in the social capital literature, the fact is that it remains a useful concept. Without any trust, society cannot function. The question is, how to measure it. Actually, the answer is amazingly simple. One asks people. Ever since 1956 when it was conceived by the political scientist Morris Rosenburg (1956), there has been a standard question:

> *Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with them.*
>
> *1. Most people can be trusted.*
>
> *2. You can't be too careful when dealing with others.*

The question always has been included in the *World Values Survey* (WVS) since the project started 1981. The WVS is a cooperative venture by social scientists throughout the World that ask an identical series of questions in opinion surveys. In general, about one thousand adults are surveyed in each country and fifty or so countries are surveyed in each 'wave'. To date, there have been four waves of the survey, and the fifth wave is currently in progress. It is a veritable treasure trove of what everyone in the world thinks on a whole range of issues, or more accurately, what everyone in the world is asked to think. On the basis of the results of the surveys, social scientists have built up a huge mountain of literature. In the last wave of WVS, the trust question was question twenty-four (Note this refers to the survey before that released in April 2014).

Before progressing further, we have to answer the question of how it is possible to claim that we know what people in a society think, on the basis of thirty or forty snippets of information. To do this, we have to enter the world of *sampling*. Basically what sampling says is that there

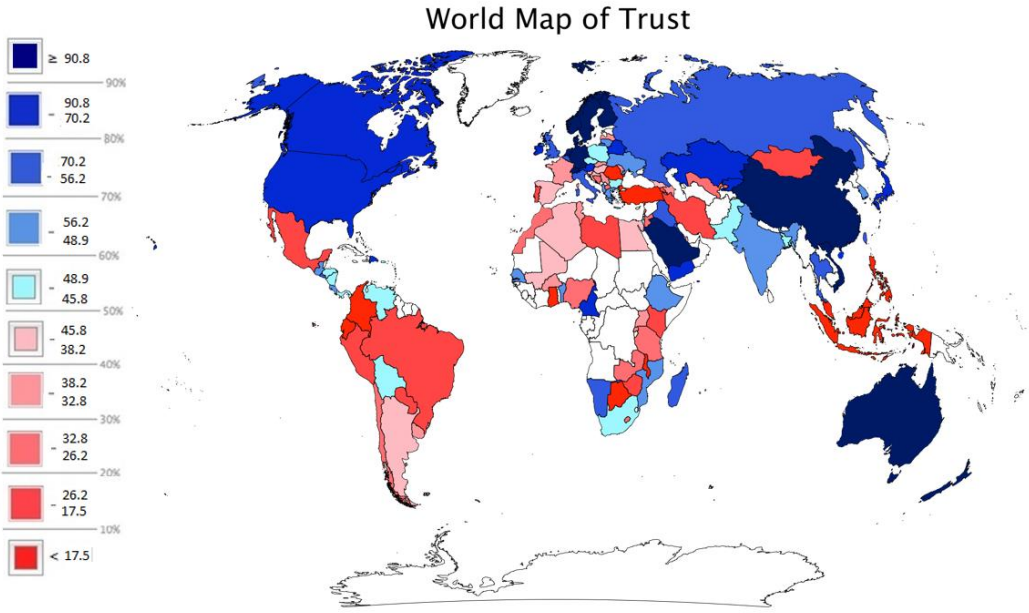
is a relationship between what the society as a whole thinks and what individuals or groups of individuals think. The assumption here is that answers will tend to cluster around a central point in an inverted 'bell-shaped' curve, with a few observations scattered towards away from the centre.



Basically the 'more pointed' the curve, the more confident one can be about the result. Equally, the more the scatter of results lies away from the central point, the greater the degree of uncertainty. One can determine the spread of results (and the degree to which they are above or below the average) to give varying degrees of confidence in the average (mean) calculated. Having simplified the procedure, we have to throw in another piece of jargon. The way things are calculated under assumptions of a 'normal distribution', statisticians speak of the range covering 68 per cent of the observations nearest the mean as one *standard deviation* and the range covering ninety-five percent as two *standard deviations*. Once we have established this, we can combine it with the number of observations and calculate the *standard error*. Usually statisticians take degrees of confidence at 95 per cent, and obviously once it falls below fifty per cent, one might just as well toss a coin. The more confident one would wish to be, the wider the spread of possible spread of results.

