

Trust as State Capacity

Presentation to WIDER Conference on the Puzzle of Peace

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The Challenge: How to Build Peaceful and Effective States

- Cohesion is key
 - Centrality of institutions
 - Building Civic Culture
- There is now an established state capacity literature in economics
 - State capacity is linked to peace
 - Strong link to institutional environment
- But a lot of the existing literature has looked at coercion as the principal tool of state strength.
 - Today will highlight the role of trust in building state capacity

Two Views of the State

- Leviathan (Hobbes/Weber)
 - The state is an essentially coercive authority
 - has a monopoly of legitimate use of force
 - Investments in coercive compliance underpin state effectiveness
 - improving detection and punishment
- Social Contract (Locke/Rousseau)
 - The state as a form of social contract.
 - Citizens and states have obligations.
 - Building trust is the key to state effectiveness
 - persuading citizens to comply for the good of society.

What is state capacity?

- The ability of the state to get things done
 - increasing the feasible set of policies available to government
 - also permitting existing policies to be delivered at lower cost/more effectively
- Multi-dimensional in nature
 - General: fiscal, legal and collective capacity are core
 - Bespoke: public health, defence, fighting climate change
- Tendency for positive comovement
 - clustering across space
 - accumulation over time

Cross-sectional correlations

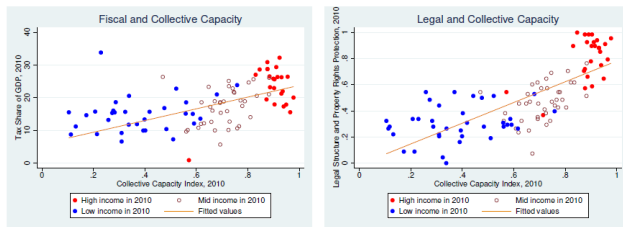


Figure 4: Collective Capacity and Fiscal and Legal Capacity, Conditional on Income

Strongly Associated with Measures of Fragility

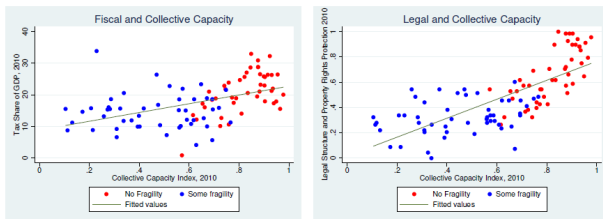


Figure 6: Collective Capacity and Fiscal and Legal Capacity, Conditional on Fragility

Why does it matter?

- Directly
 - Allows the state to contribute to core human capabilities
- Indirectly
 - It is a bell-weather of flourishing societies
- Two ends of the spectrum
 - Cohesive capitalist countries that emerged in the post war era has strong state capacity.
 - Fragile states function poorly on almost all dimensions of state capacity

Where does it come from?

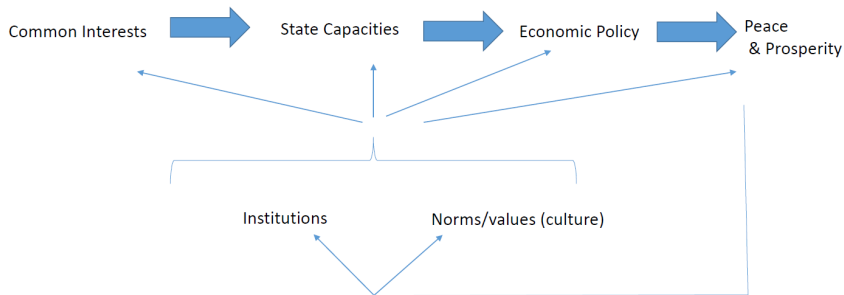
- Two core approaches
 - State capacity viewed as top down investment
 - a particularly kind of “intangible” capital
 - State capacity is about building cohesive polities
 - strengthening the social contract between states and citizens
- First is fairly well-understood by economists
- Second is work in progress
 - will be the subject of my remarks today
 - at the heart of it lies the role of trust

- Now figures centrally in accounts of how market economies function
 - interpersonal trust allows better enforcement of contracts
 - allows cooperation for provision of public goods
- Trust in government
 - Is distinct but related
 - There is a huge literature
 - but not so well connected to literature on state effectiveness
- Linked to literature on government legitimacy
 - Mostly by lawyers, political scientists and psychologists (Margaret Levi and Tom Tyler)
 - Excellent field experiments by Jonathan Weigel on DRC

