DEVELOPMENT IN THE AMERICAS

TRUST

The Key to Social Cohesion and Growth in Latin America and the Caribbean

EXECUTIVE SUMMARY

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Trust is the most pressing and yet least discussed problem confronting Latin America and the Caribbean. Whether in others, in government, or in firms, trust is lower in the region than anywhere else in the world. The economic and political consequences of mistrust ripple through society. It suppresses growth and innovation: investment, entrepreneurship, and employment all flourish when firms and government, workers and employers, banks and borrowers, and consumers and producers trust each other. Trust inside private and public sector organizations is essential for collaboration and innovation. Mistrust distorts democratic decision-making. It keeps citizens from demanding better public services and infrastructure, from joining with others to control corruption, and from making the collective sacrifices that leave everyone better off. The good news is that governments can increase citizen trust with clearer promises of what citizens can expect from them, public sector reforms that enable them to keep their promises, and institutional reforms that strengthen the commitments that citizens make to each other. This book guides decision-makers as they incorporate trust and social cohesion into the comprehensive reforms needed to address the region's most pernicious challenges.

Contents of the Full Report

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Trust: The Key to Social Cohesion and Growth in Latin America and the Caribbean

Trust is the most pressing and yet least discussed issue confronting Latin America and the Caribbean. It underlies countless interactions that are essential for healthy societies. Voters choose candidates they believe will fulfill their electoral promises; firms invest and innovate expecting governments not to impose confiscatory taxes if innovation succeeds; employers pay workers even though they cannot be completely assured of worker effort, and workers exert effort expecting they will be paid; buyers rely on sellers to provide quality goods and services, which sellers deliver today expecting payment in the future; investors entrust their capital to managers of firms; citizens provide information to police, on whom they rely for protection; individuals get vaccinated and take medications recommended by doctors they depend on for healthy living. When trust is absent from these interactions, society and all its members suffer: politics is unstable; the quality of public policy deteriorates; economic growth slows; social equity wanes; and individual well-being declines.

But what exactly is trust? Trust, in this report, is the belief that others will not act opportunistically. They will not make promises they cannot keep, renege on promises they can keep, or violate norms to take advantage of other people who adhere to them. In short, trust is faith in others—in their honesty, dependability, and good will. Trustworthy people make promises they can keep, follow through on those promises, and do not violate social norms. Opportunistic behavior is a persistent threat everywhere. Those who engage in it can earn substantial rewards that the trustworthy forego—from the borrower who chooses whether to repay a loan, to politicians who elect whether to fulfill a campaign promise or divert public monies to their private interests.

The basis of a trusting society is the willingness of its members to resist these temptations.

A key issue in this book is the interaction of interpersonal (or generalized) trust with trust in government, two dimensions of trust that have usually been tackled separately. Government officials, like people in general, are more likely to act opportunistically—in an untrustworthy manner—when they cannot be held accountable for their actions. Large asymmetries in terms of information—citizens have a difficult time independently evaluating the work of government—and coercive power—citizens are obliged to abide by the rules set by the government—make it even simpler for politicians to act opportunistically. Working together, citizens can punish untrustworthy officials, for example by voting them out of office. Faced with such a prospect, officials have stronger incentives to pursue citizen interests rather than their own.

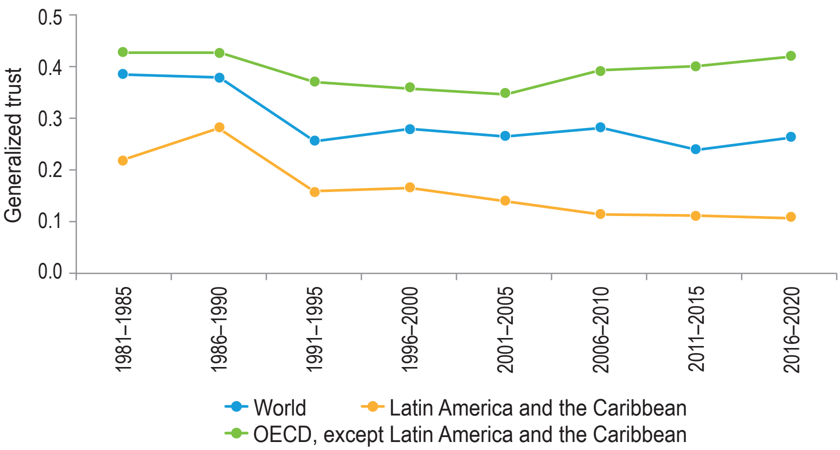
However, removing incumbents from office demands a collective act by citizens. Unfortunately, when citizens do not trust each other, they are less likely to work together to hold governments accountable. They are also less willing to enter into business transactions; to hire strangers; to pay their taxes; to ask governments to fund infrastructure projects and construct a better future for themselves and their offspring; and they are more likely to ask the government to provide them with immediate personal benefits in the form of subsidies and transfers instead of demanding more efficient and effective investment in public goods.

A Region That Does Not Trust

Given the importance of interpersonal trust for most social, political, and economic interactions, its low level and decline in Latin America and the Caribbean are a source of concern (Figure 1). Worldwide, the fraction of people believing that most people can be trusted (generalized or "interpersonal" trust) dropped

from 38 percent in the 1981–1985 period to 26 percent in 2016–2020, according to the Integrated Values Survey data. In Latin America and the Caribbean, the decline is even more dramatic, with trust levels plunging from 22 percent to 11 percent. Only 1 in 10 considers that other people can be trusted. As shaky as trust is in the rest of the world, it is lower in Latin America and the Caribbean than anywhere else.

