

Income, Inflation, and Institutional Confidence

A Cross-National Analysis

Byunghwan Son
George Mason University
bson3@gmu.edu

March 2025



A Shot of Steve™ ⚡

@stevekoehler22.bsky.social

I just got approved for financing
on a dozen eggs.

January 26, 2025 at 11:27 AM 🧑🏻🗨️ Everybody can reply

- It's outrageous.
- But does it provoke a **political** reaction?



A Shot of Steve™ ⚡

@stevekoehler22.bsky.social

I just got approved for financing
on a dozen eggs.

January 26, 2025 at 11:27 AM 🧑🏻‍🗨️ Everybody can reply

- It's outrageous.
- But does it provoke a **political** reaction?



A Shot of Steve™ ⚡

@stevekoehler22.bsky.social

I just got approved for financing
on a dozen eggs.

January 26, 2025 at 11:27 AM 🧑🏻‍🦱 Everybody can reply

- It's outrageous.
- But does it provoke a **political** reaction?

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to divergent institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to divergent institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to **divergent** institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to **divergent** institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to **divergent** institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to **divergent** institutional confidence.

Motivation

Some questions

- How do national economic conditions affect institutional confidence?
- Do all income groups react similarly to economic changes?

Literature

- Institutional confidence is shaped by economic conditions (Citrin, 1974; Keele, 2007).
- The public evaluates institutions based on economic performance.
- The poor and rich have different political efficacy and institutional trust (Solt, 2010; Bartels, 2018).

✱ Unfavorable economic conditions should lead to **divergent** institutional confidence.

Key Argument

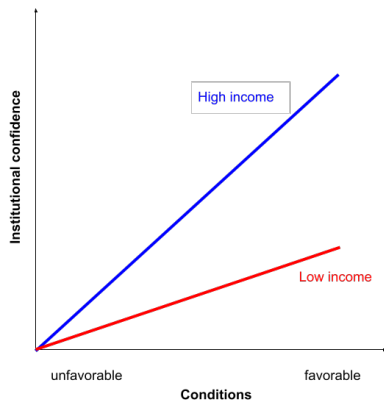
- The **rich** expect institutions to serve their interests and hold them accountable for economic conditions.
- The **poor**, perceiving political inefficacy, do not attribute economic changes to institutions.

Key Argument

- The **rich** expect institutions to serve their interests and hold them accountable for economic conditions.
- The **poor**, perceiving political inefficacy, do not attribute economic changes to institutions.

Key Argument

- The **rich** expect institutions to serve their interests and hold them accountable for economic conditions.
- The **poor**, perceiving political inefficacy, do not attribute economic changes to institutions.



Data and Variables

Level-1 Data

- WVS: income and other controls
- 1990-2022, 87 countries, 227 country-waves.

Outcome variable

- Institutional confidence

$$\frac{(\text{government} + \text{parliament} + \text{parties} + \text{civilservice})}{4}$$

Standardized Inflation Variable

- GDP deflator, WDI

$$\mu_{it} = \frac{\text{inflation}_i - \text{inflation}_{it}}{\text{inflation}_i^{SD}}$$

Data and Variables

Level-1 Data

- WVS: income and other controls
- 1990-2022, 87 countries, 227 country-waves.

Outcome variable

- Institutional confidence

$$\frac{(\textit{government} + \textit{parliament} + \textit{parties} + \textit{civilservice})}{4}$$

Standardized Inflation Variable

- GDP deflator, WDI

$$\mu_{it} = \frac{\textit{inflation}_i - \textit{inflation}_{it}}{\textit{inflation}_i^{SD}}$$

Data and Variables

Level-1 Data

- WVS: income and other controls
- 1990-2022, 87 countries, 227 country-waves.

Outcome variable

- Institutional confidence

$$\frac{(\text{government} + \text{parliament} + \text{parties} + \text{civilservice})}{4}$$

Standardized Inflation Variable

- GDP deflator, WDI

$$\mu_{it} = \frac{\text{inflation}_i - \text{inflation}_{it}}{\text{inflation}_i^{SD}}$$

