Income Inequality and Social Trust*

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Abstract

We study how economic inequality affects social trust. We test this relationship both using correlational evidence from a large social survey of British youth as well as novel causal evidence from a series of online experiments. We find causal evidence that higher inequality has a negative impact on social trust. By contrast, a high relative position leads to higher social trust in both samples. In times where inequality is on the rise these findings are cause for concern.

Keywords: Income Inequality, Social Trust, Experiments.

JEL Classification Numbers: C92, D30, I30.

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1. Introduction

Social trust—the belief that others will generally act fairly and reciprocate justly—is central to economic and social interactions (Galeotti, Kline, & Orsini, 2017; Uslaner, 2002, 2018). However, higher income inequality is consistently linked to lower trust across societies and within them (Alesina & Ferrara, 2002; Bjornskov, 2008; Delhey & Newton, 2005; Piketty & Saez, 2003; Putnam, 2000; Uslaner, 2002). At the same time, individuals with higher socioeconomic status (e.g., education, income) consistently report greater trust, suggesting that one's own economic position may matter (e.g., Boyadjieva & Ilieva-Trichkova, 2021; Stephany, 2017). Yet causal identification and the underlying mechanisms remain contested (Gustavsson & Jordahl, 2008; Nannestad, 2008). In particular, it is unclear whether trust responds primarily to inequality itself (income distribution in one's environment) or to relative position (one's rank within that distribution). In this paper, we provide new correlational and causal evidence on the impact of both inequality exposure and relative position on social trust by combining two complementary approaches—a large-scale social survey and a controlled experiment.

First, we analyze observational data from a 2019 survey of British youth (Next Steps Wave 8), where social trust is measured using a standard survey question. Consistent with past work, we find that personal relative economic position is a strong predictor of trust: youths who are economically better off relative to their peers tend to report higher generalized trust. In contrast, the contextual inequality of their local area (Gini coefficient) does not predict lower social trust once we account for individuals' own economic position. While informative, these observational findings still cannot conclusively pin down causality or separate the effect of inequality from selection effects. Our second approach uses a novel experiment to provide causal evidence on how inequality influences trust. We implement an online experiment with a large UK survey panel, in which participants are randomly assigned to different informational contexts. To manipulate the perceived exposure to inequality, we randomly show participants either one of two income distributions from two local communities, one a great deal more unequal than the other (both are boroughs in England). In a second treatment, we study the effect of relative position by further showing participants their own economic position within one of the two distributions, creating a comparison between their own income and that of residents in the randomly selected borough. Hence, in one condition, participants compare themselves with a wealthier community, induced to feel relatively worse-off about their own economic position ("upward" economic comparison); in the other, they instead compare with a poorer community, induced to feel relatively better-off ("downward" comparison). All participants then answer the same standard survey questions on generalized trust as in the Next Steps survey. As our experiment exogenously manipulates perceived relative position and inequality, it allows us to draw inferences on how these variables impact social trust.

The experimental findings show a causal relationship between both relative position and inequality on trust. Participants made to feel that they are higher in the income distribution report higher levels of trust than those made to feel they are lower in the distribution. In other words, an increased perceived relative economic position led to greater social trust, which aligns with correlational evidence from the Next Steps survey data. At the same time, we find evidence that, in itself, exposure to a high-inequality context has a detrimental impact on trust. Subjects who are exposed to the high-inequality community, absent cues of relative position, express lower trust on average than those exposed to the more equal community. Taken together, our results provide causal evidence that economic inequality undermines social trust through at least two channels: there is a direct effect of the income distribution in itself and an additional effect caused by shifting relative position.

Our research contributes to a large literature interested in the relationship between inequality and social trust (Alesina & Ferrara, 2002; Bjornskov, 2008; Boyadjieva & Ilieva-Trichkova, 2021; Delhey & Newton, 2005; McCoy & Major, 2007; Piketty & Saez, 2003; Putnam, 2000; Stephany, 2017). Other authors have related inequality and trust within a lab experiment (e.g., D'Amato, O'Higgins, & Stimolo, 2022; Fehr, Rau, Trautmann, & Xu, 2020; Greiner, Ockenfels, & Werner, 2011; Xiao & Bicchieri, 2010). We contribute to this literature by (i) combining correlational and causal evidence using standard survey outcomes rather than the often-used trust game, which has the advantage of being incentivized but the disadvantage of being sensitive to risk preferences; (ii) by our focus on distinguishing the effects of overall inequality and personal relative position and (iii) by focusing on a sample of young respondents. Examining how inequality affects young adults is particularly relevant, as their levels of social trust play a crucial role in shaping important choices made during their education and at the beginning of their careers (e.g., Papagapitos & Riley, 2009).