Figure 1 ▶ Declining Trust in Latin America and the Caribbean

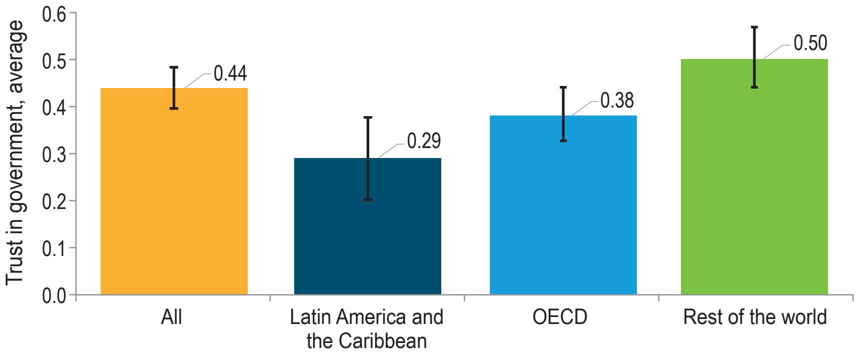


Source: Authors' calculations based on data from the Integrated Values Survey, which compiles the seven waves of the World Values Survey (1981–2020) and the five waves of the European Values Study (1981–2020).
Note: Generalized trust is calculated from answers to the question, *"Generally speaking, would you say that most people can be trusted, or that you need to be very careful in dealing with people?"* Trust is equal to 1 if the respondent answers, *"Most people can be trusted"* and 0 otherwise. The trust variable was aggregated at the country level as a weighted average from individual observations, and after that, averaged in five-year brackets. When data from a country is available in both surveys for a given year, the simple average of those values was used. OECD countries per year are included when a country acquired its membership. The OECD group of advanced economies excludes Latin American and Caribbean countries: Colombia, Chile, and Mexico. The total sample is 115 countries. The 16 Latin American and Caribbean countries included in the sample are Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Mexico, Nicaragua, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

This book explores the many ways that interpersonal mistrust ripples through society, with significant implications for trust in government, institutions, and the private sector. The low

levels of interpersonal trust and the low capacity to hold governments accountable is reflected in high mistrust in government. According to the Integrated Values Survey, over the period 2010–2020, an average of fewer than 3 in 10 Latin American and Caribbean citizens trusted their government. Mistrust of government is a worldwide problem, but it is greatest in Latin America and the Caribbean, even if the differences are not as dramatic as with interpersonal trust (Figure 2).

Figure 2 ▶ Trust in Government across Regions

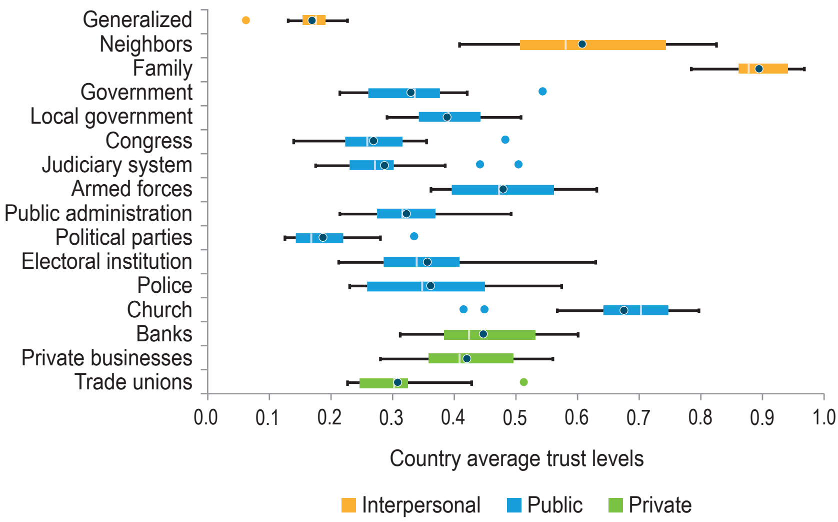


Source: Authors' calculations based on data from the Integrated Values Survey.
Note: Trust in government comes from the Integrated Values Survey (2010–2020), which compiles the sixth and seventh wave of the World Values Survey (1981–2020) as well as the fifth wave of the European Values Study (2017–2020). Trust in government comes from the question: "*Could you tell me how much confidence you have in [the government]: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all?" Answers were recoded so trust equals to 1 when the response is "a great of a deal*" or "quite a lot" and 0 otherwise. Each bar is a simple average from country-level data. The OECD group of advanced economies excludes Latin American and Caribbean countries: Colombia, Chile, and Mexico. The total sample encompasses 95 countries, and the Latin American and Caribbean countries included are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Haiti, Mexico, Nicaragua, Peru, Trinidad and Tobago, and Uruguay.

Institutions play a key role in helping citizens hold governments accountable. When they do, institutions help build trust in government. Judiciaries and legislatures can place checks on government behavior that limit government capacity to act opportunistically. Political parties can be effective vehicles to promote the collective action of citizens to hold governments accountable. Unfortunately, the opposite is also true; distrust of institutions renders them part

of the problem rather than the solution. In Latin America and the Caribbean these institutions often do not perform their intended roles. Rather than increasing trust in government, they become part of the crisis of trust (Figure 3).

