RESEARCH INSIGHTS

IDB

How Much Do We Trust Others in Latin America and the Caribbean? The Role of Inequality and Perceptions

- **Inclusive growth requires high levels of trust, both among individuals and in institutions, and trust is shaped by a variety of factors, including the distribution of income and wealth. This is problematic when that distribution is not perceived as legitimate.**
- **Latin America and the Caribbean has traditionally been a highly unequal region. Inequality might be associated with lower trust because it reflects an unequal distribution of power, as those at the top can use the state's coercive power to benefit themselves at the expense of others.**
- **Inequality nonetheless tends to be wrongly estimated, as most people do not accurately estimate their country's income and wealth distribution, or their position within.**

CONTEXT

Trust directly affects growth. High levels of trust, both interpersonal and in institutions, are fundamental for fostering inclusive growth. While trust depends on a variety of factors, this document focuses on societies' distribution of income and wealth, and how perceptions and biases involving them affect people's trust. On average, highly unequal societies display lower trust. Actual wealth or income, however, is not the only factor that matters. Perceived inequality plays a significant role in levels of trust, and understanding how perceptions are formed is relevant to recognizing how actual and perceived inequality may differ.

THE PROJECT

This study, using micro data from the Latinobarometer and LAPOP surveys, addresses the role of trust in growth, the effects of inequality and perceptions of inequality on trust; it also discusses ways to increase trust. A Household Wealth Index was computed as a proxy for both income and wealth, a methodology that benefits from the likelihood of only a small measurement error for possessions. In addition, perception variables such as self-assessed social class or income distribution perceptions become central to understanding the gaps between actual and perceived wealth—and how those potential biases affect people's trust.

Key Concept

BONDING

creating and maintaining social networks with a homogenous group of people.

Key Concept

BRIDGING

creating and maintaining social networks composed of heterogeneous groups.

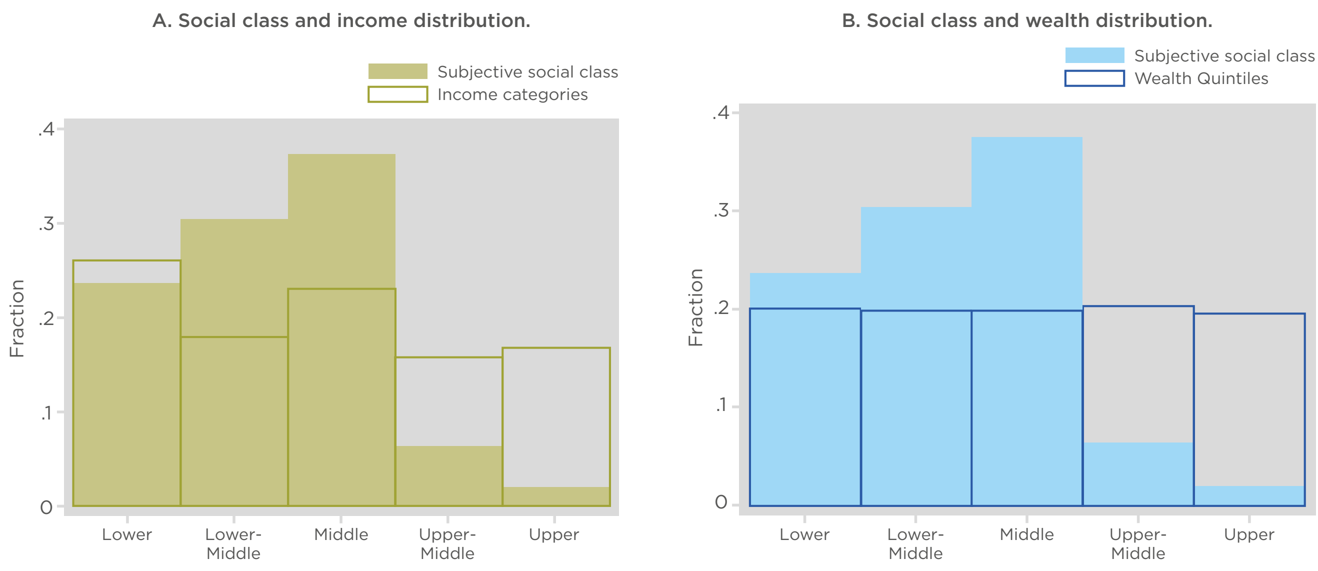
RESULTS

Macro level evidence, using Gini coefficient data as inequality measurement, and interpersonal trust data from the World Values Survey (WVS), indicates a negative correlation between trust and inequality. This finding is in line with the existing literature.

