

Social Trust and Demand for Redistribution. Is There a Crowding Out Effect?

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Introduction

- The debate about the relationship between social capital the welfare state has produced contradictory results for a long time.
- The *crowding out* hypothesis states that the growth of the welfare state would erode social capital, as the action of the state leave no room for non-regulated spontaneous cooperation.
- The *crowding in* hypothesis states that there is virtuous circle between the size of the welfare state and the stock of social capital in a particular country, since generous welfare states (specially those relying on universalistic programs) will produce a particular sense of solidarity toward fellow citizens.
- In this paper I focus on the relationship between social trust and preferences for redistribution at the individual level in a sample of European countries belonging to different welfare regimes.

Trust and demand for redistribution

- The *crowding in* hypothesis is based on a normative approach. It argues that high levels of trust are important to maintain a well developed welfare state, since it reduces the cost of service provision and the cost of monitoring opportunistic behavior (Bjørnskov, 2011; Bjørnskov and Svendsen, 2013).
- Mature welfare states bolster the principle of reciprocity (the perception of mutual obligations between fellow citizens) to ensure the welfare of those who contribute to society (Rothstein, 1998; 2005). Universalistic programs are expected to promote trust, while mean-tested programs are expected to do the opposite.
- Kumlin and Rothstein (2005) find that Swedish citizens with more contacts to needs-tested programs display lower levels of social trust.

Trust and demand for redistribution

- The rational choice approach to preferences for redistribution is based on the idea that preferences depend on income (Meltzer and Richard, 1981).
- However, expectations about the future (Alesina and La Ferrara, 2005; Benabou and Ok, 2001), and fairness concerns (Benabou and Tirole, 2006; Piketty, 1995) have been incorporated into the rational choice model.
- Trust is a key element to understand the formation of preferences for redistribution. According to Bergh and Bjørnskov (2011):
 - Trust limits the problem of free-riding.
 - Trust affects the trustworthiness of the government bureaucracy.
 - Trust reduces cheating on taxes and seeking transfers.

Trust and demand for redistribution

- Aghion, Algan, Cahuc, and Shleifer (2010) derive existence of multiple equilibria in the relationship between trust and preferences for government intervention: a bad equilibrium (low trust and intense regulation) and a good equilibrium (high trust and low regulation)
- When trust is low, individuals tend to rely on government intervention to secure transactions. When trust is high, the government is less needed to promote economic exchange.
- Therefore, trust and preferences co-evolve. Societies get trapped in one or another equilibrium and it is difficult to move from one to another.

Trust and demand for redistribution

- Algan, Cahuc and Sangnier (2014) show the existence of a twin peaks relation between trust and the size of the welfare state at the aggregate level.
- Uncivic people support large welfare states because they expect to benefit from them without bearing their costs.
- However, civic individuals support generous benefits and high taxes only when they are surrounded by trustworthy individuals.
- Drawing on this model and focusing at the individual level, I argue that the lowest support for state intervention is expected at intermediate levels of trust.

Trust and demand for redistribution

- Trust has two different (and opposite) implications for preferences for state intervention:
 - Increasing trust implies the expectation that individuals will behave nicely without state coercion. Therefore, state intervention will be less *needed*.
 - However, it also implies less fear of others' will cheat on claiming benefits. Therefore, state intervention will be easily *tolerated*.
- Those who do not trust their fellow citizens are highly supportive of the welfare state because they want protection from externalities.
- At the same time, trustful individuals are expected to support state intervention because they are not concerned about cheating in claiming benefits.
- Moreover, we expect this pattern to be stronger in societies where redistribution through state intervention is more intense.

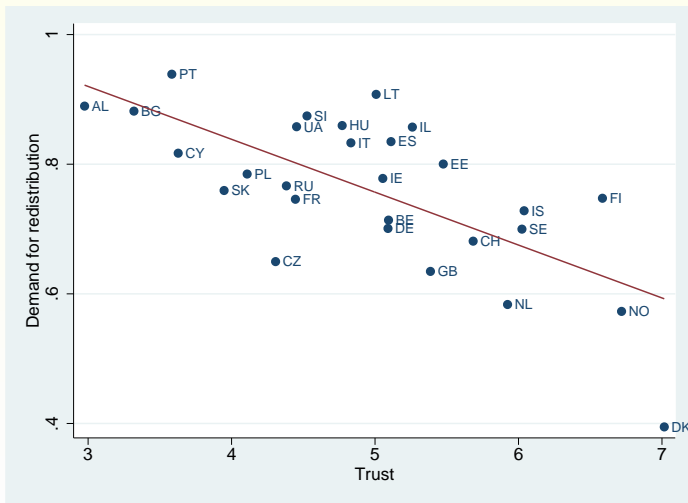
Variables

- The dependent variable is support for redistribution (“government should reduce differences in income levels”)
- The key explanatory variable is general trust (“most people can be trusted or you can’t be too careful”)
- Controls:
 - Gender
 - Age group
 - Years of education
 - Working status
 - Income
 - Religiosity
- Data: European Social Survey (2012)