Figure 3 ▶ Trust Levels by Type of Institution and Business



Source: Authors' calculations based on data from the Latinobarometer Survey (2010–2020).
Note: Generalized trust is calculated from the answers to the question, "*Generally speaking, would you say that you can trust most people, or that you can never be too careful in dealing with others?*" Trust is equal to 1 if the respondent answers, "*One can trust most people*" and 0 otherwise. The variables related to trust in other institutions/groups are computed from the question: "*How much trust do you have in each of the following groups/institutions. Would you say you have a lot (1), some (2), a little (3), or no trust (4) ...?*" Answers were recoded so trust is equal to 1 if the respondent answers, "*A lot*" or "*Some*," and 0 when the answer is "*A little*" or "*No trust*." The weighted average per country is computed from the individual-level data. The lines in the boxplot represent the median (50th percentile) and the dark blue markers show the average value of each category. The sample includes 18 countries from the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Of course, if people do not trust each other, government, courts, or political parties, not surprisingly they do not trust the private sector either. In Latin America and the Caribbean, low trust in the private sector and business mirrors low trust in public institutions. If people believe that, in general, others cannot be

trusted, they are even more likely to believe that firms will try to take advantage of workers, consumers, and each other. Their suspicion is reinforced when they also distrust the institutions that are supposed to rein in untrustworthy behavior of businesses, such as courts and government regulators.

Trust: The Glue for Social Cohesion and Citizenship

Individuals who trust each other band together to build thriving societies. People with a belief that others will not act opportunistically experience a sense of cohesion that enables them to work towards a common goal. Low-trust societies do not exhibit such cohesion.

Social cohesion is an amorphous concept, involving notions of commitment or attachment to society or country and to its members. This book approaches the issue of cohesion from a perspective that emphasizes the roles of trust and citizenship.

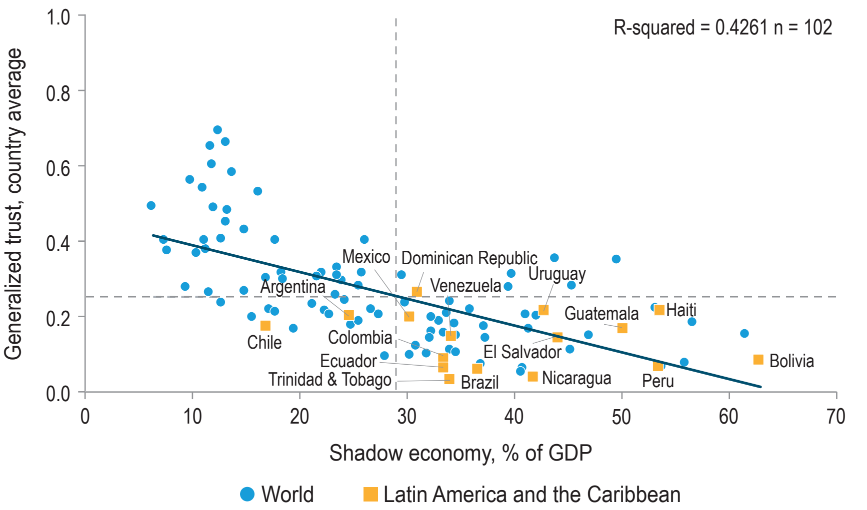
Citizenship is the willingness of citizens to make individual sacrifices in pursuit of collective endeavors that are central to a society's success. When interpersonal trust is low, collective endeavors are difficult and the bonds of citizenship fray. Citizens are less willing to make sacrifices, including paying taxes and obeying laws, associated with any public endeavor. They are less able to contribute to the collective effort of holding governments accountable for improving citizen welfare. When trust and citizenship are low, public policy offers fewer benefits to citizens as a whole and relatively more to narrow groups. By any definition, social cohesion tends to disintegrate in such environments: public policy has more unequal consequences, and disaffection with society increases.

The impact of mistrust on citizenship and social cohesion is no less damaging at the firm level. Where trust and citizenship are low, businesses and individuals in those businesses are more

willing to operate informally, either as a response to onerous and unnecessary regulation or as a signal of their willingness to seek private advantage at the community's expense.

Where generalized trust is low, confidence among businesses that the rules have been made in the public interest, and that others will comply with the rules, is likely to be low. Firms and individuals, therefore, opt for informality rather than regulatory compliance. Consistent with this expectation, among countries for which there are data on both, trust and informality are strongly negatively correlated. Latin American and Caribbean countries appear largely in the lower right-hand quadrant, where those with the least trust and greatest informality are located (Figure 4).

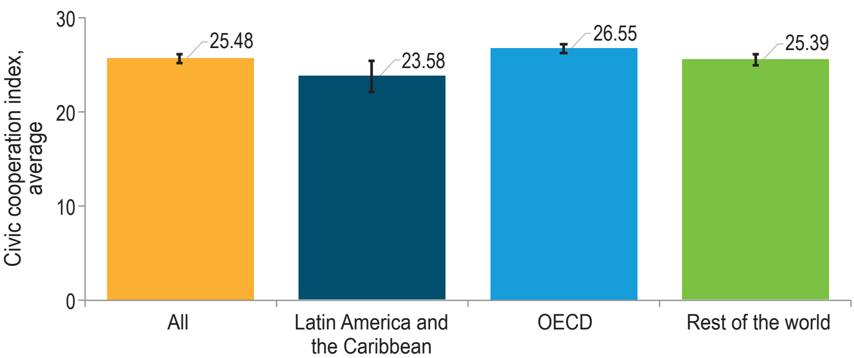
Figure 4 ▶ Relation between Trust and Informality