Today's Presentation

- Core ideas around building state capacity
- Discuss where trust in government fits in
 - Will outline a conceptual framework
 - developed in detail in work with Sacha Dray
 - Use the framework to build a narrative around some evidence within and between countries
- Use this to outline some puzzles and an agenda

Understanding State Capacity



Unpacking what we mean by common interests

- Underlying cleavages matter
 - shaped by
 - history
 - geography
 - culture
- Cohesion and institutions
 - constraints on executive power
 - nature of coalitions formed
 - can depend on the electoral system

Three Kinds of States

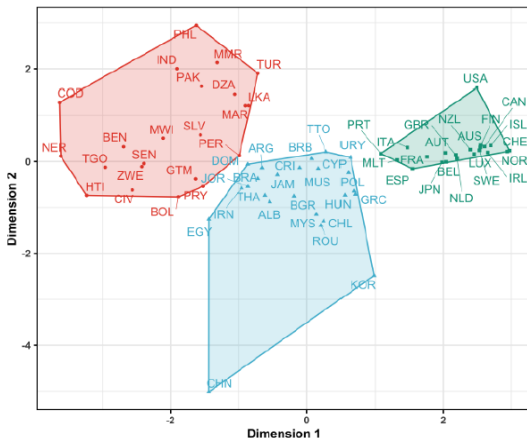
- Cohesive
 - peaceful and prosperous
- Redistributive
 - authoritarian but functional
- Weak
 - chaotic and dysfunctional

Conflict and State Capacity: Two Sides of Coin?

- The logic of political violence
 - peaceful management of cleavages is key
 - constraints on executive power a strong predictor of peace
- But alternative to peace is not always conflict
 - violent repression is often the alternative to open conflict
 - can enhance stability even when constraints are weak
- Fragile states are those where there is an endemic threat of open conflict
 - and repression is the alternative.

Conflict and State Capacity: Two Sides of Coin?

- Look at a vector of country attributes
 - Peace and state capacity seem emerge as common components (2016)



Hint that this may matter

- Construct an index based on state capacity and peace (Pillars or Prosperity Index)

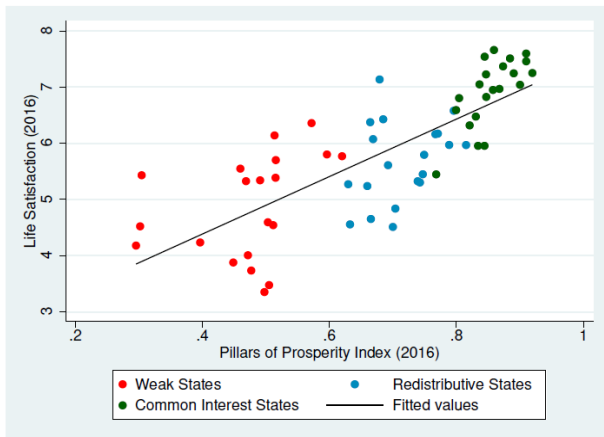
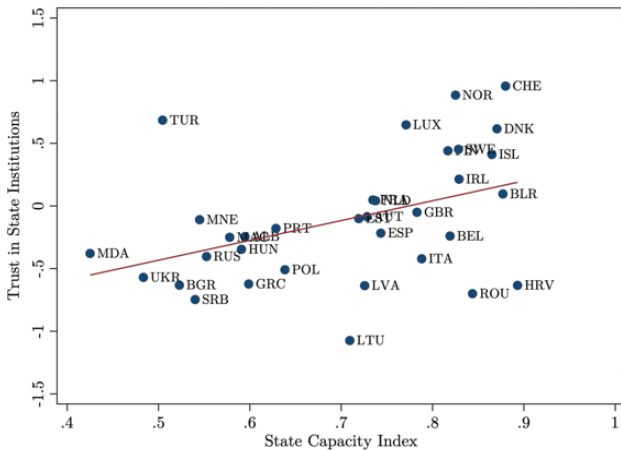


Figure 15: Life Satisfaction and the Pillars of Prosperity Index
Conditional on State Spaces, 2016

What's Trust Got to Do with It?