The archives of the WVS are kept in Madrid, and the answers to the 'trust question' have been compiled into a single index. Using WVS and other local surveys, the database has integrated details 117 for countries (including 9 small <1.5 million states). What they have done is to calculate the percentage that are distrusting and subtract from it the percentage that are trusting and add one hundred to the result. Thus any result over 100 represent a country

where more people are trusting than distrusting, while less than 100 has a majority that are distrusting. Incidentally, for the world as a whole, 26 per cent of respondents say that they do trust people most of the and a whole thumping 74 per cent say you can't be too careful in dealing with other people.



Most trusting		Least trusting	
Country	**Index**	**Country**	**Index**
Norway	148.0	Philippines	6.8
Netherlands	134.1	Ghana	10.0
Denmark	131.9	Turkey	10.2
China	125.1	Botswana	12.3
Sweden	122.7	Ecuador	14.9
Finland	117.5	Malawi	14.5
New Zealand	113.2	Cambodia	15.6
Switzerland	107.4	Cape Verde	15.6
Saudi Arabia	105.8	Romania	16.3
Vietnam	104.1	Indonesia	16.9
Australia	103.6	Malaysia	17.0
UAE	90.8	Brazil	17.5
Canada	90.0	Peru	17.9
Cameroon	85.9	Kenya	20,0
Hong Kong	82.4	Armenia	21,2

Source: WVS Database plus results from 2014 release

In the midst of this ocean of mistrust, there are countries where there is even a majority of trusting people including all four Scandinavian countries and the Netherlands. Other Western states that emerge as trusting are New Zealand, Switzerland, Australia and Canada. The list,

however, also includes China, Saudi Arabia, Vietnam (all with over 50 per cent trusting) the UAE, Cameroon and Hong Kong. Some social scientists using this data have implicitly questioned these results, and several have excluded China (and in the previous wave of results Iraq) from statistical analysis as 'outliers', observations with freak results. One political scientist ascribed China's high score to "social pressures and political control" (Newton, 2001, 208). In the case of Iraq, where social peace is regularly shredded by suicide bombers and other deadly acts, its presence in a list of most trusting peoples either stretches credulity but it has been argued that insecurity has served to reinforce high levels of 'in-group' solidarity (Inglehart, Moaddel and Tessler, 2006). The bottom end of the spectrum is equally surprising but the presence of Turkey near the bottom of the list may possibly be a result of the number of states for which data was unavailable (N=122). Regardless of whether it really is the worst, the low trust levels in Turkey have been attributed to the country's incomplete political transformation and the deep distrust between secularists and conservatives (Grigoriadis, 2009).

Data Assessment

How much can we trust trust? This is a crucial question. The first problem we have to consider is whether the survey is really random. And answer is that it is not. If one reads through the supporting information, it is clear that the WVS allows for stratified samples. The example they give seems innocent enough – spreading a small number of respondents among three villages where one is much bigger than the other two. Whatever the reason, stratified samples are not random, and if WVS finds it necessary to resolve the issue of a 'fair' spread among villages, one can only speculate what it might do with the 'fair' distribution of far larger blocs among different towns, for example, in a country the size of China.

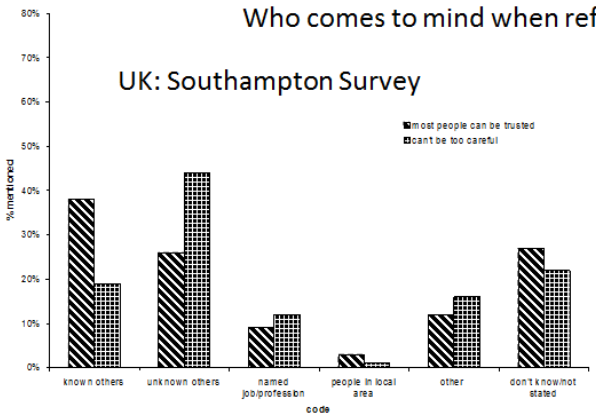
A far larger concern is at the level of the individual respondent. The trust question might be question twenty-four in the survey, but it is one of over 240 questions and it is conducted on a face-to-face basis. Answering a survey like that is not a ten minute's break on the way to catch a train, but a couple of hours out of your day! We might have a random sample, but not of the population, but of the one thousand people who like spending two hours answering 240+ inane, unconnected questions while they are shopping, on their way to work or in the middle of cooking their meal. A survey on the effectiveness of postal surveys (not face-to-face)