Source: Authors' calculations based on data from the Integrated Values Survey and the Shadow Economy Index. *Note*: The trust data comes from the Integrated Values Survey, which compiles the seven waves of the World Values Survey (1981–2020) and the five waves of the European Values Study (1981–2020). The Shadow Economy Index (1991–2017) comes from Medina and Schneider (2019). The authors define shadow or informal economy as "*economic activities which are hidden from official authorities for monetary, regulatory, and institutional reasons.[. . .] The shadow economy, in this paper, reflects mostly legal economic and productive activities that, if recorded, would contribute to national GDP, therefore the definition of shadow economy in our study tries to avoid illegal or criminal activities, do-it-yourself, or other household activities.*" Each point is the simple average of the observations of each country for the years 2010–2017 and 2010–2020, x-axis, and y-axis, respectively. The dotted lines represent the average values in the entire sample for each variable. The total sample encompasses 102 countries including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Haiti, Mexico, Nicaragua, Peru, Trinidad and Tobago, and Uruguay.

Survey-based measures of citizenship deliver a similar message: Latin American and Caribbean citizens are more willing to disregard community norms and to admit that in a survey. Three instances of such disregard are tracked by questions in the World Values Survey: whether respondents would claim government benefits to which they were not entitled, avoid a fare on public transport, or cheat on taxes if they had the choice. Figure 5 depicts the responses to these three questions. These norms of civic cooperation are significantly weaker in Latin America and the Caribbean than in the OECD and the rest of the world. Differences are not only statistically significant but economically meaningful (more than 12 percent difference). Among the components, "claiming a government benefit you are not entitled to" presents the highest difference—greater than 20 percent.

Figure 5 ▶ Civic Capital across Regions: Three Elements of Civic Cooperation



Source: Authors' calculations based on data from the Integrated Values Survey.
Note: The civic capital data come from the Integrated Values Survey (2010–2020), which compiles the sixth and seventh wave and the partial seventh wave of the World Values Survey (1981–2020) as well as the four waves of the European Values Study (1981–2008). The Civic Cooperation Index is based on the Knack and Keefer (1997) methodology and, because of data availability, uses only 3 out of 5 of the questions originally used in the methodology: a) "claiming government benefits which you are not entitled to," b) "avoiding a fare on public transport," and c) "cheating on taxes if you have the chance." The scale of variables was adjusted; thus, a higher number means higher civic cooperation. Each bar is a simple average from country-level data. The OECD group of advanced economies excludes Latin American and Caribbean countries: Colombia, Chile, and Mexico. The total sample encompasses 94 countries including Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, Mexico, Nicaragua, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

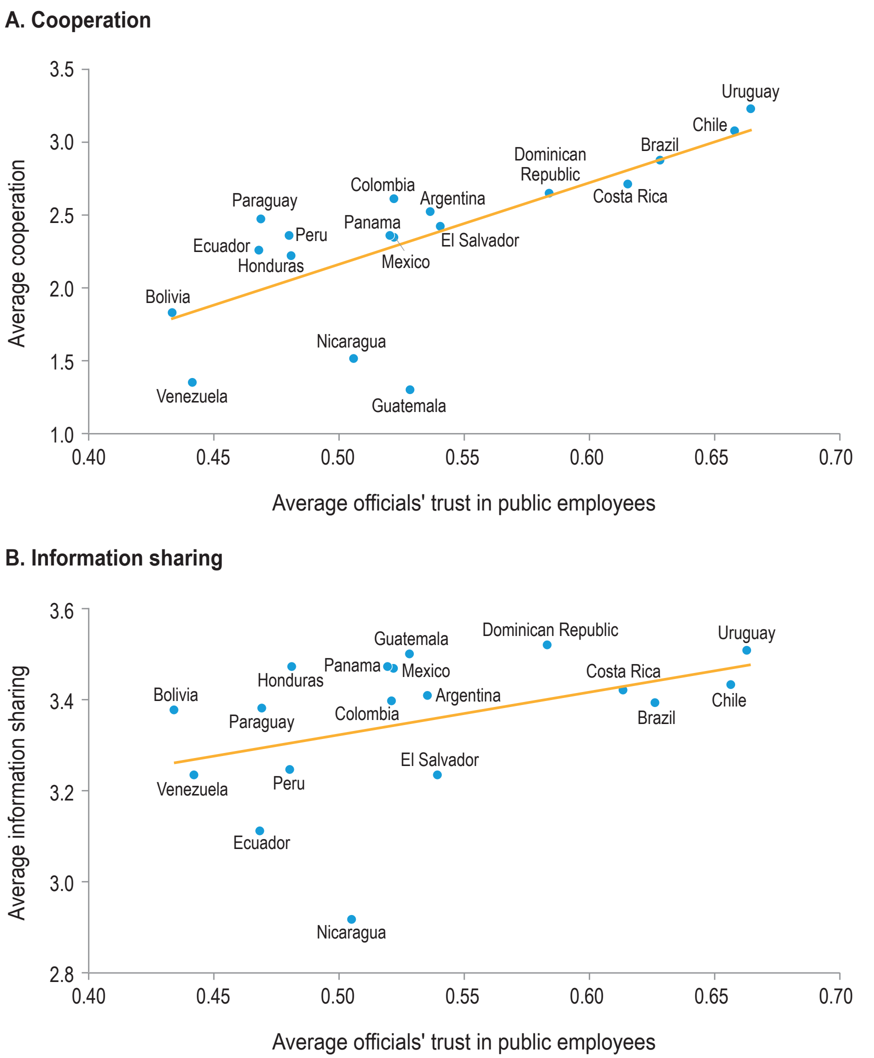
Mistrust within Government

The harmful effects of mistrust among citizens have another dimension that extends into the government agencies tasked with administering and implementing public policies. The behavior and attitudes of public employees working in those agencies are fundamental determinants of the performance of government agencies and, ultimately, the ability of governments to perform their functions. Successful policy implementation requires that public employees collaborate, are sensitive and responsive to citizen needs, and apply their discretion over public policy to maximize citizen welfare.