Model (TWFE) and Result

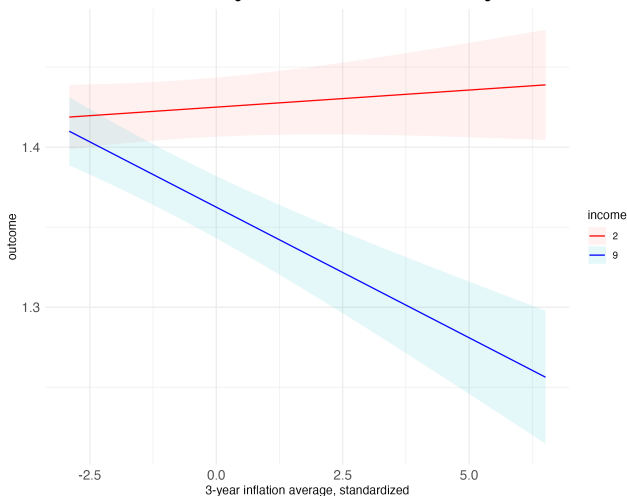
$$\text{Confidence}_{it} = \beta_0 + \beta_1 \text{Inflation}_{it} + \beta_2 \text{Income}_{ijt} + \beta_3 (\text{Inflation} \times \text{Income})_{ijt} + \alpha_i + \delta_t + X + \varepsilon_{ijt}$$

Model (TWFE) and Result

$$\text{Confidence}_{it} = \beta_0 + \beta_1 \text{Inflation}_{it} + \beta_2 \text{Income}_{ijt} + \beta_3 (\text{Inflation} \times \text{Income})_{ijt} + \alpha_i + \delta_t + X + \varepsilon_{ijt}$$

Model (TWFE) and Result

$$\text{Confidence}_{it} = \beta_0 + \beta_1 \text{Inflation}_{it} + \beta_2 \text{Income}_{ijt} + \beta_3 (\text{Inflation} \times \text{Income})_{ijt} + \alpha_i + \delta_t + X + \varepsilon_{ijt}$$



Multilevel Causal Mediation Analysis: idea

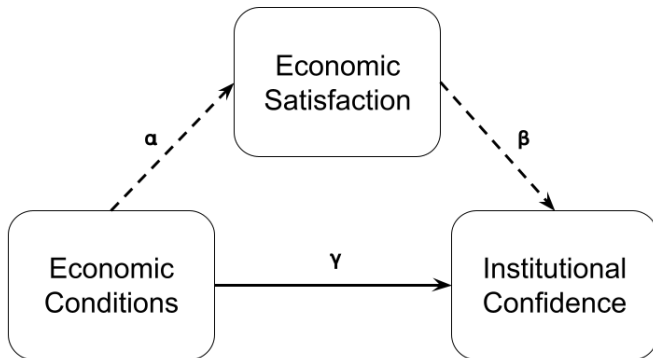
- inflation → dissatisfaction → confidence is only assumed
- Economic distress translates into institutional distrust among the rich.

Multilevel Causal Mediation Analysis: idea

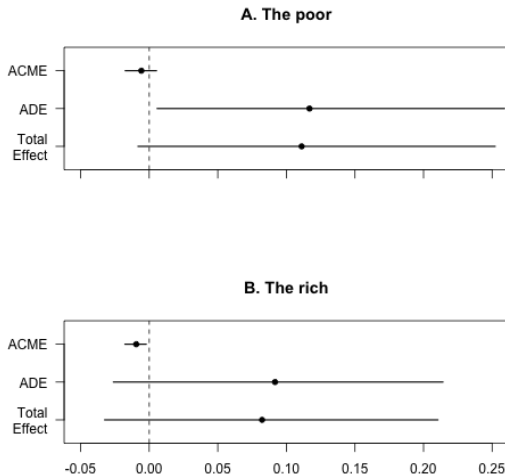
- inflation → dissatisfaction → confidence is only assumed
- Economic distress translates into institutional distrust among the rich.

Multilevel Causal Mediation Analysis: idea

- inflation \rightarrow dissatisfaction \rightarrow confidence is only assumed
- Economic distress translates into institutional distrust among the rich.



Multilevel Causal Mediation Analysis: result



Moderating Role of Political Inequality

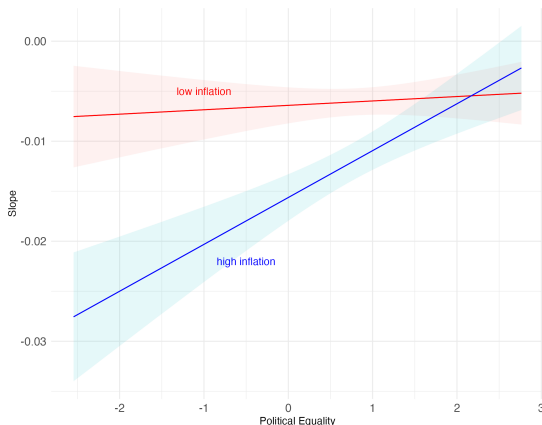
- In highly unequal societies, the income gap in institutional confidence widens under inflation.
- Three-way interaction: $\mu_{it} \times Income_{ijt} \times Pollinequality_{it}$