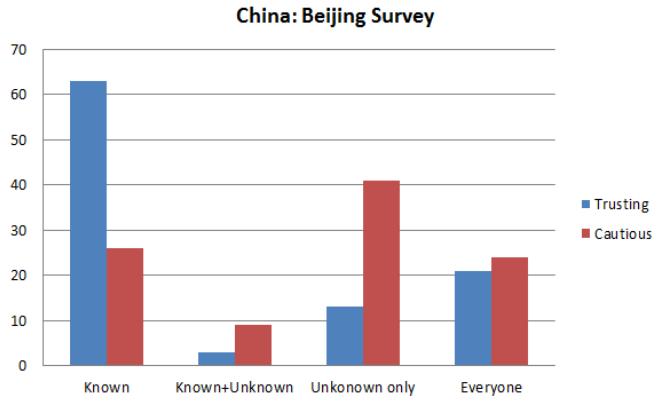
unsurprisingly showed a negative relationship between survey lengths and response rates (Edwards, Roberts, Clarke, DiGuiseppi, Pratap, Wentz and Kwan, 2002 – incidentally, an amazing example of multi-authorship in the medical world… the article is one page in length!).

This brings us to the problem whether people answer questions objectively, or whether they actually have any opinion on the issue raised. The fact that the trust question is number twenty-four, means that they have already worked their way through the first twenty-three, including a set of five where the respondent marks on a scale of one-to-ten the five most important features important in the raising of children. And then there are two hundred more to come. At some point in a survey as large as this, people are likely to switch to automatic pilot. They will either start repeating answers in the pattern already established, in order to stay consistent, or giving the answers they think the interviewer wants to hear.

A far more fundamental problem is to determine exactly what people thought was meant by the trust question in the first place. Literature of trust, tends to characterise 'interpersonal trust' as relating either to known friends and acquaintances or as exhibited towards to unknown outsiders. The first is referred to as 'thick' trust and the second as 'thin' trust, and the concept evidently has links to the phenomena of bonding and bridging capital. The latest WVA wave of surveys (for 51 countries) contained not only the general 'trust question' (now question 23) but also a series of questions on trust of different ranging from family and neighbourhood, at one end, to peoples of another religion or nationality, at the other (questions 125-130). The answers to this second batch of questions showed only a weak relationship between the 'radius of trust' (a measure for computing the varying degrees of trust as one slid down the scale) and the original trust question (Delhey, Newton and Welzel, 2011). Although this research attempted to impute what people were thinking of when they answered the trust question, the latest WVS passed up the chance to ask the respondents directly. Thus the possibility remains strong that what we might be measuring is not people's trust, but their interpretation of the question. A couple of years ago, researchers in Southampton University (UK) asked five hundred respondents this supplementary question (as an open-ended question) and obtained results which we might have expected. Among those who trusted others, nearly 40 per cent identified the 'other people' as those they could know personally and slightly under 20 per cent identified them as 'outside' groups. On the

other hand, only 25 per cent of the distrustful personal contacts in mind when answering the question and close to 45 per cent associated 'other people' with groups with whom they had no immediate contact (Sturgis and Smith, 2010).





I was intrigued by these results and so, when I was teaching at a Summer School at Renmin University 2013 we undertook a pilot study of 144 respondents in Beijing. Since there was no chance of a random survey, we conducted a deliberately stratified survey in different carefully selected locations. Although it was less refined than that of the Southampton research, we found exactly the same pattern, namely that those with a trusting attitude to 'others' tended to have known others in mind and the reverse for those tending to urge caution when dealing with 'others'. Incidentally, the pilot confirmed the trustful nature of the Chinese, with 67.4 per cent of respondents stating that they trusted 'other people'. One other dimension we tried to capture in the survey was the percentage of those approached (and actually engaged in conversation with our students) refused to take the survey. Nearly 40 per cent of those approached declined to take part, and the open question is 'how many of those chose not to participate because they did not trust the exercise. It could be that the random sample is not as random as we believe!