Trust enables collaboration on complex tasks within government agencies. Officials must work together with their colleagues, citizens, and public officials in other government agencies to implement government programs. To document the relationship between trust and cooperation in public sector agencies in Latin America and the Caribbean, the IDB Public Sector Survey in 2020 collected information from public employees on their trust and policy preferences. They responded to questions about trust in their coworkers, public employees in general, and citizens.

Among other things, the survey also solicited views about cooperation and information sharing. Comparing these responses across high- and low-trust respondents reveals a telling pattern of behavior among public employees: those who mistrust others show reduced cooperation and information sharing. Respondents who express greater trust in public employees are significantly more likely to report that cooperation enhances job performance and that they rely on information from colleagues (see Figure 6).

Figure 6 ▶ Public Employee Trust and Collaboration



Sources: Authors' elaboration based on IDB Public Sector Survey 2020 Database and Keefer, Perilla, and Vlaicu (2020).

Note: Cooperation measures respondents' agreement with the statement that team projects, shared tasks, and meetings affect the ability to do their job well. Cooperation values range from –5 to 5, where –5 represents "reduce a lot" and 5 represents "increase a lot." Information sharing measures how much respondents rely on information obtained from their coworkers. Information sharing values range from 1 to 4, where 1 represents "rely very little" and 4 represents "rely a lot." The officials' trust in public employees presents averages normalized to the unit interval.

Mistrust as a Growth Deterrent

Mistrust and weak bonds of citizenship among public employees and beyond heighten the region's chronic, urgent challenges of low growth and high inequality. Between 1980 and 2020, the average per capita growth rate of real GDP in Latin America and the Caribbean was below the world average. Other regions have narrowed the gap with the United States. Latin America and the Caribbean has not: on average, countries in the region closed only 4 percentage points of the per capita income gap with the United States, far less than the 47 percentage points achieved by East Asian countries.

In addition to being one of the slowest-growing regions in the world, Latin America and the Caribbean has long been the most unequal. Despite notable recent advances, the region is still about 50 percent more unequal than the average developed country. Studies from the Economic Commission of Latin America and the Caribbean show that the share of people belonging to the high-income strata rose from 2.2 percent to 3 percent between 2002 and 2017, but in 2014, the richest 10 percent of the population still received 40.5 percent of national income in Brazil, and 39.7 percent in Mexico.

Trust and citizenship significantly impact all the key drivers of growth and inequality. Economic growth depends on public policies and institutions to accommodate and encourage it. The most important decisions that drive economic growth—to invest, employ, produce, buy, or sell—all depend on trust. The most productive, skilled, and innovative individuals have greater economic opportunities in high-trust societies; in societies without trust, these opportunities are limited.

Mistrust distorts economic activity through three specific pathways. One is between government and firms. Governments use a myriad of policies to promote economic activity. If firms mistrust government, they are less likely to respond to the fa-

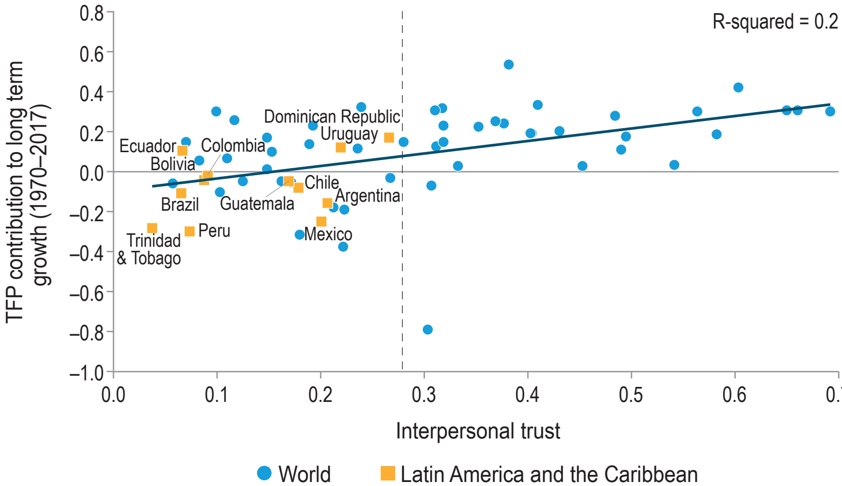
vorable conditions that such policies might create. Another pathway starts with interpersonal mistrust among citizens and significantly affects government regulation of firms. Citizens who mistrust both government and firms demand excessive regulation from the government, which saddles firms as they try to innovate, expand, and grow. The third pathway leads from interpersonal mistrust to the way in which firms organize themselves internally and conduct business with each other. Within firms, interpersonal mistrust restricts decision-making to the family, rather than delegating responsibility to potentially more qualified external workers. Between firms, mistrust raises the costs of transactions, favoring incumbents that have been in business for a long time and creating barriers to entry to new, more efficient firms.

Mistrust limits the free movement of workers, capital, and ideas to more productive firms. It also reduces firm incentives to deploy the most advanced production methods, expand into new markets, invest in new products and processes, and train workers. Instead, firms make large and unproductive investments to shield themselves from the untrustworthy behavior of others. Just one example of such investments is the 1.4 percent of GDP that firms in Latin America and the Caribbean spend on security to protect themselves from crime.