The paper is organized as follows. Section 2 presents evidence from general social surveys. In Section 3 we present our experimental design. Sections 4 contains our main results on social trust. Section 5 concludes. A series of online appendices contains details and materials from the experiments as well as additional tables and figures.

2. Evidence from General Social Surveys

In this section, we analyze the relationship between inequality and social trust, relying on correlational evidence from the Next Steps survey Wave 8, a longitudinal general social survey administered to the youth in England (UCL, 2018). The data provide extensive information on a young sample of the English population representative in terms of income, education, and gender ($N \approx 6,800$). Social trust is measured via agreement with the statement "Most people in life can be trusted" using an 11-point Likert Scale ("0=not at all agree",..., "10=extremely strongly agree"). This represents a common measure of social trust also used in many other general surveys, for instance the European Value Survey. Respondents are classified in three *income* categories based on their annual household (HH) income – "low" (<£25K), "medium" (£25K-£45K), "high" (>£45K). We use the same cutoffs in our experiment, which are calibrated to induce comparable income categories across our samples (see Table C.1 in the Appendix). Finally, using data from the ONS (Office for National Statistics), we derive the Gini coefficient as our measure of *inequality* based on the respondent's residence at the level of the government office region.¹

Table 1 presents estimates where social trust is expressed in standardized units (z-scores), computed using the mean and standard deviation of the estimation sample in each specification, allowing comparability with prior work.

The table shows a positive and statistically significant relationship between income and social trust. We also find substantial interaction effects with the Gini coefficient, which are, however, not statistically significant. These results can be replicated in the UK part of the European Value Survey, a much smaller sample, which contains the same question (see Table C.2 in the Online Appendix).

These results show a possible effect of relative position and inequality on social trust, but there are some important caveats. For instance, individuals with higher levels of social trust may be more inclined to pursue opportunities and exert greater effort, leading to higher incomes. This, in turn, could influence the overall income distribution and the measured Gini coefficient, complicating causal interpretation.² Another challenge in interpreting our estimates lies in the difficulty of isolating the effect of relative economic position from that of inequality itself, as changes in the Gini coefficient alter individuals' relative positions within the income distribution, even when their income remains

¹We use the "Income and tax, by gender, region and county, 2015-2016" table provided by the ONS. We note that the Gini coefficient can be calculated only at a coarse level of aggregation in the UK, making it more difficult to understand the effect of exposure to "local" inequality here.

²Specification (6) in Table 1 tries to partially address this particular issue.

	Social Trust - Next Steps 8					
	(1)	(2)	(3)	(4)	(5)	(6)
Medium income	0.186***	0.294	0.226***	0.186***	0.287	0.162
	(0.0263)	(0.235)	(0.0257)	(0.0263)	(0.235)	(0.308)
High income	0.296***	-0.0508	0.351***	0.295***	-0.0461	0.0360
	(0.0471)	(0.423)	(0.0463)	(0.0471)	(0.424)	(0.655)
Gini	0.184	0.217	-0.847	-0.556	-0.512	-0.107
	(0.410)	(0.529)	(0.734)	(0.735)	(0.812)	(1.040)
Gini × Med Income		-0.385			-0.359	0.0110
		(0.832)			(0.832)	(1.082)
Gini × High Income		1.217			1.199	1.080
-		(1.481)			(1.483)	(2.296)
Constant	-0.0434	-0.0539	0.0823	0.211	0.196	-0.603
	(0.123)	(0.154)	(0.506)	(0.510)	(0.522)	(0.693)
Individual Controls	YES	YES ⁺	NO	YES ⁺	YES ⁺	YES ⁺
Region Controls	NO	NO	YES	YES	YES	YES
Observations	6,899	6,899	6,927	6,899	6,899	4,143
R-squared	0.028	0.029	0.016	0.029	0.029	0.034

Table 1: OLS regression of standardized Social Trust in Next Steps 8 survey. Individual controls are gender, religion, and ethnicity. The larger set of individual controls (YES⁺) also includes an indicator for unemployment, level of interest in politics, and an indicator for having a higher education degree. The region controls are population size, ethnic diversity (share of white population), and the share of the population living in an urban area. Column (6) is a restricted sample of people who haven't moved in the last 2 years. Standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1

constant.