Once we get over the problem with 'other people', another question arises over how to interpret the outcomes of the trust question. As it stands, the classic trust question singularly does not address the issue of trust in institutions. It is true that the most recent WVS wave does ask about 'confidence' in the police, the courts, the government but that too carries the problem, for government, for example, whether respondents interpret the question to mean the parties in government or the system of government.

However, there is a European *Value Survey*, which asks a different set of questions and which clusters some of the answers together to represent civic or 'generalised' trust. Their results suggest that in Europe, there is a close link between the two. The results of this comparison show a very high degree of statistical significance (on which, more below). So, countries where people have a high level of institutional trust, they also tend to have a high level of personal trust and so on down the scale. However, one must bear in mind that the data used only gives a country breakdown. It does it does not allow one to see whether those who distrust other people, whoever they may be, also distrust government, whatever they may understand under the term (Zmerli and Newton, 2008; Boda and Bálint, 2012).

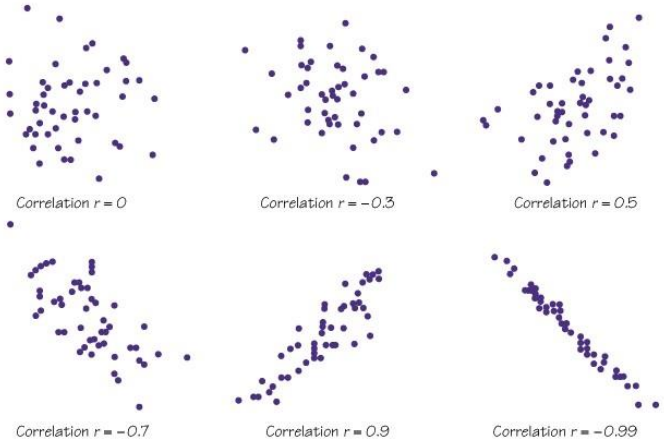
The Implications of Trust

We have spent a lot of time on trust because I consider it the central turning point in many societal phenomena. The questions we want to ask are:

- What factors determine trust?
- What are the implications of trust on other variables?

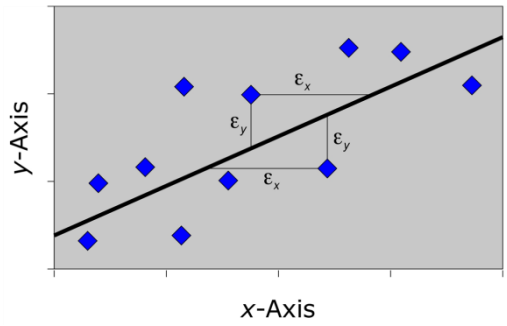
In order to answer these questions, we have once again to enter the world of statistics. Once again, we will not explain here how you can to do it yourself (that information is in the technical appendix) but we do want to show what is involved, and how to read the results. The first concept we have to deal with is **correlation** which is basically a measure of how strongly two variables are related. Imagine in the diagrams below that we have plotted two variables for the countries for which we have data against each other, one on the horizontal axis and the other on the vertical axis (for correlation, it does not matter which is which). For example, one might be trust and the other might be 'per capita GDP' or 'governance indicator for the control of corruption'. One can see intuitively, that the top left diagram shows no

relationship whatsoever between the two, but that as we move along the top and then down to the second row a pattern gradually emerges until, at the bottom left, the movement of the two variables seems almost synchronous.