In the absence of productivity, firms turn to using more workers, capital, and land to grow richer. However, these strategies raise growth at ever diminishing rates when productivity is stagnant. Figure 7 illustrates this phenomenon: total factor productivity contributes less to economic growth in low-trust than in high-trust countries. Countries from the region, with low trust and low productivity growth, anchor the left side of the upward sloping line. In contrast, East Asian countries, such as Vietnam and China, are on the right end. They have grown rapidly over decades, in part thanks to high levels of interpersonal trust.

Another way in which mistrust hinders growth is excessive regulation. Citizens who mistrust firms and government are more

Figure 7 ▶ Interpersonal Trust and the Contribution of Total Factor Productivity to Growth



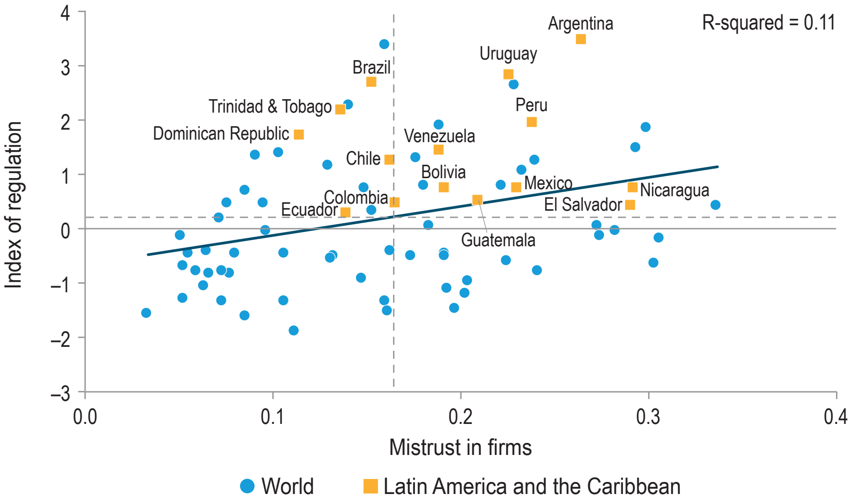
Source: Authors' calculations based on data from the Integrated Values Survey, which compiles the seven waves of the World Values Survey (1981–2020) and the five waves of the European Values Study (1981–2020), and Penn World Tables (1950–2017).

Note: The figure depicts cross-country comparisons of aggregate total factor productivity (TFP), the contribution of productivity to growth, and long-term growth based on country-level measures of interpersonal (generalized) trust. Data related to productivity and growth come from the Penn World Tables and are calculated by taking country-level averages. Data from interpersonal trust come from the Integrated Values Survey and are computed as a simple average of all the available survey waves for each country. Interpersonal trust is thus measured as the share of citizens responding that, in general, it is possible to trust in people.

apt to demand strict rules that keep businesses from polluting excessively, reneging on their contractual obligations to workers and suppliers, or misrepresenting the quality of their products to customers. Figure 8 illustrates this phenomenon, demonstrating how mistrust of firms is associated with more stringent requirements to start and scale up businesses. Trust accounts for around 11 percent of the cross-country variation in regulation. The association is nowhere stronger than in Latin America and the Caribbean, where both mistrust in firms and regulatory stringency are high.

Aside from firm entry, public policy determines myriad ways in which societies function, from investment in education systems to building new infrastructure. Public policy fail-

Figure 8 ▶ Regulation Stringency and Mistrust of Firms



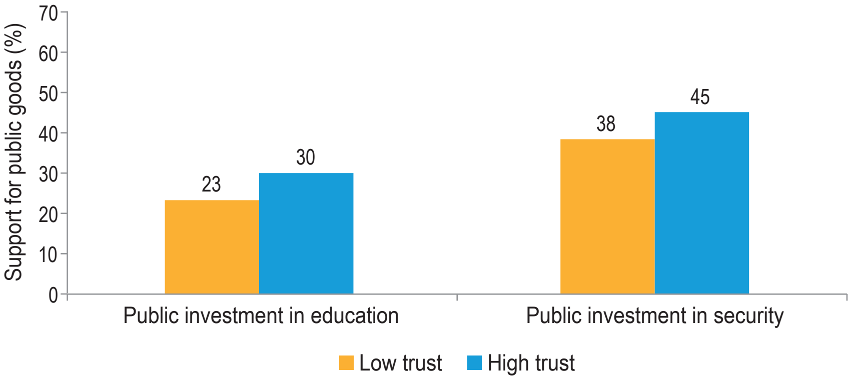
Source: Authors' calculations based on data of the World Enterprise Surveys (2006–2020) and the Integrated Values Survey, which compiles the seven waves of the World Values Survey (1981–2020) and the five waves of the European Values Study (1981–2020).

Note: The figure depicts a country-level index of government regulations as a function of average levels of mistrust in firms. The index is computed using the weights corresponding to the first principal component of a battery of variables related to a firm's perceptions on regulations obtained from the World Bank's Enterprise Surveys. The index considers the proportion of business owners reporting that the most important constraints to growth relate to obtaining opening and construction licenses, dealing with courts and customs, as well as the number of days needed to obtain an opening license and a construction permit. Mistrust in firms is computed as the share of households in each country that report absolutely or somewhat trusting firms in each survey wave, which is then averaged across all available survey waves in the Integrated Values Survey dataset for each country.

ures, therefore, contribute directly to slower growth. Growth-oriented policies that invest in long-term public goods may not be politically attractive, particularly when voters do not trust governments to deliver on their stated goals. Countries with varying levels of trust therefore produce systematically different public policies.