In the next section, we introduce an experimental design developed to address these concerns, allowing for (i) a *causal* interpretation of the relationship between inequality and social trust, and (ii) a clear separation of the effect of inequality exposure per se from that of relative economic position.

3. Experimental Design

Our experimental sample was drawn from a large panel of the general British population ($N \approx 600$). Figure 1 shows the general structure of our experiment. In Stage 1, participants fill in an income questionnaire, which elicits information about (i) self-reported social class, (ii) own or (for students) parents' annual gross income, (iii) monthly rent paid by (parents') household, (iv) size of (parents') household, (v) which grocery store the household does their monthly shopping in, (vi) if and where they go for holidays abroad, (vii) how much (parents') household spends on eating out every week and (viii) the type of school (comprehensive, grammar, private, boarding) they attended. Based on the answers to question (ii) we then sort participants into three income categories (low, medium, or high) corresponding to an annual household income of less than £25K,

³Online Appendix B.1 shows the exact questions and answer categories for all of these questions.

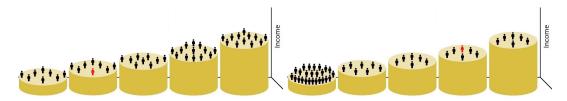
between £25K and £45K, or greater than £45K. These are the same cutoffs we use with the Next Steps 8 survey.



Figure 1: Stages of the experiment.

Information Treatments

Our treatments manipulate the type of information participants are shown immediately after Stage 1. In treatment **INEQ**, we only show them one of two income distributions differing in their degree of inequality. Hence, participants can either be exposed to low inequality or high inequality (**INEQ-LOW** or **INEQ-HIGH**). In treatment **REL**, we show participants one of the two income distributions *and* their own relative position within that distribution.⁴ Hence, conditional on their income category, we exogenously manipulate participants' relative position by using images like the ones shown in Figure 2.



(a) Upward comparison (Low inequality) (b) Downward comparison (High inequality)

Figure 2: The pictures show the image used to induce upward and downward comparisons in the **REL** treatment for those in the medium income category. For those in the low (high) income category, the red person was one bar lower (higher). In the treatment without relative position (**INEQ**), the figures were shown without the red person. Appendix Figure D.1 shows all eight different pictures used.

The bars in the figure represent income categories aligned with the average incomes of the "low", "medium", and "high" groups defined above. These correspond to the three leftmost bars in the distribution in panel (a) and the three rightmost bars in the distribution in panel (b). Participants are told that the picture represents the income distribution of a borough in England and that "based on your answers in the initial questionnaire, we have computed a rough estimate of your position in the income distribution of the borough". The two boroughs are Chelsea and Kensington (mean annual income 178K GBP) and Norwich South (mean annual income 26K GBP) for panel (a) and (b) respectively.⁵ Those are the

⁴This exogenous manipulation can be thought of as an information provision experiment. For a review on this subject, refer to Haaland, Roth, and Wohlfart (2023).

⁵Images are based on 2015-2016 data from the ONS (Office for National Statistics).

richest and poorest boroughs on average and hence will respectively present an upward or downward shock to beliefs about their own relative position for most residents of the UK, **REL-UPWARD** and **REL-DOWNWARD**.⁶ In the **REL** treatment, one's position was highlighted by showing a person in red, while in **INEQ** it was not shown; otherwise, the figures were identical.

We pretested the clarity of these visualizations in two separate online surveys. In the first, we evaluated participants' understanding of various representations of income distributions (see Online Appendix A for details). The version displayed in Figure 2 (income bars with people on top) was selected because it was consistently better understood than alternative formats (n = 176). In the second online survey (n = 108), a different group of respondents was asked which of the two income distributions appeared more unequal. The vast majority of subjects perceived the income distribution in panel (b) as more unequal.⁷ Therefore, we refer to people assigned to this distribution as being exposed to higher inequality compared to lower inequality. This is important for interpreting potential behavioral differences between information conditions.