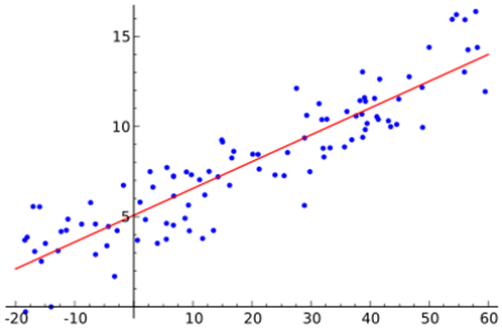


What correlation does is to place a statistical measure (r) between the two. The point to note is that the range is from r=0, for not relationship at all, to r=1 for a complete unity between the two measures. The relationship is said to be positive when the two variables increase or decrease together and negative when a rise in one is accompanied by a rise in the other (compare the last two diagrams in the series). Note that so far, we have made no comments on what causes what, in other words we have made no assumptions about the causal variable.

We can take the analysis further when we do make a hypothesis that one (X) actually is the cause of the other (Y). When we do this we also make an implicit hypothesis that there might not actually be any relationship between the two. This is called the 'null hypothesis' (don't panic, we are not going to do anything with that, yet). Once we have made this step, we are engaged in **linear regression** analysis. So next, we draw (or envisage) the X-axis on the horizontal plane and take the Y-axis as the vertical line. The challenge is now to draw a line through the scatter gram that provides the best fit for the observations. This line minimises the square of the distance (quite literally) between each data-point and the hypothetical line that you are drawing, as is shown in the small diagram below.

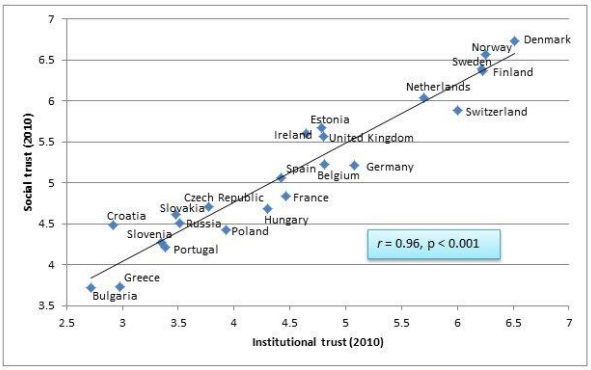


Once again, we are fortunate that the computer can do this for you (and details, again, are in the technical appendix) but what we end up with is a line called the **'least-squared regression line'.** Now we have a correlation coefficient (the r value) and the regression line, which is usually expressed a formula, which stipulates how high (or low) on the Y-axis the zero value of X begins, and the direction and gradient of the line. This, again, is shown in the small diagram below.



Since we have made the initial hypothesis that changes in the X cause changes in Y, we can use this line to make statements about areas where we have gaps or about another dataset (for example, in one year's time). The problem is that we can draw such a line through any scatter gram, except one for which the correlation coefficient is zero (i.e. where we have a completely random scatter). This brings us back to the question of **confidence levels**, which we examined when we looked at sampling in an earlier chapter). This depends on the closeness of the relationship (r) and the number, and range, of observations. Once again there are statistical tables (embedded in computer programmes) for this and the most usual test is called a **t-test** and it establishes the degree of confidence, statistically, that the results confirm the causal relationship (and are not the result of sampling error). So, you will often see an R-value, a regression line and a significance value, expressed as the probability of error (p). Below we have reproduced the graph we saw earlier, and you can see here that p is less than 0.001, which means that we can be 99 per cent certain that the relationship is statistically significant. Most social scientists and economist would be happy with anything above 95 per

cent certainty…so be wary if no test result is quoted or is the graph looks as though it has only a slight correlation.