At the micro-level, individuals' perceptions—beyond actual wealth or income—seem to shape how trust and inequality correlate. Some scholars suggest that the disassociation between individuals' income levels, inequality, and trust occurs because individuals do not accurately assess national inequality levels and income distributions. Figure 1 explores those biases by contrasting a perception variable, self-stated social class, with wealth and self-stated income. Both panels display biases. Individuals in the higher quintiles of income and wealth distribution tend to believe that they belong to a lower class than the one reflected by their reported income or household wealth. At the other extreme, the poor overestimate their place in the income distribution.

How are these perceptions formed? To take as an example one of the variables, the perceived fairness of income distribution, some compelling results appear from a regression analysis. First, after controlling for individual and neighborhood characteristics, wealth is not significant in explaining perceptions. Second, perceptions are significantly affected by elements like education, access to public goods, or whether a person has been the victim of a crime. Older and more educated individuals generally see the income distribution as more unfair than do younger and less-educated individuals. Regarding the neighborhood characteristics, both crime and corruption victims tend to have a worse view of the income distribution, as do those who have access to worse education and health services. Again, neighborhood characteristics and personal experiences tend to determine perceptions of inequality more than actual differences in relative wealth.

Under/Over Estimation of Income and Wealth



Source: IDB staff calculations based on LAPOP data.
Notes: The wealth quintiles were created from the HH Asset Wealth Index (PCA) using a set of binary variables that states different household assets and characteristics. The ones considered are:[1] TV, [2] Fridge, [3] Landline, [4] Mobile phone, [5] Vehicles, [6] Washing Machine, [7] Microwave, [8] Computer, [9] Drinking water and [10] Indoor bathroom. The PCA was done per country, year and urban/rural. After that, according to the score, each household was assigned to a bin from 1 to 5 to generate wealth quintiles, as a proxy for household income. Social class is a self-assessment from the respondent and comes from the question: "*People sometimes describe themselves as belonging to a social class. Would you describe yourself belonging to …?*" In both panels, the gray bars represent the share of population, in the sample, self-assigned to each social class. For Panel A, the income categories come from a self-reported income, and the monthly household income is categorized in one out of 17 brackets going from zero (no income) to 16. Those 16 brackets were aggregated as following: from 0 to 3 to the lower class, 4 to 6 to lower-middle, 7 to 10 to the middle class, 11 to 13 to the upper-middle one and 14 to 16 to the upper class. The no income bracket was included in the lowest class and represents 3.99 percent of the entire sample. Panel B uses wealth quintiles. The sample includes data from three waves: 2014, 2016, 2018/2019.

POLICY IMPLICATIONS

1. Reducing inequality can increase social cohesion, as inequality arouses negative emotions and tends to fray the social fabric. Changes in those perceptions, sometimes fueled by misinformation, at least in part appear to underlie the significant drop in trust that most countries are experiencing.

2. Negative perceptions and biases regarding income distribution could be addressed through more and better information. Therefore, publicizing the actual income distribution could help individuals in aligning their views more closely with reality.

3. Strategies that increase social capital by bridging and by bonding could also work at the community level. Bridging and bonding would increase inclusion and help build communities around common goals. Creating cross-national, cross-partisan, cross-ethnic, and cross-religious identities seems to have a positive effect as well.

4. Improving the provision of public goods could also go a long way towards improving perceptions of inequality and raising levels of trust. Better education, better health services, improved local services, and lower crime are all ways to reduce perceptions of inequality. Fundamentally, keeping promises and spreading accurate information about promises kept may be the key to increasing trust.

5. Higher trust is a value in its own right. It generates the conditions for better public policies, particularly public goods that offer high long-term returns, such as education, health, and infrastructure. Those same returns may naturally reduce inequality—setting in motion a virtuous circle. As such, pushing society slightly in the right direction could move it far along a path of higher trust, higher growth, and lower inequality.

Key Concept

INTERPERSONAL TRUST

Trust is measured as a binary answer to the question: *Generally speaking, would you say that most people can be trusted, or one can never be too careful?*

FULL STUDY

Scartascini, C., and J. Valle. 2020. *"How Much Do We Trust Others in LAC? The Role of Inequality and Perceptions."*

DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

Research Insights #32: March 2021 www.iadb.org/res @IDB_research