Social Trust

In Stage 3, following the information assignment, we measured participants' level of social trust. Again, this outcome was assessed using agreement with the statement "Most people in life can be trusted", rated on an 11-point Likert scale ("0=not at all agree",..., "10=extremely strongly agree"). We chose this non-incentivized measure over others more commonly used in experimental work (e.g., trust games) for two main reasons. First, we wanted to align this measure with that used in the Next Steps 8 survey to ensure consistency across the two samples. Non-incentivized questions on social trust are widely used in social surveys (e.g., World Values Survey, European Social Survey), and they have been shown to yield valid and informative data (e.g., OECD, 2017; Zak & Knack, 2001). Second, our goal was to elicit a broad form of trust—general belief in the honesty, integrity, and reliability of people beyond one's immediate social circle. Surveybased trust questions and incentivized trust games capture distinct but complementary components of trust (Sapienza, Toldra-Simats, & Zingales, 2013). The survey measures primarily reflect expectations about others' trustworthiness (belief-based trust), while trust games also incorporate preferences like risk attitudes. Our primary interest lies in the former type of trust, rather than the latter.

⁶Of course, there is some variation within our income categories as two persons at the extremes of the same category will perceive an identical income shock with different strength.

⁷A clear majority (84.26%) identified the distribution in panel (b) as more unequal, while 7.41% judged the two distributions to be "about the same".

Research Questions

A large literature across the social sciences suggests that inequality is detrimental to social trust. To test this question we randomly assign different income distributions to participants. As changes in the income distribution impact not only the level of inequality but also the relative position of any given person in that distribution, treatment **REL** causally identifies the joint effect of inequality and relative position on social trust. Our first conjecture hence is that *social trust is higher in REL-DOWNWARD compared to REL-UPWARD*. We then hide information about relative position in treatments **INEQ** and conjecture: to the extent that the negative impact of inequality on social trust is not purely driven by relative position we should see *higher social trust in INEQ-LOW compared to INEQ-HIGH*.

Other Details

In the post-experimental questionnaire, we elicited risk attitude and competitiveness on a scale from 0-10. We fielded the survey online using a large UK survey provider (Prolific) and restricted the sample to UK nationals. Table C.1 in the Online Appendix contains sample characteristics including a comparison of the Next Steps 8 and the experimental sample. None of the 640 participants dropped out of the experiment, and all were paid a flat fee of 1.50 GBP. Ethical approval was obtained by the University of Essex (Faculty of Social Sciences subcommittee) in October 2018. This study was part of a larger research project aimed at studying the effect of income inequality on different attributions and beliefs.⁸

4. Experimental Results

Figure 3 shows the distribution of self-reported social trust. Panel (a) displays participants shown both their relative position (high or low) and the level of inequality; Panel (b) displays those shown only an income distribution with high or low inequality. The figure highlights two results. In the **REL** treatment, participants exogenously placed in a high relative position (downward comparison) express higher social trust. In contrast, those exposed to a higher level of inequality in the **INEQ** treatment (**INEQ-HIGH**) indicate lower social trust.

⁸The original research project was pre-registered on EGAP as part of a bigger research project. After this site shut down, it was transferred to OSF and made available at https://osf.io/9mhvg and https://osf.io/muh8s/.

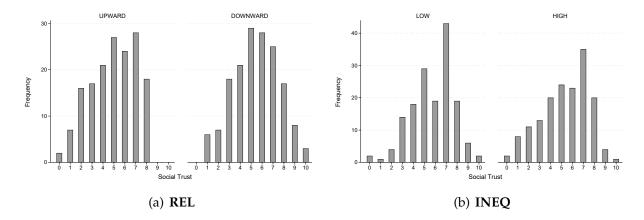


Figure 3: Histogram of responses to the social trust question. Panel (a): participants shown either low inequality and low relative position (UPWARD) or high inequality and high relative position (DOWN-WARD). Panel (b): participants shown only low inequality (LOW) or high inequality (HIGH).

	Social Trust - REL					
	(1)	(2)	(3)	(4)	(5)	(6)
DOWNWARD	0.240**	0.242**	0.254**	0.258**	0.247**	0.251**
	(0.111)	(0.110)	(0.109)	(0.109)	(0.110)	(0.111)
Medium income		0.337***	0.307**	0.323***	0.312**	0.236*
		(0.121)	(0.124)	(0.124)	(0.127)	(0.135)
High income		0.425***	0.417**	0.413**	0.344*	0.259
-		(0.161)	(0.165)	(0.165)	(0.179)	(0.189)
Constant	0.000	-0.185*	-0.908	-1.184	-1.344*	-1.056
	(0.0791)	(0.0958)	(0.684)	(0.757)	(0.796)	(0.848)
Extra Income Controls	NO	NO	NO	NO	YES	YES ⁺
Other Controls	NO	NO	YES	YES^+	YES^+	YES^+
Observations	322	322	321	321	321	320
R-squared	0.014	0.048	0.079	0.091	0.104	0.188