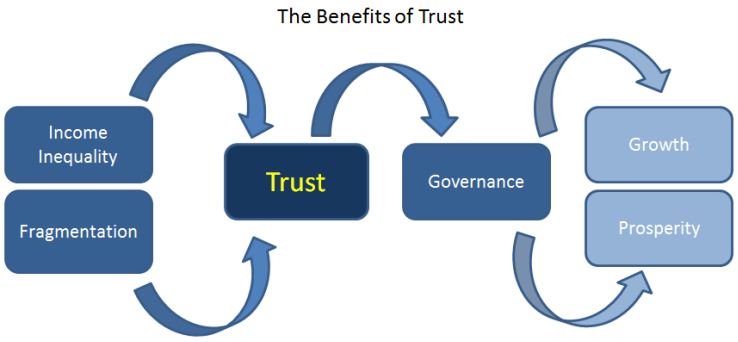
Now, let's complicate things a little further. It is unusual in this world that two factors influence each other is such a way that they completely explain the behaviour. It is far more usual that there are several causal variables operating at the same time upon the phenomenon we are trying to explain, and some of them might well operate on each other. Here we enter the world of **multiple linear regression**. You can usually recognise it by the fact that, if you are lucky, you can understand the introduction and the conclusion but that the rest seems to be written in an incomprehensible language of mathematical terms and algebraic formulae. Resist the first reaction, which is to run away. Don't forget you don't have to be able to cook to enjoy a good meal, and very often an intellectual feast is being prepared. What is happening is that all the variables are being tested on your chosen hypothesis (or hypotheses) in a kind of three-dimensional statistical space to determine to what degree, and with what certainty, which variable affects the other. It eliminates some options and confirms others, and tells you statistically the degree of confidence that you can have in the results. If only it were that easy….

If everything were that easy, we would all be able to read one super-magnum article per subject and settle everything forever. Yet every time one explores a relationship, it seems to give rise to a small library of attacks, disclaimers, revisions and citations, citations, citations. Why, when we have all these solid techniques, are there no solid answers?

Statistical techniques are techniques, generating mathematical outcomes. They say nothing about the inputs. Most disagreements among economists and social scientists come from one of the following sources:

1) The data is incomplete (how many countries of the total are in the comparison and is there a bias in the ones that are missing)
2) The data is uncertain (how many times are variables entered into a model, ignoring the error margins… even if the result is statistically significant, it counts for nothing if the original data is suspect)
3) The historical periods chosen for comparison are different (and possibly the quality of the data also changes in that interval)
4) The data is chosen is a proxy for a reality (and there is disagreement about the whether the evidence covers the issue area as claimed)
5) The original hypotheses are disputed and the direction of causality is contentious, invalidating the claimed results
6) The results are not reported correctly (many articles are happy to present correlations, even weak correlations as proven outcomes… be suspicious of anything without a significance test)
7) Many results (especially by economists) are converted into 'econometric models', which then test new variables, but these models contain intrinsic assumptions about interrelationships based on *past performance*, which may no longer reflect reality.

There is a large empirical literature in which trust plays an important role. In the diagram below, I have tried to systemise the main building blocks of that strand in the literature that ascribes a positive role to trust.



The first relationship can be expressed simply as the hypothesis that the more homogeneous a society, the more likely its members are to exhibit a high measure of personal (and by implication, institutional) trust. This homogeneity can be exhibited either in the field of income or wealth, or in the area of ethnicity, religion and language.

The link between income inequality and trust runs along two tracks. The first is that wide divisions between income groups translate themselves into closed circles of 'bonding' relationships and few opportunities for establishing 'bridging' networks. The second link is that poorer groups simply do not have the resources to participate in civic institutions that may enhance their 'bridging' networks. A recent cross-country analysis, albeit one confined to Europe, has cautiously suggested that the resource element is the more probable explanatory factor (Lancee and Werfhorst, 2012). Any such caution was thrown to the wind in *The Spirit Level*, by Richard Wilkinson and Kate Pickett who opted for the first option and argued that income inequality in richer countries violated a sense of fairness. Moreover, income ineqa]ulaity affected not only trust, but a wider range of other economic and social and health phenomena. A more even income distribution would cement a sense of homogeneity that was also strongly reflected in the willingness to entrust greater tasks to governments (and therefore to 'share' what are called 'public goods'), in a greater degree of gender equality and a willingness to contribute to the development assistance to less fortunate countries. Not only did they argue it, they supported their argument by the positive outcomes of a plethora of correlation and regression analyses (Wilkinson and Pickett, 2010). Yet the book has been highly criticised. The literature cited is deliberately distorted to bolster their arguments. The statistical proofs are restricted to a bivariate analysis (inequality was tested one-for-one against variables, and never against several at the same time) and many of the results seem to be over-determined by 'outliers' (or extreme results) and the selection of countries included. For example, leave out the United States (high inequality and high murder rate) and the statistical relationship between the two disappears. The causation is often over-simplistic. For example, even if there were a relation between inequality and gun-crime, it may have nothing to do with inequality and everything to do with gun-crime, especially in African-American districts (Saunders, 2010; Snowdon, 2010) Yet none of this seems to matter to those who find their ideas reinforced in the book's text.