Selection of cases

- Sweden belongs to the social-democratic welfare regime. High level of decomodification, universal welfare programs and high levels of redistribution through public policies.
- Germany belongs to the conservative welfare regime. Moderate level of decomodification. Social benefits mainly depend on labor status and contributions. Moderate levels of income redistribution.
- United Kingdom belongs to the liberal welfare regime. Low level of decomodification. Welfare services provided by the market. Low levels of income redistribution.
- Spain belongs to the Mediterranean welfare regime. Fragmented welfare services. Benefits connected to work status. Low levels of income redistribution.

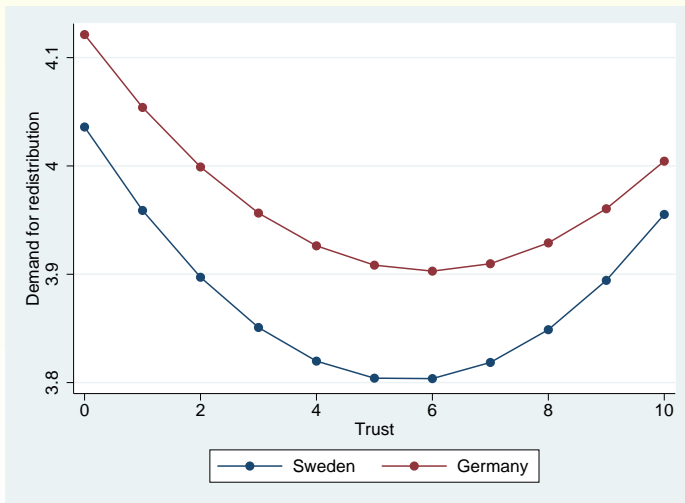
Trust and demand for redistribution



Trust and demand for redistribution

	Sweden	Germany	UK	Spain
Trust	-0.085** (0.041)	-0.073** (0.029)	-0.054 (0.047)	0.009 (0.035)
Trust ²	0.008** (0.004)	0.006** (0.003)	0.005 (0.005)	0.002 (0.004)
Female	0.317*** (0.044)	0.057 (0.039)	0.078 (0.050)	0.109** (0.045)
30-44 years	0.099 (0.071)	0.062 (0.065)	-0.076 (0.088)	0.041 (0.072)
45-59 years	0.292*** (0.071)	0.173*** (0.061)	-0.034 (0.089)	0.029 (0.076)
60 and older	0.297*** (0.071)	0.115* (0.063)	-0.103 (0.095)	-0.011 (0.084)
Years of education	-0.020*** (0.007)	-0.007 (0.006)	-0.017** (0.007)	-0.011** (0.004)
Unemployed	0.230** (0.104)	0.213** (0.094)	0.161 (0.106)	0.171*** (0.065)
Not in the labor force	0.002 (0.059)	0.183*** (0.048)	-0.127* (0.066)	0.008 (0.063)
Income (ln)	-0.081*** (0.017)	-0.136*** (0.017)	-0.190*** (0.022)	-0.061*** (0.021)
Religiosity	0.001 (0.008)	-0.041*** (0.006)	0.002 (0.009)	-0.031*** (0.008)
Constant	4.811*** (0.230)	5.288*** (0.177)	5.592*** (0.238)	4.667*** (0.192)
N	1605	2460	1712	1487

Trust and demand for redistribution



Conclusions

Main findings

- Neither the *crowding out* hypothesis nor the *crowding in* hypothesis are fully supported by the data.
- The effect of trust on preferences for redistribution is not linear. The demand for redistribution is low for intermediate levels of trust.

Open questions

- The relationship between trust and preferences for redistribution vary cross-nationally.
- The problem of endogeneity and (possible) reverse causation.

Thank you. Comments are welcome!!