Table 2: Standardized social trust in **REL** treatment. Extra Income Controls are fixed effects from the initial income questionnaire (the smaller set is questions 1-4, the larger set is all eight questions). Other Controls are age, gender, and student status. The larger set also includes risk aversion and a self-reported competitiveness measure. Standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1

Tables 2 and 3 present regression estimates where outcomes are standardized to the control-group mean and standard deviation for each specification, allowing direct comparison with prior studies. Table 2 shows results for the **REL** information treatment. Those assigned to a higher relative position (DOWNWARD) express higher levels of social trust, with an effect size of about one quarter of a standard deviation compared to those assigned to a lower relative position. The table also shows a substantial correlational effect of income, with those with higher income displaying higher levels of social trust. Table 3 reports the results for the **INEQ** treatment. Respondents assigned to a higher degree of inequality (HIGH) subsequently show lower levels of trust, with an effect size corresponding to at least 0.238 standard deviations.

	Social Trust - INEQ					
	(1)	(2)	(3)	(4)	(5)	(6)
HIGH	-0.238**	-0.280**	-0.308***	-0.284**	-0.347***	-0.412***
	(0.120)	(0.119)	(0.115)	(0.113)	(0.116)	(0.120)
Medium income		0.290**	0.142	0.105	0.0446	0.00814
		(0.132)	(0.132)	(0.130)	(0.133)	(0.138)
High income		0.530***	0.504***	0.478***	0.410**	0.475**
_		(0.178)	(0.174)	(0.171)	(0.191)	(0.202)
Constant	0.000	-0.144	-1.470**	-2.637***	-2.550***	-3.191***
	(0.0851)	(0.0970)	(0.700)	(0.761)	(0.815)	(0.871)
Extra Income Controls	NO	NO	NO	NO	YES	YES ⁺
Other Controls	NO	NO	YES	YES^+	YES^+	YES^+
Observations	318	318	317	317	317	312
R-squared	0.012	0.045	0.119	0.157	0.191	0.274

Table 3: Standardized social trust in **INEQ** treatment. Extra Income Controls are fixed effects from the initial income questionnaire (the smaller set is questions 1-4, the larger set is all eight questions). Other Controls are age, gender, and student status. The larger set also includes risk aversion and a self-reported competitiveness measure. Standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1

5. Conclusions

Using both correlational evidence from a large social survey of British youth as well as causal evidence from online experiments, we provide robust evidence of non-negligible effects of both inequality exposure and personal relative position on social trust. We find that a higher personal relative position increases social trust, while mere exposure to inequality erodes it.

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Online Appendix "Personal Relative Position and Social Trust"

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For Online Publication

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A. Additional Details Online Studies

A.1. Pre-test

We pre-tested a general population's understanding of a number of different ways to illustrate income distributions. Participants (n=176) were randomly shown either one of the three income distributions depicted in Figure A.1. Subjects where told the picture represented the income distribution in a borough in England and were asked to pretend to be the individual highlighted in red. We asked three questions in order to test participants' understanding of the income distribution and their relative position within the borough.

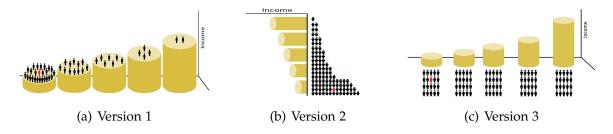


Figure A.1: The distributions used in Survey I.

The first question asked "Compared to the richest person in the borough, how high is your income?" Answer options were (i) equally high, (ii) more than half as high, (iii) less than half as high but more than a third, (iv) less than a third as high but more than a fourth, (v) at most a fourth as high and (vi) none of the above.

The second question asked "What is your relative position with respect to the population in this borough?" with answer options (i) most of the population has a much higher income than me, (ii) most of the population has a lower income than me, (iii) most of the population is poorer than me (iv) most of the population has a slightly higher income than me and (v) none of the above.

The third question asked "Which of the following statements best describes the image above?" with answer options (i) Only a small fraction of the population in the borough has a high income. Most of the population has a low income level and I belong to this part; (ii) Only a small fraction of the population in the borough has a low income. Most of the population has a high income level and I belong to this part; (iii) A high fraction of the population has a low income level and I belong to this part; (iv) A high fraction of the population in the borough has a low income. Only a small portion of the population in the borough has a low income. Only a small portion of the population has a high income level and I belong to this part and (v) none of the above.