- Central to understanding legitimacy and effectiveness of states?
- Trust in people
 - Interpersonal
 - Trust in elites
- Trust in institutions
 - Police, parliament, courts etc...
- Lots of survey evidence from many sources
 - But real questions about what we learn from this.
 - And causality issues are particularly challenging.

Trust and State Capacity



Trust and State Capacity: A Conceptual Framework

- Motivated by work by Margaret Levi
 - Of Rule and Revenue (1989)
 - Consent Dissent and Patriotism (1997)
- Key ideas
 - quasi-voluntary compliance
 - conditional consent
- Government and citizens are in a reciprocal relationship
 - foundations of a social contract

- A government faces a policy problem
 - e.g. whether to introduce a lock down during a pandemic
- It is highly uncertain what the right policy is.
 - And government has limited capacity to enforce the policy coercively.
 - Moreover, compliance is costly for many citizens.
- What motivates citizens?
 - Classic economic model says pure self-interest
 - But there is plenty of compelling evidence that many citizens are partially pro-social
 - They can be convinced to comply with things they are convinced are “right”
 - There are many different ways of conceptualizing this

Stylized Framework

- Government announces the policy
 - including sanctions for non-compliance
- Citizens choose whether to comply
- High compliance makes the policy more effective.
- Why trust matters?
 - Citizens are concerned about
 - whether others will comply
 - whether government is acting in the public interest
- In a Bayes rational model, citizens form their beliefs based on observed actions
 - updating is conditional on trust

Trust as State Capacity

- Reciprocal links
 - Government trusts citizens to comply
 - so less need for coercive compliance
 - Citizens trust government to pick policies in the wider interest
 - This enhances compliance if citizens are pro-social
- Extensive margin
 - High trust situations lead to more intervention when it is needed
- Intensive margin
 - Interventions are more successful with high compliance

- Use 6 waves of the WVS and 5 waves of the EVS:
 - often known as the IVS (Integrated Values Survey)
- Data on
 - Trust in government institutions
 - Attitudes towards voluntary compliance
- Shows strong evidence of a link between trust and compliance
- (We can also show strong evidence within countries
 - Based on UK cohort studies.)

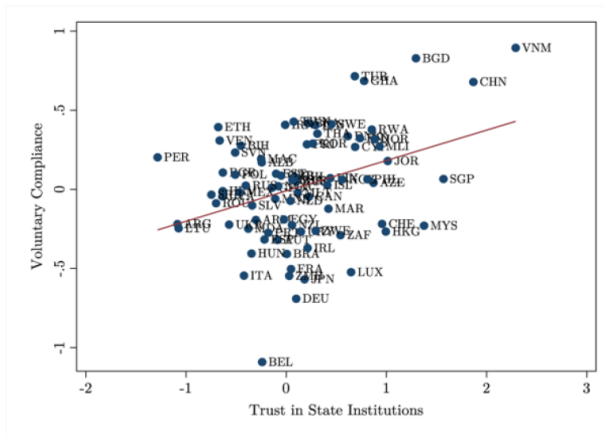
- Use question on whether respondents have "a great deal" or "quite a lot" of confidence in the following:
 - Government
 - Justice system/courts
 - Parliament
 - Police
 - Civil service
- Can also construct a principal component where loading factors are

Confidence in variables:	Factor loadings
Government	0.4197
Justice system/courts	0.4515
Parliament	0.4836
Police	0.4233
Civil service	0.4549

- Key variables:
 - Willing to pay higher taxes to protect the environment
 - Willingness to fight for the nation if called on
 - Is it justifiable to cheat on taxes?
- Can also construct a principal component where loading factors are

Compliance variables:	Factor loadings
Fight willingness	0.6304
Unjustifiable to cheat on taxes	0.6380
Higher taxes to preserve the environ.	0.4421

Trust and Compliance are Correlated Across Countries



What about within countries?