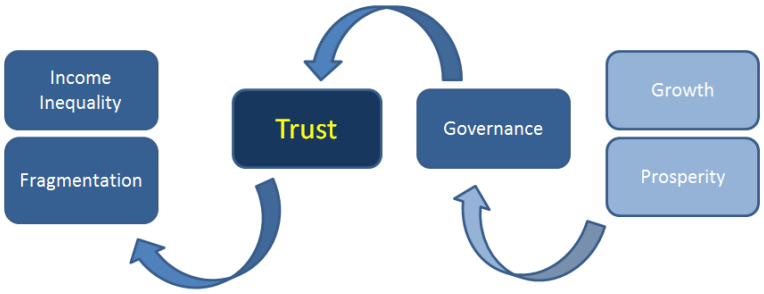
The underlying assumption in the literature is that ethnic diversity tends to reinforce 'bonding' activities and that this can result in 'crowding-out' bridging networks, with the result that participation in civic activities is constrained and that levels of generalized trust and diminished. Many of the studies that have been conducted to date have been within individual

countries and their questions and methodologies do not easily lend themselves to comparative evaluation. Moreover the contexts and dynamics of the studies vary greatly. For example it matters a great deal whether the ethnic groups are firmly established or have been newly created through immigration, and it matters whether there has been a recent past of ethnic discrimination or violence (Nannestad, 2008). The results of cross-country comparisons also point in different directions with one study of 60 countries engaged in the second and third waves of the WVS suggesting a strong relationship in the Nordic states, but weaker one elsewhere (Delhey and Newton, 2005). Whilst a more recent study, incorporating also the fourth wave of the WVS found no significant relationship between the two (Bjørnskov, 2007). Meanwhile, different effects have been found for religiosity. Some argue that religiosity has a negative impact on social (institutional) trust (Berggren and Bjornskov 2011) whilst an slightly earlier analysis, embracing both individual countries and individual states within the US, suggests that religiosity has a positive impact on trust in high income countries, and a negative impact on trust in countries are low (Bettendorf and Dijkgraaf 2010). Of course, how one interprets the conclusions depends not only on the model specifications and on the data selection, but also on how and whether these phenomena can be accurately measured. We have already placed a question-mark over the trust data, and in Chapter Seven, we will examine the measures for polarisation or fragmentation in incomes, ethnicity, language and religion.

Much of the literature follows the link between homogeneity and trust through to effective and efficient institutions of governance and from there, through to growth and prosperity. Peoples that trust each other, the argument runs, are also more willing to trust non-group members and are therefore more willing to put their faith in one or more of their number running institutions designed to ensure an efficient execution of their function untouched by personal or group interest. Once that certainty exists, then members of the society can plan ahead knowing that any changes in circumstances will be evenly applied to all and that all will be judged fairly, and according to open and transparent conditions. This will make them more willing to undertake business ventures that entail the sacrifice of consumption now in favour of returns in the future. In other words, they will be more willing to invest, confident that they will face fair competition and that the returns will be guaranteed (within the range of anticipated policy shifts, such as changes in taxation and regulation). This extra investment

will act as the transmission belt of innovation and productivity gains, and will boost economic growth. This, basically, is the formula that the World Bank sought to follow when it devised its governance indicators and it is link that has been reinforced by many of the empirical studies that have been conducted over the years. (Knack and Keefer 1997) Thus far it seems logical that a fragmented society should be marked by an absence of trust, which this should affect the institutions governing society and that this in turn should have an impact on its economic performance. Moreover, there seems to be a wealth of statistical evidence supporting the connection between these variables. However, a statistical connection does not tell the direction of the causation and statistical modelling often embodies assumptions about that direction. There is a plausible argument that would reverse the causation, as shown in the diagram below:

The Benefits of Trust (reverse causation)



Let us start with prosperity. One could easily argue that prosperity enables societies to commit more resources to their institutions of governance, allowing the construction of a better manned and better equipped, and better paid, institutional infrastructure. Higher levels of education, and an exposure to a wider range of experience and thinking, may also lead to higher levels of trust. Moreover, education is itself a form of socialisation, exposing individuals to a shared sense of common heritage, which is why it was seen as so important in nation-building in the 19th century (Wang and Gordon 2011). Knowing that these institutions actually work, and that there is little incentive for individuals employed to cream-off extras for themselves, would arise trust in them (institutional trust) and diminish the potential for inter-group distributional conflicts (person trust). One could argue that…. but such an argument cuts across an almost doctrinal divide in the trust (or social capital) debate that we have already referred to above. On the one hand there are the 'institutionalists' who believe that the effective defence of individual property rights and good governance can create trust. On

the other hand, there are 'culturists' who believe that trust has deeper historical roots and cannot be created. Given that the latter will be unconvinced by arguments to the contrary, we might as well continue with the reverse causation. Once there is good and effective governance, especially if it is reinforced with a sense of ownership, that institutions as democracy may provide, it can lead to trust and defuse the potential conflicts underlying ethnic fragmentation, and especially where there is a dominant group (Collier 2011).

A review of the trust literature in 2008, and equally true today had the following to say about the confusing and often contradictory findings on trust. "there are still few stylized facts about generalised trust and its correlates that most or all scholars in the field agree on. In this situation, three possible strategies suggest themselves. One is to acknowledge defeat and withdraw. The second is to keep going, producing ever more empirical findings in the hope that, by a process of scientific Darwinism, knowledge in the end will emerge from continuous variations of existing research programs. But there is a third alternative. Rather than keep adding to the pile of studies already in front of us, the time may have come to start sifting the results to find out which generalise and which do not….. The question of trust is a huge puzzle that is not even near a solution." (Nunnestad 2008, 431-432) And this is exactly what we plan to do!

How far can we go?

The data for that serves as the basis for international comparison on trust stretches back to 1981, when two Dutch researchers started the European Values Survey. The data for that year covered the then nine members of the European Economic Community (forerunner of the European Union) plus Spain. The following year, the survey was extended to Canada, Norway, Sweden and the USA. Two years later, Iceland and Malta completed the first 'wave' of results. The trust question, itself, has an antecedents going back to the late-1950s, and it has been used by those doing trust research at different levels ever since. This data does not allow for large-scale international comparisons, but perhaps that is not where the value of trust research actually lies. It may well be that the more nuanced national and regional surveys may lay the foundation for more fruitful analysis.

As a concept, rather than as a component in a database, the idea of trust has much longer antecedents. It is particularly strong in the field of institutional economics, which suggests that markets are institutions with formal rules and informal practices, all of which rest ultimately on trust. One of the basic concepts is that of 'property rights', which applied to the right of an individual to the exercise of rights over wealth, capital and labour. Without a (relative) certainty that these rights will be respected, there will be little point in committing time and resources to the future, and economic development will grind to a halt. Thus trust, in the sense of confidence that one's property will not be subject to arbitrary seizure or arbitrary charges, lies at the foundation of the functioning of markets. Douglass North took this back to the 18th and 19th century and argued that the beginning of real modern economic growth stemmed from institutions built around trust (North, 1989, 1991).

Among some American academics, this form of trust is the outcome of a particular sort of Protestantism that emerged from the split in Christianity in the 16th and 17th centuries and that promoted the rise of capitalism. This individualistic, social-Christianity, with its self-defined values, promotes a certain kind of trust which, in turn, facilitated the development of Protestant countries into nice, happy places like the United States. Recently the argument has been run in reverse, with the suggestion that Islam is in many ways inconsistent with the build-up of trust and institutions, and therefore inimical to economic growth. Personally, I dislike historical arguments based on specific religions. Religions are to some extent social constructions and what is distilled out of fundamental sacred texts is often dependent on socio-economic circumstances.

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