We accepted answers (iii)-(v) as correct in the first question, answers (iv) and (v) in the second question and answer (i) in the third question. We found that respondents did not understand Version 3 at all and they understood Version 1 somewhat better than Version 2.

B. Instructions

B.1. Income Questionnaire

Before commencing the main experiment, we will ask you some questions about yourself. Please answer to these questions truthfully. Your answers will be used for the purpose of this experiment only and will be treated confidentially.

- 1. How would you primarily characterize your social class?
 - Working class
 - Lower middle class
 - Middle class
 - Upper middle class
 - Upper class
- 2. What is your annual gross (parents') household income?
 - Less than 15.000 GBP
 - Between 15.000 25.000 GBP
 - Between 25.000 35.000 GBP
 - Between 35.000 45.000 GBP
 - Between 45.000 55.000 GBP
 - More than 55.000 GBP
- 3. How much rent does your (parents') household currently pay?
 - Less than 400 GBP per month
 - Between 400-600 GBP per month
 - Between 600-800 GBP per month
 - Between 800-1000 GBP per month
 - Between 1000-1200 GBP per month
 - More than 1200 GBP per month
 - My (parents') household lives in owned property
- 4. Including yourself, how many members does your (parents') household have?

- 1
- 2
- 3
- 4
- 5
- More than 5
- 5. At which grocery store does your (parents') household do their weekly shopping?
 - Aldi
 - Asda
 - Lidl
 - Mark and Spencer
 - Sainsbury's
 - Tesco
 - Waitrose
 - Other
- 6. If you have to buy a new mobile phone, which price are you usually willing to pay?
 - Less than 200 GBP
 - Between 200-400 GBP
 - Between 400-600 GBP
 - Between 600-800 GBP
 - More than 800 GBP
- 7. If you go on holidays abroad where are you most likely to go?
 - I never go to holidays abroad.
 - Spain, Portugal or Greece.
 - Spain, Portugal, Greece, Italy or France.
 - Anywhere in Europe, and some non-European countries.
 - Anywhere in the world.
- 8. About how much does your (parents') household spend eating out every week?
 - Less than 25 GBP per week
 - Between 25-50 GBP per week
 - Between 50-100 GBP per week
 - Between 100-200 GBP per week
 - More than 200 GBP per week

9. Where were you educated?

- At a comprehensive
- A grammar school
- Private school, not boarding
- Private school, boarding

C. Additional Tables

sample	NS 8	Or	nline
Age	25.3	34.0	35.1
Female	0.55	0.66	0.63
Student	0.07	0.19	0.25
Low income	0.57	0.51	0.54
High income	0.08	0.14	0.14
Causal	NO	YES	YES
Treatment	-	REL	INEQ
N	6906	322	318

Table C.1: Characteristics of Next Steps 8 and online experiment participants.

	Social Trust EVS		
	(1)	(2)	(3)
Medium income	0.153***	0.148***	0.113
	(0.0487)	(0.0488)	(0.561)
High income	0.215***	0.206***	-0.527
	(0.0601)	(0.0604)	(0.667)
Gini		1.244	0.840
		(0.839)	(1.034)
Gini × Med income			0.136
			(2.066)
Gini × High income			2.685
			(2.436)
Constant	0.291***	-0.037	0.074
	(0.055)	(0.228)	(0.282)
Individual Controls	YES	YES	YES
Region Controls	NO	NO	NO
Observations	607	607	607
R-squared	0.044	0.047	0.049

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table C.2: Social Trust in the European Value Survey. Individual controls are age, gender and religion fixed effects. The region controls are population size, ethnic diversity (share of white population) and the share of the population living in an urban area.

D. Additional Figures

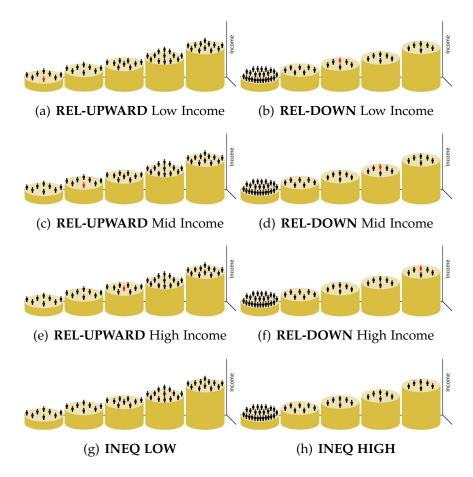


Figure D.1: The pictures show the low and high information pictures for the different income categories (**REL**) as well as the information shown when relative position is *not* communicated (**INEQ**).