- Core specification

$$y_{ict} = a_c + a_t + b\text{TrustGov}_{ict} + cx_{ict} + \varepsilon_{ict}$$

- x_{ict} include:
 - Demographics: age, gender, married, religion
 - Economic: education, employment, 17 job types, 10 income bands
 - Geography: World Bank region and income group, town size (5 cat)
 - Wave, and country FE: $\{a_c, a_t\}$
- Standard errors clustered at country level

Higher taxes to protect the environment

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Dependent Variable: Increase Taxes if used to Prevent Pollution</i>							
Confidence in Government	0.0779*** (0.0133)	0.0805*** (0.0137)	0.0641*** (0.00590)	0.0652*** (0.00587)	0.0678*** (0.00563)	0.0697*** (0.00551)	0.0697*** (0.00532)
Observations	164,528	164,528	164,528	164,528	164,389	164,389	164,389
Countries	75	75	75	75	75	75	75
Sample Period	1990 - 2009	1990 - 2009	1990 - 2009	1990 - 2009	1990 - 2009	1990 - 2009	1990 - 2009
R ²	0.0063	0.0098	0.056	0.057	0.061	0.072	0.074
Mean Dep. Var.	0.61	0.61	0.61	0.61	0.61	0.61	0.61
Average Confidence	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Study Design FE		X	X	X	X	X	X
Country FE			X	X	X	X	X
Geographic FE				X	X	X	X
Demographic FE					X	X	X
Economic FE						X	X
Year FE							X

Willingness to fight for country

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Dependent Variable: Willing to Fight for Country</i>							
Confidence in Government	0.106*** (0.0120)	0.105*** (0.0117)	0.0621*** (0.00515)	0.0615*** (0.00507)	0.0612*** (0.00493)	0.0625*** (0.00487)	0.0621*** (0.00493)
Observations	362,222	362,222	362,222	362,222	361,960	361,960	361,960
Countries	106	106	106	106	106	106	106
Sample Period	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020
R ²	0.013	0.022	0.11	0.11	0.14	0.14	0.14
Mean Dep. Var.	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Average Confidence	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Study Design FE		X	X	X	X	X	X
Country FE			X	X	X	X	X
Geographic FE				X	X	X	X
Demographic FE					X	X	X
Economic FE						X	X
Year FE							X

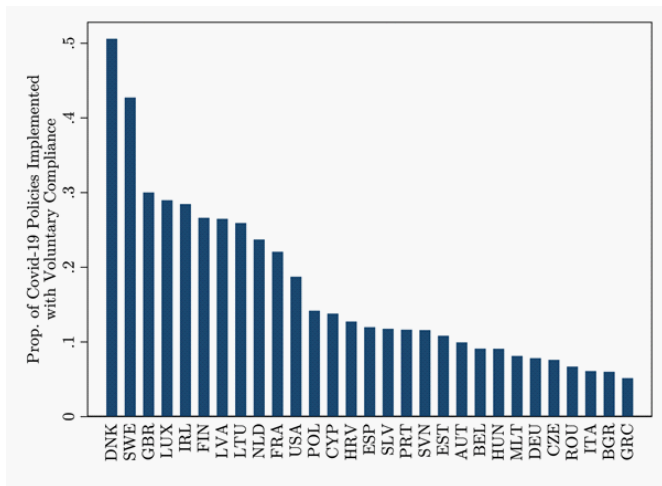
Justifiable to cheat on taxes

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Dependent Variable: Justifiable to cheat on taxes</i>							
Confidence in Government	-0.0216*** (0.00530)	-0.0218*** (0.00514)	-0.0197*** (0.00314)	-0.0198*** (0.00306)	-0.0170*** (0.00290)	-0.0177*** (0.00287)	-0.0182*** (0.00291)
Observations	462,896	462,896	462,896	462,896	462,635	462,635	462,635
Countries	112	112	112	112	112	112	112
Sample Period	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020	1990 - 2020
R ²	0.0013	0.0031	0.043	0.043	0.050	0.052	0.056
Mean Dep. Var.	0.094	0.094	0.094	0.094	0.094	0.094	0.094
Average Confidence	0.44	0.44	0.44	0.44	0.44	0.44	0.44
Study Design FE		X	X	X	X	X	X
Country FE			X	X	X	X	X
Geographic FE				X	X	X	X
Demographic FE					X	X	X
Economic FE						X	X
Year FE							X

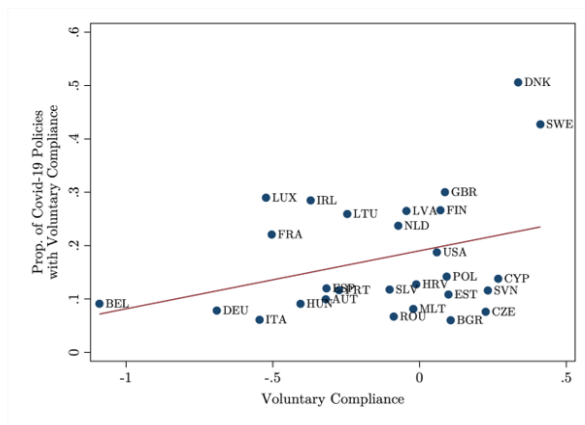
Trust and Compliance During the Pandemic