Individuals display similar tendencies. Participants in an IDB-LAPOP survey were asked whether they preferred higher taxes to fund public education spending or lower taxes so that households could pay for their children's education themselves. Another question offered a choice between higher taxes to fund government spending on security and lower taxes so households

Figure 9 ▶ Citizen Trust and Policy Preferences



Sources: Authors' elaboration based on IDB-LAPOP 2017 Database.
Note: Respondents chose between a preference for increased taxes to boost spending in education and security, or lower taxes to allow households to spend more on private education and security, respectively. Interpersonal trust ranges from 1 to 4, where 1 is no trust in most of the people and 4 is a lot of trust. Low interpersonal trust is defined as options 1 to 3, and high trust as the complement. Trust in politicians ranges from 1 to 4, where 1 is no trust in politicians promises and 4 is a lot of trust. Low trust in politicians is defined as options 1 or 2, and high trust as the complement.

could procure their own security. Respondents with lower levels of trust supported lower government spending on the two public goods, education and security, possibly because they more heavily discount politician promises of converting tax revenues into quality education and reliable public security (Figure 9).

Mistrust and weak bonds of citizenship conspire against citizen collective action. Although all citizens are better off under growth-promoting policies, individually each has an incentive to be exempted from them. They would like to enjoy the benefits of infrastructure, tax and regulatory compliance, and education without paying their share of the costs of these policies. Individual firms prefer tax policies that favor them over other firms, but on average, firm growth and productivity are faster if tax policies apply equally to similar firms.

Trusting societies with stronger bonds of citizenship are better able to overcome this collective action dilemma. In countries with higher levels of interpersonal trust, the rule of law and

contract enforcement are stronger, as are the security of property rights and the quality of the legal system. Regionally, Latin American and Caribbean countries are on average weaker on all dimensions: trust, the rule of law, contract enforcement, the strength of property rights, and the quality of their legal systems.

The Causes of Mistrust

In societies where individuals believe that others will not pay a cost for opportunistic behavior, they are more likely to believe that others are untrustworthy. Hence, in societies where the price of opportunistic behavior is low, individuals are less likely to believe that others are trustworthy. Why, though, might the price be lower in some societies than others?

Part of the explanation is of a historical nature. Ample research demonstrates that trust falls when individuals in a community are forced to turn on each other. The effects are long-lasting. In West Africa, communities that turned more people over to European slavers in the early 1800s demonstrated significantly lower trust in the late 1900s. In another forced labor regime, the Mita in colonial Peru, communities were obliged to select individuals who would then be sent to work in the silver mines of the colony, from which many never returned. Generations later, these same communities exhibit lower local public good provision, symptomatic of weak citizenship.

One explanation is that in some societies individuals have either systematically less information about the behavior of others, whether politicians, firms, or other citizens, or they are more systematically exposed to biased and untrue information about the behavior of others. Trust in others is intimately linked to beliefs about how others behave, but information shapes those beliefs. When information is scarce, individuals know that trustworthy behavior is not rewarded and untrustworthy behavior not punished. They are more likely to believe that others will take advan-

tage of them. When information is biased, individuals are more likely to have exaggerated beliefs about the trustworthiness of others, leading them to be either excessively optimistic or pessimistic. Bias is endemic in every country and is growing with the spread of social media; it can be worse in some countries than others.

Behavioral research demonstrates that individuals avoid information that contradicts their beliefs and search out information that confirms them. Populist politicians understand this and tell voters what they wish to hear. Commercial media, aiming to capture the largest possible audience, also has strong incentives to provide information that people wish to receive. Frequently, the information that attracts the most attention—and therefore earns the highest advertising and subscription revenues—is divisive and exacting on trust. Media outlets and politicians concerned about their reputation for probity have incentives to curb these populist and commercial impulses. Reputation has become less of a concern with the emergence of social media and the exponential increase in the number of media providers, from individuals to firms and governments. On the contrary, competitive pressures to provide the information that individuals want to read have increased.

Another key reason that trust is lower in some societies than others is that some societies are less able to punish untrustworthy behavior even when everyone is accurately informed about it. In some societies, individuals and groups enjoy enough power to shield them from punishment for untrustworthy behavior towards others. The institutions that control opportunistic behavior—courts, auditing agencies, police—are more robust in some countries than others. Organizations are also key. This is not only the case in the private sector, where individuals organized together as firms are usually far more productive than they are producing and trading independently. Organizations also solve the collective action dilemmas that prevent individuals from acting together to enforce the social contract: to persuade

government to provide higher quality public goods or to expel governments that choose rent seeking over decisions that improve public welfare.

Finally, societies may differ in the degree to which their members incur an emotional or moral cost when they act in an untrustworthy manner. Deep historical and cultural explanations can account for such differences. They are, however, evident in the fact that in surveys, individuals always indicate that they believe family members are more trustworthy than people in general. Emotional ties to family members are stronger than to people in general, increasing the emotional cost of intra-family untrustworthy behavior. Counting on the existence of these ties, people express greater trust in individuals inside their family than outside.

Policies for Greater Trust, Social Cohesion, and Growth

Latin America and the Caribbean confront pressing challenges, from growth and inequality to immigration and climate change. However, the optimal policy responses to these challenges may not work in an environment of low trust and weak citizenship. For example, people have little reason to support higher taxes to meet the challenges of climate change if they do not trust governments to use the revenues for that purpose or if they do not believe that other citizens will pay the taxes. Hence, mistrust and weak citizenship oblige policymakers to design reforms in one of two ways. Either they must find responses that demand little trust and do not depend on strong citizenship, or they must embrace reforms that simultaneously address the tangible challenge—of low growth, for example—and the intangible challenges of low trust and weak citizenship.