Moderating Role of Political Inequality

- In highly unequal societies, the income gap in institutional confidence widens under inflation.
- Three-way interaction: $\mu_{it} \times Income_{ijt} \times PollInequality_{it}$

Moderating Role of Political Inequality

- In highly unequal societies, the income gap in institutional confidence widens under inflation.
- Three-way interaction: $\mu_{it} \times Income_{ijt} \times PollInequality_{it}$



Conclusions & Implications

- Income levels are related to efficacy, which results in differential institutional confidence.
- Challenges the assumption that economic downturns equally undermine public trust.
- Highlights the role of economic and political inequalities in shaping institutional confidence.
- Policy implications for addressing political disengagement among lower-income groups.

Conclusions & Implications

- Income levels are related to efficacy, which results in differential institutional confidence.
- Challenges the assumption that economic downturns equally undermine public trust.
- Highlights the role of economic and political inequalities in shaping institutional confidence.
- Policy implications for addressing political disengagement among lower-income groups.

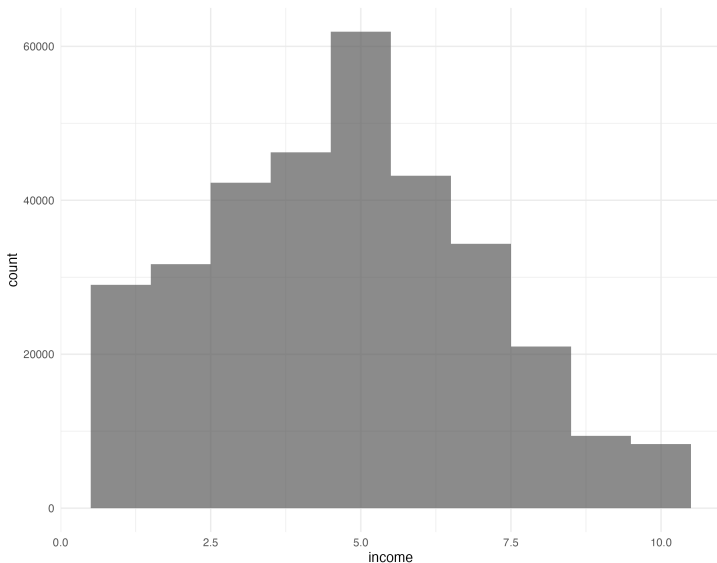
Conclusions & Implications

- Income levels are related to efficacy, which results in differential institutional confidence.
- Challenges the assumption that economic downturns equally undermine public trust.
- Highlights the role of economic and political inequalities in shaping institutional confidence.
- Policy implications for addressing political disengagement among lower-income groups.

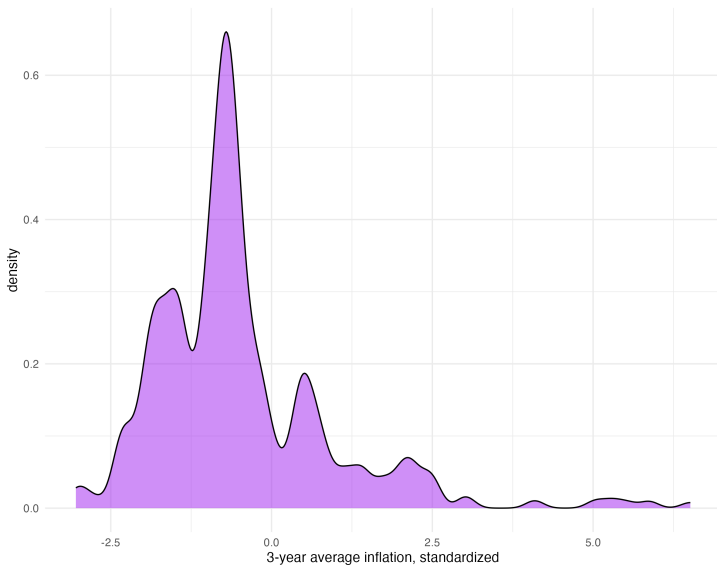
Conclusions & Implications

- Income levels are related to efficacy, which results in differential institutional confidence.
- Challenges the assumption that economic downturns equally undermine public trust.
- Highlights the role of economic and political inequalities in shaping institutional confidence.
- Policy implications for addressing political disengagement among lower-income groups.

Appendix 1: Income Data



Appendix 2: Inflation Data



Appendix 1: Institutional Confidence Data