- Governments made heavy use of voluntary compliance
 - Social distancing
 - Vaccine uptake
 - Wearing masks
- We would expect countries with stronger trust to use more voluntary compliance
- Use evidence from CORONANET data:
(<https://www.corononet-project.org/>)
 - classifies policy according to the form of compliance
 - at the moment only using data from Europe and the US

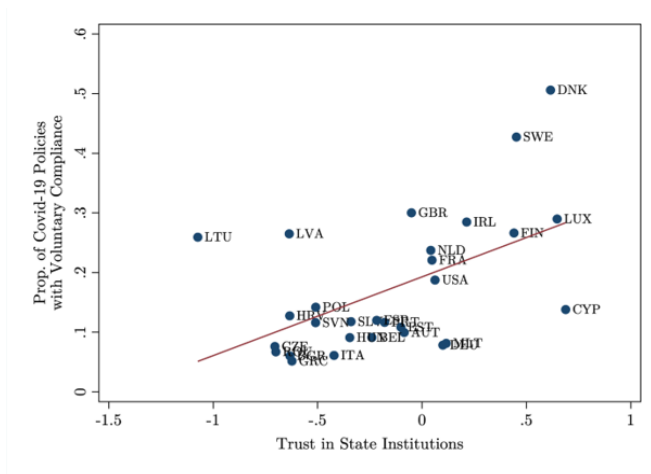
Big Differences in Use of Voluntary Compliance During the Pandemic



Voluntary Compliance Policies During COVID



Voluntary Compliance Policies During COVID



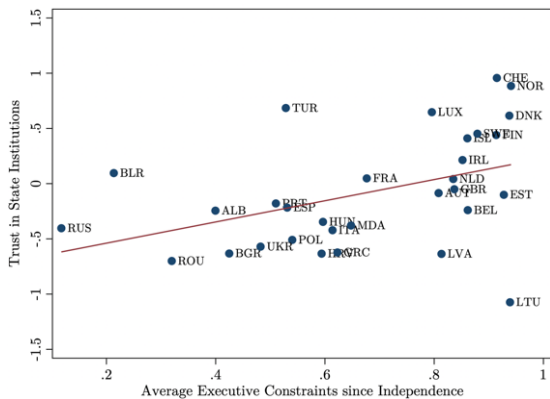
The Story So Far

- Elements of voluntary compliance are use for policy
 - lowering costs of implementing policies
 - expanding the set of feasible policies
- There are strong correlations in the data linking
 - willingness to comply
 - trust in state institutions
- Suggests that thinking about the determinants of trust could be important in building effective states

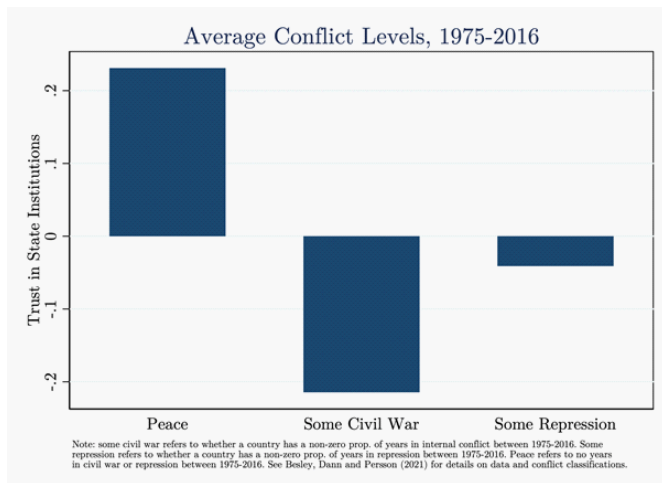
Where does trust come from?