There are three kinds of reforms that could help countries tackle their many challenges (Figure 10). First, countries can

Figure 10 ▶ Summarizing the Reform Agenda to Increase Trust and Citizenship

Increase incentives to deliver on promises

	Remove information asymmetries	Remove power asymmetries
Incentives of firms	Strengthen: • Credit bureaus • Third-party enforcement institutions • Regulators	• Remove barriers to entry/competition • Increase access to third-party enforcement
Incentives of government/ public sector	• Budget and spending transparency • Regulatory transparency • Communicate promises and results	• Strengthen incentives inside public sector organizations to serve citizen interests
Incentives of firms and public sector	• Better education for all	• Remove legal/administrative barriers to individual recourse • Increase participatory opportunities • Strengthen parties, elections, civil society organizations

Increase employee capacity to deliver on promises

Source: Authors' elaboration.

address the power asymmetries that reduce trust in the public and private sectors with judicial and public sector reforms that give firms and citizens greater recourse to predictable and rapid judicial and administrative resolutions of their disputes with each other and with government. They can also strengthen institutions that empower individuals to act on their own to hold governments accountable. Removing obstacles to collective action by citizens should be another key priority. Countries can also structure and manage public sector organizations to align the incentives of employees with those of citizens. Government regulation can play a significant role for reducing power asymmetries in the private sector, but only if it does not cement the position of insiders (formal workers) at the expense of outsiders (informal and unemployed workers), exacerbating mistrust.

Second, countries can remove information asymmetries that undermine trust, requiring public sector agencies to carefully

communicate the decisions they make, and take responsibility for those decisions and their consequences. Parents should not have to struggle to find school test scores, nor patients the mortality rates of hospitals, nor citizens the rates of crime, arrests, and accusations of police abuse, nor communities the status of local infrastructure projects. Investing in education is fundamental. More educated individuals can better distinguish between good fortune and good government. Regulatory agencies also play an important role: they enforce quality standards, thereby resolving information asymmetries that might otherwise disrupt markets. Reforms of public sector institutions, by improving their ability to resolve information asymmetries, can increase trust in the private sector.

Third, countries can integrate concerns about trust and citizenship into their efforts to address the major economic and social challenges of the region: slow growth, high inequality, climate change, and fiscal crisis. Country goals in all of these areas can be advanced with reforms that build trust, such as digital transformation in the administration of fiscal policy, uniform administration of tax and regulatory policies, and creation of new institutions.

Beyond advancing many specific measures, politicians have a large role to play. They are, after all, the representatives of all citizens and have nobly assumed the responsibility of providing for the collective needs of people that, individually, citizens cannot obtain for themselves. There is no collective goal that is more fundamental than a trusting, civic-minded society. When politicians exhibit trustworthy and civic behavior, they exercise a strong influence on the rest of the public sector and society in general. Such behavior begins with transparency: about the promises they make, the implementation of their promises, and the results for citizen well-being. It extends to their oversight of the public sector. Do they demand the same behavior of the agencies they oversee? Do they equip the public sector with the tools it needs to fulfill citizen demands and expectations?

This book presents recommendations about how countries can increase trust, while recognizing that trust is easily lost and only with great difficulty restored. Achieving greater trust through a comprehensive reform agenda can generate a virtuous, self-reinforcing circle for Latin America and the Caribbean. Whether in the public or private sectors, more trustworthy and civic behavior will lead to better results on the ground: government revenues increase when tax officials are more trustworthy; student learning improves when more trustworthy teachers are absent less; patient access to medicine increases when more trustworthy health workers do not sell supplies into the black market; employment increases when more trustworthy regulators do not demand bribes from entrepreneurs.

These gains are not trivial. They are the bedrock that underpins thriving societies, growing trust in government and leading citizens to demand more and better public goods. They also build citizenship: people are not just proud of a country that functions well, they are proud of each other and more willing to participate in the collective effort that supports a thriving, peaceful society.

"*Trust* makes a powerful case that social trust is a critical factor influencing development outcomes across the board, and that Latin America and the Caribbean, of all the world's regions, is facing an acute crisis of trust. The book points to concrete ways in which governments and societies can reverse these trends, as they deal with the lingering effects of COVID and economic setback."

Francis Fukuyama
Olivier Nomellini Senior Fellow and Director of the Ford Dorsey Master's in International Policy, Stanford University

"The authors dig into data on low interpersonal trust in Latin America and the Caribbean, identifying the high costs it imposes on both public policy and the private sector and presenting options about how countries can better navigate those costs. Surprise yourself on the breadth and depth of good ideas. Every student of public policy has something to learn from this work."

Nancy Birdsall
President Emeritus and Senior Fellow at Center for Global Development

"This book makes a compelling case for investing in trust. It presents the evidence that rebuilding trust among citizens accelerates growth, enhances security, reduces inequality, and ensures a robust rule of law. What governments can do is rebuild institutions and tackle misinformation, positively to shape what people believe about how others will act. This, the book argues, will unlock the 'secret sauce' of trust and the key to social cohesion."

Ngaire Woods
Dean of the Blavatnik School of Government, University of Oxford

The Inter-American Development Bank (IDB) is an international institution created in 1959 to foster economic and social development in Latin America and the Caribbean.

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