- Institutions
 - selection and incentives
- Cultural factors
 - more polarized and fragmented societies
- Persistent effects of historical experiences
 - policy
 - outcomes
- Will make a few observations
 - but there is a bigger agenda here

Trust and Executive Constraints



Trust and Political Violence



- Very large literature looking at links between trust and conflict
 - In political science, economics and social psychology
 - Studies a wide variety of contexts and outcomes
 - With generally mixed findings
- Bauer, Blattman, Chytilová, Henrich, Miguel, and Mitts, JEP 2016
 - undertake meta analysis
 - argue that, if anything, war exposure tends to increase cooperation and pro-sociality
 - mainly looking at community based behaviors and interpersonal trust

Impressionable years and trust

- Idea is that salient event in early years have long-lived impacts
- Can explore within-countries
 - different age cohorts subject to different “shocks”
 - e.g. civil wars, revolutions and coups, debt defaults etc.
 - could allow long-lived effects of these shocks even once they finish
- Well-known example
 - Exposure to communism in Eastern Europe
- Will end by showing some evidence on this.

Events in Impressionable Years (24 different examples)

	Confidence in Government	
	(1)	(2)
Founding Democratic Election	-0.00828**	(0.00404)
Founding Autocratic Election	0.00218	(0.00595)
Colonial ruling	-0.0339	(0.0636)
GDP disaster	0.0263***	(0.00677)
Consumption disaster	-0.00983*	(0.00568)
Systemic crisis	-0.0121**	(0.00560)
Banking crisis	0.00413	(0.00463)
Currency crisis	0.0169**	(0.00701)
Inflation crisis	0.000795	(0.00558)
Domestic Debt Default	0.00260	(0.00708)
Foreign Debt Default	-0.00978	(0.00603)
Assassinations	0.0135**	(0.00550)

Events in Impressionable Years (24 different examples)

	Confidence in Government	
	(1)	(2)
General Strikes	0.0204***	(0.00520)
Guerrilla Warfare	0.00660	(0.00512)
Government Crises	-0.00568	(0.00606)
Purges	-0.0104**	(0.00420)
Riots	-0.00710	(0.00871)
Revolutions	0.00929	(0.00577)
Anti-Government Demonstrations	-0.0334***	(0.0121)
Coups d'Etat	0.0188***	(0.00632)
Major Constitutional Changes	0.0254***	(0.00563)
Multiple Changes in Executive Control	-0.0304*	(0.0169)
Civil War	-0.0258***	(0.00622)

Mistrust: a Legacy of Communism?



Mistrust: a Legacy of Communism?

- Comparing cohorts within countries

	(1)	(2)	(3)	(4)	(5)	(6)
	Confidence in Government		<i>Dependent variable is:</i> Trust in State Institutions		Voluntary Compliance	
Lived under communism	-0.315*** (0.041)		-0.739*** (0.074)		-0.878*** (0.037)	
Years under communism		-0.004*** (0.000)		-0.009*** (0.001)		-0.010*** (0.000)
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Survey wave FE	Yes	Yes	Yes	Yes	Yes	Yes
Survey year FE	Yes	Yes	Yes	Yes	Yes	Yes
Birth year FE	Yes	Yes	Yes	Yes	Yes	Yes
Income decile FE	Yes	Yes	Yes	Yes	Yes	Yes
Individual characteristics controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	40,558	40,558	31,452	31,452	23,108	23,108
Countries	18	18	17	17	18	18

Note: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$. Data comes from the Integrated Values Survey (IVS). Trust in state institutions and voluntary compliance are transformed into dummy variables based on whether respondents are above/below the median of the variable's distribution. All regressions are linear probability models, hence coefficients can be interpreted as probabilities. Income fixed effects refer to dummies for respondents' income deciles. Individual characteristics controls refer to dummies for whether the respondent is male, has tertiary education, and subjectively evaluates themselves as having good health. We also include two age bands for whether respondents are under 30 years of age or between 30 and 60, with over 60 being the base category. Country sample is post-communist Europe. Lived under communism is a dummy variable for whether the respondent was at least 15 years or older and living in a communist country. Years under communism is a count variable that is the number of years a respondent lived in a communist country up until the dissolution of the USSR.

Summary and Agenda

- Bringing trust in government more squarely into debates about state capacity
- BUT
 - that means study the origins of trust
 - rooted in institutions and cultural factors
- Trust building becomes a key part of building peace and prosperity
 - and needs to have a central place in discussion of creating peace and prosperity
 - especially through increasing state effectiveness
- BUT
 - there is still a lot to be learned
 - the causal patterns are likely to be complex
 - with a need to understand the dynamics

Thank you very much!!